



Mary Taylor, CPA
Auditor of State

STATE OF OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2009, has been issued in a separate report by the Ohio Office of Budget and Management. This report can be viewed at the following website: www.state.oh.us/obm/



Mary Taylor, CPA

Auditor of State

EXECUTIVE SUMMARY

2009 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, 2009. 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, 2009, following auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of our audit was to express our opinion concerning whether the financial statements present fairly, in all material respects, the financial position of the State of Ohio, and the results of its operations, and cash flows of the proprietary and similar trust funds, in conformity with accounting principles generally accepted in the United States of America. We issued unqualified opinions on the 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, 2009, included eight significant deficiencies from four separate state agencies. These comments are summarized on page 192 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 169, the State administered 360 federal programs from 22 Federal agencies with total federal expenditures of \$22.5 billion in fiscal year 2009.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2009, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding \$33.2 million. There were 29 programs at or above this amount. The remaining 331 programs were classified

as Type B programs. The identification of Type A and B programs is used to determine which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. One high-risk Type B program is then selected for testing to replace each low-risk Type A program. Low-risk Type A programs must be tested at least once every three years. The State of Ohio had 26 high-risk Type A programs and 4 high-risk Type B programs selected for testing as major programs in fiscal year 2009.

The Auditor of State has historically included the Ohio Department of Job and Family Services' programs administered at the county level as part of the State of Ohio Single Audit, even though county financial information is not otherwise incorporated into the State's financial statements. However, effective January 1, 2009, the Department recognized the county level operations of Job and Family Services as subrecipients and required the counties to report the pertinent federal activity in their respective schedules of federal financial assistance. For the period July 1 through December 31, 2008, we selected six of 88 counties 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 30 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.

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), also known as the economic stimulus plan, was signed into federal law in February 2009. The State of Ohio spent \$1.1 billion in federal stimulus monies covering 16 federal programs in fiscal year 2009. The state spent a total of \$21.4 million in non-ARRA federal funding in fiscal year 2009. The ARRA funding caused the state's threshold for type A programs to increase from \$30 million to \$33.2 million.

All but six of the 16 federal programs affected by ARRA would have already been tested as a major program for the FY 2009 State of Ohio Single Audit. One federal program, Weatherization Assistance for Low-Income Persons (CFDA # 81.042), became significant enough through the spending of ARRA dollars to be tested as a major program in fiscal year 2009. The remaining five programs utilizing stimulus funding were not significant enough to test as a major program in FY 2009.

In October 2009, the State of Ohio volunteered to be included in the U.S. Office of Management and Budget's pilot project to test ARRA funding for two programs on an interim basis. The two programs selected to test were the Unemployment Insurance program and the Highway Planning and Construction Cluster. Each program had one significant deficiency reported in the pilot project report. Those two comments are also included in this Single Audit Report. There are no other ARRA-specific findings included in the FY 2009 State of Ohio Single Audit Report.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2009 Schedule of Findings and Questioned Costs contains 40 findings. Three of these findings, beginning on page 179, relate only to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. One of these three comments relates to a state agency's controls over information technology. The other two relate to findings for recovery for payroll overpayments.

The 37 A-133 findings, beginning on page 196, relate to the federal programs at six state agencies. Of these federal findings, 10 resulted in questioned costs, seven were noncompliance, three were identified as material weaknesses, and 17 were significant deficiencies. The 10 findings with questioned costs totaled \$4,404,421. A significant portion of the total questioned costs amount related to the three following comments:

- The Ohio Department of Job and Family Services had questioned costs of \$1,725,414 relating to Various Programs for Period of Availability. The Department made two disbursements totaling \$111,465 before the grant start date for the FFY 2009 WIA grant; made 14 disbursements totaling \$733,114 from the FFY 2008 Child Support Enforcement grant after the stated obligation/liquidation date; and made four disbursements totaling \$880,835 from the FFY 2008 Medicaid Cluster grant after the stated obligation/liquidation date of the grant award. The finding and related client corrective action plan begin on page 210.
- The Ohio Department of Job and Family Services had questioned costs of \$1,508,407 relating to the Medicaid Cluster and Children's Health Insurance Program (CHIP). The Ohio Administrative Code (OAC) identifies the maximum amounts allowable for certain medical supplies which are subject to reimbursement by Medicaid and CHIP 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 97 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 212.
- The Ohio Department of Job and Family Services had questioned costs of \$1,052,623 relating to Various Programs for subrecipient agreements/payments. Throughout the fiscal year, the Department disbursed to the counties money to be used for administrative costs related to either the Medicaid or CHIP programs. The Department drew down money from the federal agency for the federal portion of these disbursements and coded both the drawdown of federal funds and the related disbursement of the funds to the Medicaid program. The Department's draw process is supposed to reduce current draw requests based on cash balances on hand. However, because the adjustment was not made until December 2009, and total expenditures were approximately \$37.5 million less than total draws for the Medicaid Cluster at June 30, 2009, we could not verify the overdrawn amount was accounted for in subsequent draw requests, resulting in questioned cost for the Medicaid Cluster of \$1,052,623. In addition, the Department did not identify the CHIP program as a separate pass-through federal program in any of the agreements or referenced addendums/attachments. In addition, the Department listed the county portion of the \$72.9 million SSBG transfer as "Title XX [SSBG] – Transfer Amount" in the related attachment to the Subgrant Agreement Addendum, but it identified it as TANF funds with the related CFDA # of 93.558 on all five of the counties tested. As such, the Department incorrectly identified the transferred funds with the wrong federal program and CFDA number. The finding and related client corrective action plan begin on page 215.

- 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 system alerts on income reported by program recipients not agreeing with information maintained by outside sources. These system alerts were not consistently maintained in order to determine whether they had been resolved. 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 228 and 231, respectively.

The schedule below identifies the number of reportable conditions included in the State of Ohio Single Audit from fiscal year 2004 through 2006, as well as the number of significant deficiencies identified in 2007 through 2009. 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	2009	2008	2007	2006	2005	2004
Ohio Dept. of Job & Family Services	26	30	34	36	47	57
Ohio Department of Education	2	2	5	4	3	6
Ohio Department of Health	4	6	3	4	6	6
Ohio Dept. of Developmental Disabilities	0	0	0	0	3	5
Ohio Department of Development	0	1	2	1	1	0
Ohio Department of Mental Health	1	1	1	1	1	1
Ohio Department of Public Safety	0	4	3	0	1	0
Ohio Office of Budget and Management	0	4	1	0	0	0
Ohio Administrative Knowledge System	0	4	1	N/A	N/A	N/A
Ohio Dept. of Transportation	3	1	2	0	0	0
Other State Agencies	4	2	1	3	0	4
Total	40	55	53	49	62	79

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

FINANCIAL SECTION



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, 2009, 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	94%	32%
Aggregate Discretely Presented Component Units	86%	97%
Aggregate Remaining Fund Information	92%	15%
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, 2009, and the respective changes in financial position and cash flows, where applicable, and respective budgetary comparisons for the general and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated April 30, 2010 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, CPA
Auditor of State

April 30, 2010

State of Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

(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, 2009. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights

Government-wide Financial Statements

During fiscal year 2009, net assets of the State's primary government decreased by \$3.25 billion and ended fiscal year 2009 with a balance of \$20.47 billion. Net assets of the State's component units decreased by \$1.92 billion and ended fiscal year 2009 with a balance of \$11.87 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2009, can be found beginning on page 7.

Fund Financial Statements

Governmental funds reported combined ending fund balances of \$9.89 billion that was comprised of \$5.74 billion reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; \$6.37 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, loan commitments, and inventories; and a \$2.22 billion deficit. The balances and activities of the State's governmental funds are discussed further beginning on page 12.

As of June 30, 2009, the General Fund's fund balance was approximately \$773.8 million, including \$67.9 million reserved for "other" specific purposes, as detailed in NOTE 17; and \$492.9 million reserved for nonappropriable items. The General Fund's fund balance decreased by \$1.83 billion (exclusive of a \$150 thousand decrease in inventories) or 70.2 percent during fiscal year 2009. The balances and activities of the General Fund are discussed further beginning on page 12.

Proprietary funds reported net assets of \$1.91 billion, as of June 30, 2009, a decrease of \$1.23 billion since June 30, 2008. This decrease is largely due to the net decrease of \$1.21 billion in the Unemployment Compensation Fund and the net decrease of \$32.6 million in the nonmajor funds. The balances and activities of the proprietary funds are discussed further beginning on page 14.

Capital Assets

The carrying amount of capital assets for the State's primary government increased to \$25 billion at June 30, 2009. The majority of the \$238.3 million increase during fiscal year 2009 was the acquisition of land and highway network infrastructure and construction-in-progress. Further discussion of the State's capital assets can be found beginning on page 16.

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

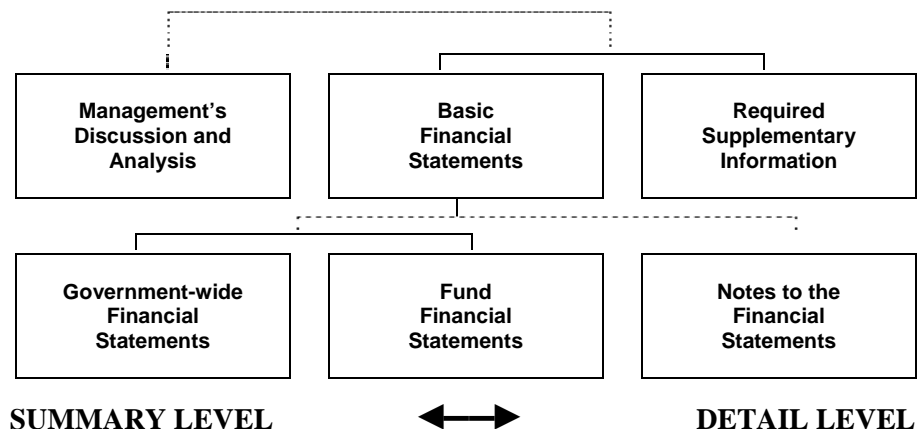
Overall, the carrying amount of total long-term debt for the State's primary government decreased \$84 million or .51 percent during fiscal year 2009 and reported an ending balance of \$16.51 billion. During the year, the State issued, at par, \$801.8 million in general obligation bonds, \$425 million in revenue bonds, \$241.4 million in special obligation bonds, and \$39.1 million in certificates of participation. Of the general obligation bonds and special obligation bonds issued, at par, \$461.8 million and \$44.7 million, respectively, were refunding bonds. Additional discussion of the State's bonds and certificates of participation can be found beginning on page 17.

Overview of the Financial Statements

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

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

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



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

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

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

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 54 through 146 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 148 through 150 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	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program	Instances in which the State is the trustee or agent for someone else's resources
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

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

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

Business-type Activities — The State charges fees to customers to help cover the costs of certain services it provides. The State reports the following programs and activities as business-type: workers' compensation insur-

ance program, lottery operations, unemployment compensation program, the leasing and maintenance operations of the Ohio Building Authority, guaranteed college tuition credit program, liquor control operations, underground parking garage operations at the statehouse, and the Auditor of State's governmental auditing and accounting services.

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, eTech Ohio Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, the Ohio Capital Fund, and 22 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Buckeye Tobacco Settlement Financing Authority and the Ohio Building Authority are presented as blended component units with their activities blended and included under governmental and business-type activities. 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, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds debt service fund, all of which are considered major funds. Data from the other 46 governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 25 through 36 of this report while the combining fund statements and schedules can be found on pages 153 through 212 of the State's CAFR.

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

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

for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 37 through 44 of this report while the combining fund statements can be found on pages 213 through 221, of the State's CAFR.

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2009, as shown in the table below, the combined net assets of the State's primary government decreased \$3.25 billion or 13.7 percent. Net assets reported for governmental activities decreased \$2.02 billion or 9.8 percent and business-type activities decreased \$1.23 billion, or 39.2 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government Statement of Net Assets As of June 30, 2009 With Comparatives as of June 30, 2008 (dollars in thousands)						
	As of June 30, 2009			As of June 30, 2008 (as restated)		
	Gov- ern- men- tal Acti- vities	Busi- ness- Type Acti- vities	Total Primary Government	Gov- ern- men- tal Acti- vities	Busi- ness- Type Acti- vities	Total Primary Government
Assets:						
Current Assets and Other						
Noncurrent Assets	\$ 19,435,873	\$ 23,544,273	\$ 42,980,146	\$ 22,105,754	\$ 24,073,397	\$ 46,179,151
Capital assets	24,879,536	116,742	24,996,278	24,629,764	128,243	24,758,007
Total Assets	<u>\$ 44,315,409</u>	<u>\$ 23,661,015</u>	<u>\$ 67,976,424</u>	<u>\$ 46,735,518</u>	<u>\$ 24,201,640</u>	<u>\$ 70,937,158</u>
Liabilities						
Current and Other Liabilities...	\$ 8,707,862	\$ 67,592	\$ 8,775,454	\$ 8,971,924	\$ (188,199)	\$ 8,783,725
Noncurrent Liabilities.....	17,049,410	21,686,444	38,735,854	17,184,846	21,253,740	38,438,586
Total Liabilities.....	<u>\$ 25,757,272</u>	<u>\$ 21,754,036</u>	<u>\$ 47,511,308</u>	<u>\$ 26,156,770</u>	<u>\$ 21,065,541</u>	<u>\$ 47,222,311</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 22,325,346	\$ 37,059	\$ 22,362,405	\$ 21,983,900	\$ 32,068	\$ 22,015,968
Restricted.....	2,343,646	80,131	2,423,777	2,601,580	521,766	3,123,346
Unrestricted.....	(6,110,855)	1,789,789	(4,321,066)	(4,006,732)	2,582,265	(1,424,467)
Total Net Assets	<u>\$ 18,558,137</u>	<u>\$ 1,906,979</u>	<u>\$ 20,465,116</u>	<u>\$ 20,578,748</u>	<u>\$ 3,136,099</u>	<u>\$ 23,714,847</u>

As of June 30, 2009, 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 \$22.36 billion. Restricted net assets were approximately \$2.42 billion, resulting in a \$4.32 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 \$6.11 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 \$9.56 billion of outstanding general obligation and special obligation

debt at June 30, 2009, \$6.88 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, 2009, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of \$341.5 million (see NOTE 14A.) and a \$767 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 2009 and 2008, follows.

Primary Government Statement of Activities For the Fiscal Year Ended June 30, 2009 With Comparatives for the Fiscal Year Ended June 30, 2008 (dollars in thousands)						
	Fiscal Year 2009			Fiscal Year 2008 (as restated)		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees, Fines and Forfeitures	\$ 3,648,227	\$ 6,750,214	\$ 10,398,441	\$ 3,539,963	\$ 6,418,651	\$ 9,958,614
Operating Grants, Contributions and Restricted Investment Income/ (loss)	18,225,832	1,028,756	19,254,588	15,123,481	877,482	16,000,963
Capital Grants, Contributions and Restricted Investment Income/ (loss)	1,198,200	-	1,198,200	1,070,309	-	1,070,309
Total Program Revenues	23,072,259	7,778,970	30,851,229	19,733,753	7,296,133	27,029,886
General Revenues:						
General Taxes	19,520,744	-	19,520,744	22,044,780	-	22,044,780
Taxes Restricted for Transportation	1,743,151	-	1,743,151	1,820,336	-	1,820,336
Tobacco Settlement	366,197	-	366,197	362,897	-	362,897
Escheat Property	117,172	-	117,172	185,016	-	185,016
Unrestricted Investment Income	(8,765)	-	(8,765)	250,293	-	250,293
Federal	-	-	-	2	-	2
Other	134	321	455	200	19	219
Total General Revenues	21,738,633	321	21,738,954	24,663,524	19	24,663,543
Total Revenue	44,810,892	7,779,291	52,590,183	44,397,277	7,296,152	51,693,429
Expenses:						
Primary, Secondary and Other education	11,888,145	-	11,888,145	11,304,014	-	11,304,014
Higher Education Support	2,967,485	-	2,967,485	2,729,423	-	2,729,423
Public Assistance and Medicaid	17,903,102	-	17,903,102	16,003,345	-	16,003,345
Health and Human Services	4,061,765	-	4,061,765	3,651,313	-	3,651,313
Justice and Public Protection	3,251,316	-	3,251,316	3,128,087	-	3,128,087
Environmental Protection and Natural Resources	413,398	-	413,398	393,704	-	393,704
Transportation	2,171,475	-	2,171,475	2,078,732	-	2,078,732
General Government	642,467	-	642,467	746,485	-	746,485
Community and Economic Development	4,265,827	-	4,265,827	4,017,838	-	4,017,838
Interest on Long term Debt (excludes interest charged as program expense)	165,908	-	165,908	173,934	-	173,934
Workers' Compensation	-	2,158,753	2,158,753	-	2,675,254	2,675,254
Lottery Commission	-	1,774,308	1,774,308	-	1,704,848	1,704,848
Unemployment Compensation	-	3,485,941	3,485,941	-	1,333,180	1,333,180
Ohio Building Authority	-	26,837	26,837	-	28,117	28,117
Tuition Trust Authority	-	94,888	94,888	-	121,673	121,673
Liquor Control	-	479,920	479,920	-	460,398	460,398
Underground Parking Garage	-	2,804	2,804	-	2,665	2,665
Office of Auditor of State	-	85,575	85,575	-	73,225	73,225
Total Expenses	47,730,888	8,109,026	55,839,914	44,226,875	6,399,360	50,626,235
Surplus/ (Deficiency) Before Transfers	(2,919,996)	(329,735)	(3,249,731)	170,402	896,792	1,067,194
Transfers - Internal Activities	899,385	(899,385)	-	885,842	(885,842)	-
Change In Net Assets	(2,020,611)	(1,229,120)	(3,249,731)	1,056,244	10,950	1,067,194
Net Assets, July 1	20,578,748	3,136,099	23,714,847	19,522,504	3,125,149	22,647,653
Net Assets, June 30	\$ 18,558,137	\$ 1,906,979	\$ 20,465,116	\$ 20,578,748	\$ 3,136,099	\$ 23,714,847

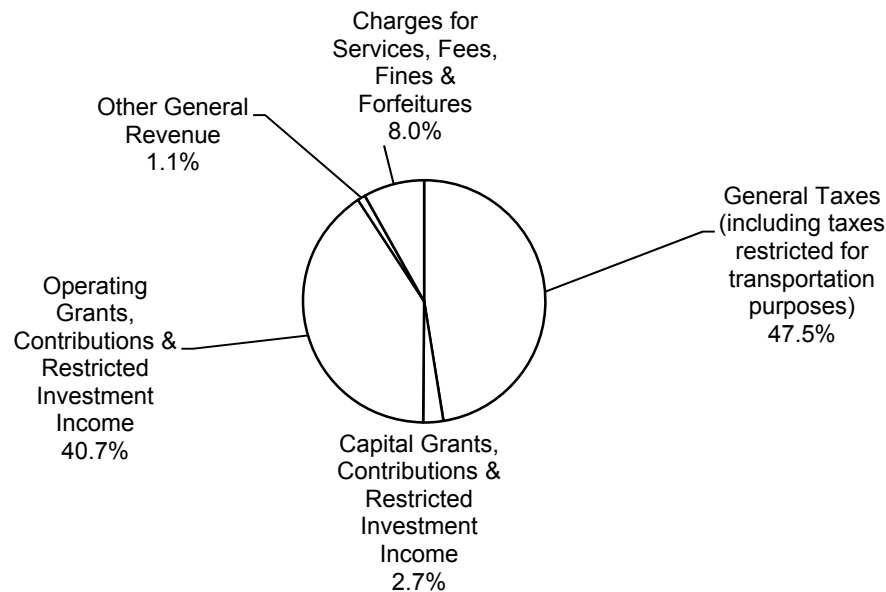
Governmental Activities

Expenses exceeded revenues during fiscal year 2009 for governmental activities. When combined with transfers from the State's business-type activities, net assets for governmental activities decreased from \$20.58 billion, at July 1, 2008, to \$18.56 billion, at June 30, 2009, or \$2.02 billion. Revenues for fiscal year 2009 in the amount of \$44.81 billion were .09 percent higher than those reported for fiscal year 2008. General taxes and operating grants, contributions and restricted investment income revenue fluctuated significantly. While general taxes

represented 54 percent of total revenue in 2008, they accounted for 47.5 percent of total revenue in the current year. This decrease is mainly attributable to the decrease of income taxes collected by the state during the current year due to the State's higher unemployment rate during fiscal year 2009. However, operating grants, contributions and restricted investment income revenue increased relative to total revenue from 34 percent in 2008 to 40.7 percent in 2009. This increase is mainly attributable to the increased federal assistance resulting from American Recovery and Reinvestment Act of 2009 (ARRA) for public assistance and Medicaid and health and human services. Net transfers for fiscal year 2009 also increased to \$899.4 million, or by 1.5 percent, when compared to fiscal year 2008. Expenses increased to the reported \$47.73 billion — a 7.9 percent increase over fiscal year 2008.

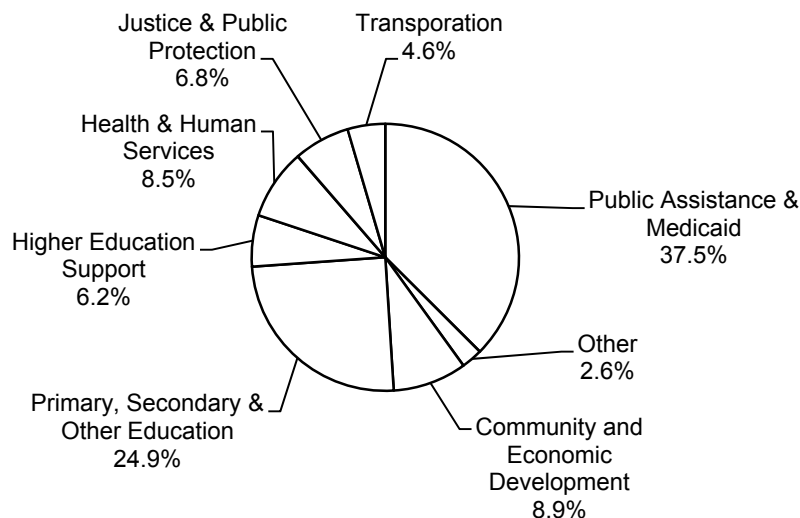
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, as reported for the fiscal year ended June 30, 2009.

Governmental Activities-Sources of Revenue Fiscal Year 2009



Total FY 09 Revenue for Governmental Activities = \$44.81 Billion

Governmental Activities — Expenses by Program Fiscal Year 2009



FY 09 Program Expenses for Governmental Activities = \$47.73 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, 2009 and 2008. 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, 2009
With Comparatives for the Fiscal Year Ended June 30, 2008
(dollars in thousands)

Program	For the Fiscal Year Ended June 30, 2009			
	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.....	\$ 11,888,145	\$ 10,096,740	84.9%	21.3%
Higher Education Support.....	2,967,485	2,923,884	98.5%	6.1%
Public Assistance and Medicaid.....	17,903,102	3,951,123	22.1%	8.3%
Health and Human Services.....	4,061,765	1,234,191	30.4%	2.6%
Justice and Public Protection.....	3,251,316	2,052,321	63.1%	4.3%
Environmental Protection and Natural Resources.....	413,398	111,485	27.0%	0.2%
Transportation.....	2,171,475	848,310	39.1%	1.8%
General Government.....	642,467	(185,588)	-28.9%	-0.4%
Community and Economic Development.....	4,265,827	3,460,255	81.1%	7.2%
Interest on Long-Term Debt.....	165,908	165,908	100.0%	0.3%
Total Governmental Activities.....	<u>\$ 47,730,888</u>	<u>\$ 24,658,629</u>	51.7%	51.7%

Program	For the Fiscal Year Ended June 30, 2008 (as restated)			
	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.....	3,128,087	2,007,013	64.2%	4.5%
Environmental Protection and Natural Resources.....	393,704	109,153	27.7%	0.2%
Transportation.....	2,078,732	864,294	41.6%	2.0%
General Government.....	746,485	(130,206)	-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.....	<u>\$ 44,226,875</u>	<u>\$ 24,493,122</u>	55.4%	55.4%

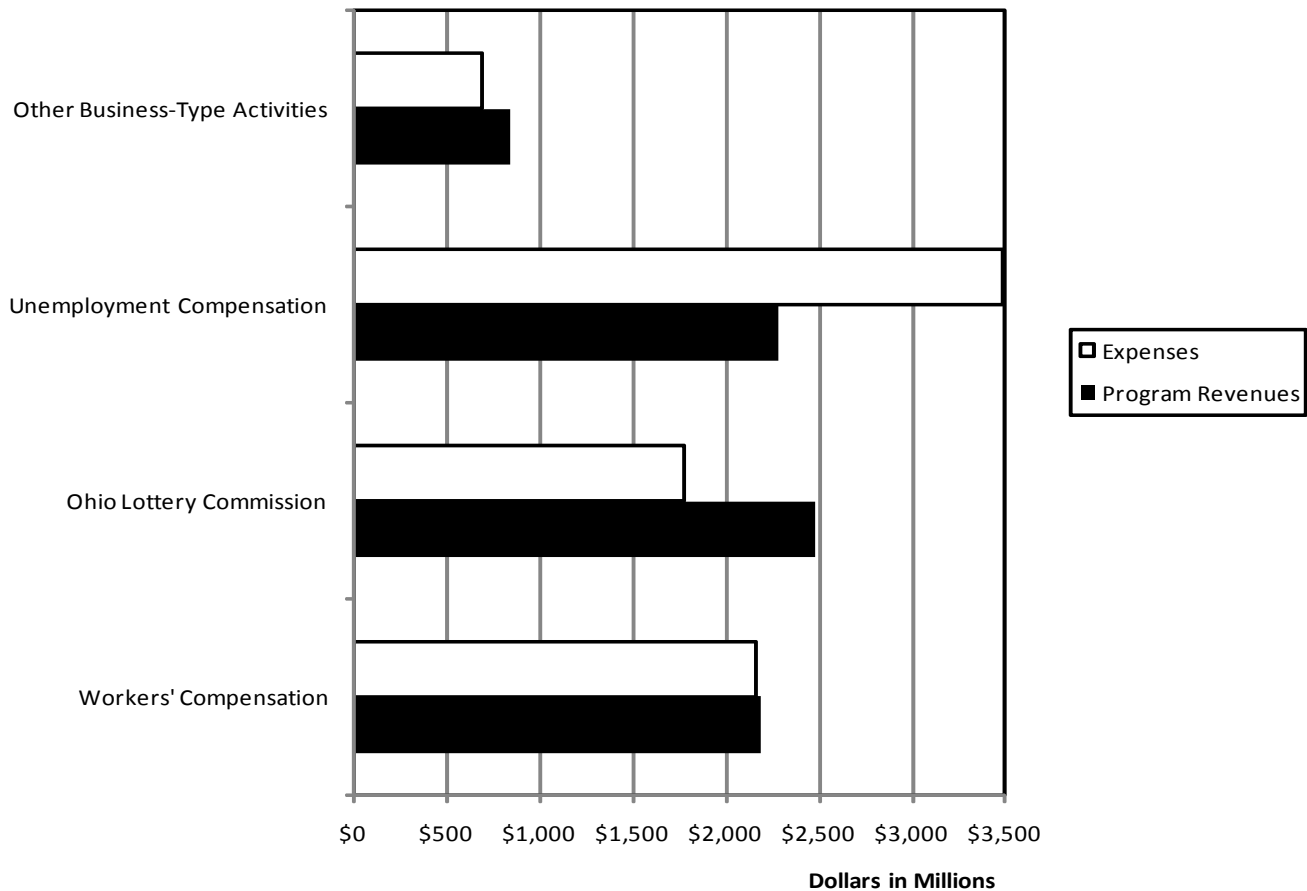
Business-Type Activities

The State's enterprise funds reported net assets of \$1.91 billion, as of June 30, 2009, as compared to \$3.14 billion in net assets, as of June 30, 2008, a decrease of 39.2 percent. The primary decrease in net assets for the business-type activities was the Unemployment Compensation Fund, which reported a net deficit of \$761.2 million, as of June 30, 2009, as compared to net assets of \$452.1 million, as of June 30, 2008, a \$1.21 billion decrease. The Tuition Trust Authority Fund reported a net deficit of \$52.8 million, as of June 30, 2009, as compared to a deficit of \$31.2 million, as of June 30, 2008, a \$21.6 million decrease. The Liquor Control Fund and the Office of the Auditor of State Fund also reported decreases in net assets. The Liquor Control Fund reported net as-

sets of \$26.1 million during fiscal year 2009 and \$30.3 million during fiscal year 2008, a decrease of 13.8 percent. The Office of the Auditor of State Fund reported net assets of \$12.3 million during fiscal year 2009 and \$16.2 million during fiscal year 2008, a decrease of 24.1 percent. The Workers' Compensation Fund and Lottery Commission Fund, however, both reported increases in net assets during fiscal year 2009. The net assets in the Workers' Compensation Fund increased \$12.1 million from \$2.5 billion, as of June 30, 2008, to \$2.51 billion, as of June 30, 2009. The net assets in the Lottery Commission Fund increased \$4.8 million from \$133.9 million, as of June 30, 2008, to \$138.7 million, as of June 30, 2009.

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

**Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2009**



Additional analysis of the Business-Type Activities revenues and expenses is included with the discussion of the Proprietary Funds beginning on page 14.

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, 2009 and June 30, 2008 (dollars in thousands).

As of and for the Fiscal Year Ended June 30, 2009				
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance.....	\$213,054	\$(1,852,180)	\$(585,363)	\$(2,224,489)
Total Fund Balance	773,816	6,563,436	2,548,703	9,885,955
Total Revenues	25,158,663	15,457,914	4,117,949	44,734,526
Total Expenditures	26,290,306	15,711,872	6,985,134	48,987,312

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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2009, General Fund revenue decreased by \$1.23 billion while expenditures increased by \$1.17 billion. Other sources and uses showed a large decline of \$222.8 million when compared with fiscal year 2008. As a result, the fund balance decreased by \$1.83 billion (exclusive of a \$150 thousand increase in inventories) or 70.2 percent.

General Fund Budgetary Highlights

The State ended the second year of its 2008-09 biennial budget on June 30, 2009, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$833.6 million. Total budgetary sources for the General Fund (including \$1.7 billion in transfers from other funds) in the amount of \$27.44 billion were below final estimates by \$1.2 billion or 4.2 percent during fiscal year 2009. Total tax receipts were below final estimates by \$950.9 million or 5.3 percent.

Total budgetary uses for the General Fund (including \$1.15 billion in transfers to other funds) in the amount of \$29.88 billion were below final estimates by \$1.94 billion or 6.1 percent for fiscal year 2009. The \$1.01 billion designated for budget stabilization purposes at June 30, 2008, was utilized in balancing the final fiscal year 2009 budget.

The appropriations act (Act) for the 2008-09 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2007. The Act provided for total GRF biennial revenue 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). Ohio's economy, being negatively affected by the national economic downturn, gave rise to consideration by the Governor and General Assembly to original revenue and expenditure projections in the 2008-09 Act. Consideration to GRF revenue shortfalls and increased costs associated with rising Medicaid caseloads resulted in several executive and legislative actions taken in fiscal year 2008 that affected the Act. The continued sluggish economy throughout fiscal year 2009, resulting in unprecedented revenue shortfalls, prompted additional executive and legislative action to balance the fiscal year 2009 budget.

September 2008. An additional \$540 million reduction in GRF revenue projections prompted the following actions:

- 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.
- A transfer from the Budget Stabilization Fund (BSF) to the GRF of \$63.3 million to pay for previously authorized Medicaid cost expenditures (transfer from the BSF was authorized in action taken in June 2008).
- The \$198.3 million balance was offset by a 4.75 percent reduction in most agency appropriations, excluding appropriations for debt service or tax relief, Medicaid and disability financial assistance, Department of Education aid to local school districts, the Department of Rehabilitation and Corrections and Youth Services and selected others.

December 2008. A further \$640.4 million reduction in GRF revenue projections for fiscal year 2009 resulted in the following actions to offset much of the shortfall:

- 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, with the same exceptions indicated in the September action.
- The remaining \$131.9 million of the shortfall was offset by additional Federal Medical Assistance Payments (FMAP) to be received under the American Recovery and Reinvestment Act of 2009 (ARRA), which increased the 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.

June 2009. Based on the Administration's continued monitoring of revenues, and as an anticipated step in the ongoing 2010-11 biennial budget and appropriations process, revised fiscal year 2009 revenues were estimated downward by an additional \$912 million over the December 2008 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. The following actions were taken:

- The Governor received General Assembly approval for and used the entire remaining BSF balance of \$949 million for fiscal year 2009.
- Expenditure reductions of \$98 million in addition to expenditure controls previously ordered by the Governor.
- Restructuring of \$52.8 million of fiscal year 2009 general revenue fund debt service into fiscal years 2012 through 2021.

The State ended fiscal year 2009 with a GRF cash balance of \$734.5 million, a GRF budgetary fund balance of \$389.1 million, and a \$-0- balance in the BSF with no designation of any GRF cash for transfer to the budget stabilization fund for fiscal year 2010. Of the ending GRF fund balance, \$133.4 million represents the one-half of one percent of fiscal year 2009 GRF revenues that the State is required to maintain as an ending fund balance.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund*, had a fund balance of \$283.8 million at June 30, 2009, an increase of \$143.8 million, or 102.7 percent, compared to fiscal year 2008. This increase in fund balance is due to revenues exceeding expenditures by \$147.6 million, with net transfers out totaling \$3.8 million.

Public assistance and Medicaid expenditures increased \$1.05 billion, or 19.3 percent, compared to the previous fiscal year. This increase in expenditures was offset by a \$1.37 billion, or 25.8 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.

The *Education Fund*, as of June 30, 2009, had a fund balance of \$92 million, a decrease of \$23.1 million since June 30, 2008. Expenditures increased by \$143.8 million, or 6.1 percent, compared to fiscal year 2008. This increase is mostly due to an increase in primary, secondary, and other education expenditures. Revenues in the Education Fund increased by \$57.2 million, or 3.2 percent, in fiscal year 2009. The bulk of this is from increased receipts from the Federal Government. Fiscal year 2009 net transfers in for the fund in the amount of \$724.3 million increased by 50.1 million, or 7.4 percent, compared to fiscal year 2008. This is due to debt service that was previously paid via transfers from the Education fund. These special obligation bonds were retired in fiscal year 2008, therefore, no longer requiring transfers out from this fund.

The fund balance for the *Highway Operating Fund*, as of June 30, 2009, totaled approximately \$1.04 billion, an increase of \$41.3 million (including a \$15.2 million increase in inventories) or 4.1 percent since June 30, 2008. This was due to an increase in revenue of \$83.9 million, or 4.4 percent, and a decrease in net transfers of \$175.6 million, or 66.5 percent, when compared to fiscal year 2008. The increase in revenue consists mostly of receipts from the Federal Government under grant agreements for reimbursement of road construction projects previously paid for by the State. The decrease in net transfers is attributable to an increase in transfers out of \$151.1 million compared to fiscal year 2008 and is due to new debt obligations that will be paid from the Highway Operating Fund.

For the *Revenue Distribution Fund*, the fund balance decreased by \$188.8 million since June 30, 2008 for a fund deficit of \$234.2 million at June 30, 2009. Fiscal year 2009 net transfers out of \$671 million were greater than the \$482.1 million excess of revenues over expenditures, thus causing the decrease in fund balance.

Expenditures in the Primary, Secondary and Other Education function increased by \$203.3 million, or 25.7 percent, compared to fiscal year 2008. 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.

Corporate and public utility tax revenues increased by \$153.8 million, or 10.4 percent, compared to fiscal year 2008. The fund's increased share of collections of the commercial activities tax, which continued to be phased in during fiscal year 2009, accounted for the majority of the increase.

Income taxes and sales taxes both saw decreases of \$111.4 million, or 13.9 percent, and \$104.4 million, or 36.6 percent, respectively. Both of these decreases can be attributed to the current economy within the State, as discussed further in the economic outlook section.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2009, totaled approximately \$5.38 billion dollars, a decrease of \$87.5 million or 1.6 percent since June 30, 2008. This fund was established during fiscal year 2008 due to the issuance of \$5.53 billion 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 \$374.7 million and \$348 million during fiscal years 2009 and 2008, respectively. Expenditures, totaling \$446.9 million and \$323.3 million during fiscal years 2009 and 2008 respectively, include payments for principal and interest on the revenue bonds. Differences between the years are due to changing debt service requirements for these bonds.

Proprietary Funds

Major Proprietary Funds

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

For the *Workers' Compensation Fund*, the \$12.1 million increase in net assets was primarily due to premium and assessment income of \$2.36 billion, an increase of \$222.5 million and benefit and claim expenses of \$2.07 billion, a decrease of \$513.9 million. However, the excess of premium and assessment income over benefit and claim expenses were offset by a decrease in investment income of \$914.6 million to a loss of \$194.7 million.

The decrease in Workers' Compensation benefits and claims expenses is due to the favorable improvements in medical payments, lump sum settlements, and loss development during the year. The decrease is also due to lower than expected levels of medical inflation, leading to favorable reserve development. Medical reserves for claims occurring on or before June 30, 2008, declined by \$732 million in fiscal year 2009. By comparison, in fiscal year 2008, medical reserves for claims occurring on or before June 30, 2007, declined by \$701 million.

The decline in investment income was primarily the result of a \$928 million decline in the fair value of the investment portfolio for fiscal year 2009. The \$928 million decrease was offset by a cash distribution totaling \$13.1 million from the coin fund liquidation firm contracted by the State to oversee the liquidation of the remaining coin fund related assets.

For fiscal year 2009, the *Lottery Commission Fund* reported \$707.4 million in net income before transfers of \$702.3 million and \$335 thousand to the Education and General funds, respectively, posting a \$4.7 million, or 3.5 percent, increase in the fund's net assets. Ticket sales increased approximately four percent, increasing sales from \$2.33 billion in fiscal year 2008 to \$2.42 billion in fiscal year 2009. The introduction of two new online

games, KENO and EZPLAY, contributed to the increase. Prizes expenses were \$1.46 billion as of June 30, 2009, compared to \$1.4 billion, as of June 30, 2008, an increase of approximately \$62 million or four percent. This increase was in proportion to ticket sales. Investment income decreased \$32.2 million or 36.6 percent during fiscal year 2009 due to declining rates of return and investment portfolio values. Interest expense in the form of borrower rebates associated with securities lending transactions decreased by \$12.7 million, or 83.7 percent, compared to fiscal year 2008.

The \$1.21 billion decrease in net assets in the *Unemployment Compensation Fund* is due to the declining economic condition in Ohio. This economic decline caused an increase in the unemployment rate which meant more individuals were receiving benefits for longer periods of time. The unemployment rate in Ohio rose to 10.3 percent for calendar year 2009 compared to 6.5 percent in calendar year 2008. As a result, benefits and claims expenses were \$3.48 billion, an increase of approximately \$2.15 billion, or 161.5 percent, from the previous year. In order to maintain current benefit levels, federal loans were required. This resulted in a non-current intergovernmental payable of \$862.5 million at June 30, 2009. Increased benefits funding were also reflected in the federal government and a federal grant revenue lines that increased \$670.7 million and \$429.2 million, respectively. The State anticipates Federal assistance to continue into future fiscal years. Decreases in investment income and premium and assessment income of \$12.5 million and \$16.8 million, respectively, also contributed to the overall decrease in net assets during the year.

Nonmajor Proprietary Funds

For fiscal year 2009, the *Tuition Trust Authority Fund* posted a \$52.8 million deficit at June 30, 2009, due to a net loss of \$21.6 million compared to a net loss of \$62.2 million at June 30, 2008. The net loss was caused by an investment loss of \$87.4 million, a decrease of \$63.7 million or 269.6 percent from the previous year. This change is due to the decrease in fair value of investments and declining rates of return. Actuarial tuition benefits expense (which is reflected as "Other" operating revenues in the financial statements) was \$151.3 million, a \$80.1 million, or 112.5 percent, increase. This was the result of the change in tuition benefits payable from fiscal year 2008 to fiscal year 2009 due to an improvement in the actual and forecasted tuition inflation. Benefits and claims expenses decreased \$26.4 million, from \$110.9 million for fiscal year 2008 to \$84.5 million for fiscal year 2009. The drop in expenses is attributed to lower allocations to variable investment options within the Guaranteed Savings Plan for fiscal year 2009.

The *Liquor Control Fund* reported a decrease in net assets of \$4.2 million, or 13.8 percent, after transferring \$163 million to the General Fund and \$50.5 million to other governmental funds. This transfer remained consistent with the fiscal year 2008 transfer, decreasing \$2.2 million or one percent.

The *Office of the Auditor of State Fund* recognized a decrease of net assets from \$16.2 million at June 30, 2008 to \$12.3 million at June 30, 2009, a decrease of 24.1 percent. Charges for Sales and Services increased \$2.9 million due to an average billing rate increase for audits of State agencies and local governments and new audit contracts that were entered during fiscal year 2009. State Appropriations also increased \$1.7 million. The increases in revenues were offset by increases in expenses. Costs of Sales and Services and Administration increased \$11.6 million and \$1.4 million, respectively. These increases were due a study conducted to identify opportunities for improvement and the replacement of computer equipment used by clients of the Uniform Accounting Network program. The equipment purchases were less than the capitalization threshold of the Auditor of State so they were expensed rather than capitalized.

In fiscal year 2009, transfers from proprietary funds to governmental funds totaled \$943.1 million, up \$10.1 million or 1.1 percent when compared to the \$933.1 million in transfers out reported in fiscal year 2008.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009 and June 30, 2008, the State had invested \$25 billion and \$24.76 billion, respectively, net of accumulated depreciation of \$2.82 billion and \$2.66 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, 2009
With Comparatives as of June 30, 2008
(dollars in thousands)

	As of June 30, 2009			As of June 30, 2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	\$1,927,909	\$11,994	\$1,939,903	\$1,885,135	\$11,994	\$1,897,129
Buildings.....	1,898,089	85,940	1,984,029	1,935,616	93,115	2,028,731
Land Improvements	210,117	12	210,129	199,236	13	199,249
Machinery and Equipment	180,448	16,389	196,837	199,401	20,475	219,876
Vehicles.....	125,520	2,407	127,927	138,895	2,646	141,541
Infrastructure:						
Highway Network:						
General Subsystem	8,445,695	—	8,445,695	8,387,073	—	8,387,073
Priority Subsystem.....	7,542,770	—	7,542,770	7,469,454	—	7,469,454
Bridge Network	2,559,462	—	2,559,462	2,541,870	—	2,541,870
Parks, Recreation, and						
Natural Resources System	56,384	—	56,384	47,393	—	47,393
	22,946,394	116,742	23,063,136	22,804,073	128,243	22,932,316
Construction-in-Progress	1,933,142	—	1,933,142	1,825,691	—	1,825,691
Total Capital Assets, Net	\$24,879,536	\$116,742	\$24,996,278	\$24,629,764	\$128,243	\$24,758,007

During fiscal year 2009, the State recognized \$303.9 million in annual depreciation expense relative to its general governmental capital assets as compared with \$403.3 million in annual depreciation expense recognized in fiscal year 2008. The State also recognized \$16.5 million in annual depreciation expense relative to its business-type capital assets as compared with \$15.7 million in annual depreciation expense recognized in fiscal year 2008.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2009 totaling approximately \$315.6 million, as compared with \$387 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 one percent (approximately a one percent increase for governmental activities and a nine percent decrease for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had \$45.3 million in major construction commitments (unrelated to infrastructure), as of June 30, 2009, as compared with the \$107.6 million balance reported for June 30, 2008.

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 42,817 in lane miles of highway (12,826 in lane miles for the priority highway subsystem and 29,991 in lane miles for the general highway subsystem) and approximately 104.9 million square feet of deck area that comprises 14,112 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, free-ways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems, respectively, to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2008, indicates that only 2.3 percent and 4.7 percent of the priority and general subsystems, respectively, were assigned a "poor"

condition rating. For calendar year 2007, only 3.1 percent and 5.2 percent of the priority and general subsystems, respectively, were assigned a “poor” condition rating.

For the bridge network, it is the State’s intention to allow no more than 15 percent of the total number of square feet of deck area to be in “fair” or “poor” condition. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2008, indicates that only 3.1 percent and .6 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively. For calendar year 2007, 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 fiscal year 2009, total actual maintenance and preservation costs for the priority and general subsystems were \$407.6 million and \$347.2 million, respectively, compared to estimated costs of \$352.6 million for the priority system and \$214.1 million for the general system, while total actual maintenance and preservation costs for the bridge network was \$360.5 million compared to estimated costs of \$308.7 million. For the previous fiscal year, 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. The State’s costs for actual maintenance and preservation costs for infrastructure have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

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

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

As of June 30, 2009 and June 30, 2008, the State had total debt of approximately \$16.51 billion and \$16.59 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2009
With Comparatives as of June 30, 2008
(dollars in thousands)

	As of June 30, 2009			As of June 30, 2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	\$ 7,138,051	\$ —	\$ 7,138,051	\$ 7,310,376	\$ —	\$ 7,310,376
Revenue Bonds and Notes	6,646,593	80,657	6,727,250	6,413,182	97,286	6,510,468
Special Obligation Bonds	2,427,556	—	2,427,556	2,585,319	—	2,585,319
Certificates of Participation	216,537	—	216,537	187,336	—	187,336
Total Debt	16,428,737	\$ 80,657	\$16,509,394	16,496,213	\$ 97,286	\$16,593,499

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 2009, the State issued, at par, \$801.8 million in general obligation bonds, \$425 million in revenue bonds, \$241.4 million in special obligation bonds, and \$39.1 million in certificates of participation. Of the general obligation bonds and special obligation bonds issued, at par, \$461.8 million and \$44.7 million, respectively, were refunding bonds. The total decrease in the State’s debt obligations for the current fiscal year, as based on carrying amount, was .51 percent (a .41 percent decrease for governmental activities and a 17.1 percent decrease for business-type activities).

Credit Ratings

Ohio's credit ratings for general obligation debt are Aa2 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 Aa3, Fitch's rating is AA- and S&P's rating is AA.

The State's revenue bonds are rated as follows:

Revenue Bonds	Fitch	Moody's	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development.....	A+	Aa3	AA	Net Liquor Profits
State Infrastructure Bank.....	AA-	Aa2	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects	A+	A1	AA-	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-	A1	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.

In April 2010, both Moody's and Fitch recalibrated their rating scales. The recalibrations are intended to enhance comparability of ratings across types of issuers. Any change in rating based on the recalibrations should not be interpreted as an improvement in credit quality or a change in the credit opinion.

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

Evidence continues to build that the national economy is slowly emerging from the recession. Real Gross Domestic Product (GDP) increased 5.6 percent in the fourth quarter of calendar year 2009 after increasing 2.2 percent in the third calendar quarter. In spite of these two consecutive quarterly gains, real GDP fell 2.4 percent in calendar year 2009 — the largest calendar year decline since 1948. A decrease in the rate of inventory liquidation propped up real GDP in the fourth quarter, accounting for nearly 60 percent of the increase. Final sales of domestic product, which exclude changes in business inventories, increased a modest 1.7 percent after rising 1.5 percent in the third quarter of calendar year 2009. This weakness in final sales growth provides some support for the widely held belief that subdued consumer spending will restrain economic growth in the current recovery to below average levels.

Nonfarm payroll employment in January 2010 reflected customary annual benchmark revisions that shed additional light on the impact of the recession. Employment in December 2009 was 1.36 million jobs lower than previously estimated. Based on January 2010 employment numbers, the national economy has shed 8.4 million jobs since the recession officially began in December 2007. This loss of jobs is the largest in both absolute number and in percentage terms in any postwar recession.

Ohio and its neighboring states have not escaped the pain of the impact of the national recession on employment. For both Ohio and the Midwest region as a whole, employment was down 3.5 percent during calendar year 2009, compared to a nearly equal decline in employment of 3.6 percent for states outside of the region.

The U.S. unemployment rate was 9.7 percent in January 2010 — down from 10 percent in November and December 2009 and down .4 percent from the peak for the cycle of 10.1 percent in October 2009. The unemployment rate in Ohio increased to 11 percent in March 2010.

U.S. personal income increased .4 percent in December 2009, lifting the year-over-year change above zero for the first time since December 2008. Compared to a year earlier, personal income was up .5 percent. Ohio personal income increased 1.9 percent for the third calendar quarter of 2009 after a 2.4 percent increase in the second calendar quarter. These back-to-back gains follow three consecutive decreases at a compound annual rate of 2.3 percent.

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.

Consistent with State law, the Governor's Executive Budget for the 2010-11 biennium was released in February 2009 and introduced in the General Assembly. After extended hearings and review, and after passage by the General Assembly and signing by the Governor of three seven-day interim budgets, the 2010-11 biennial appropriations Act was passed by the General Assembly and signed (with selective vetoes) by the Governor on July 17, 2009. All necessary debt service and lease-rental payments related to State obligations for the entire 2010-11 biennium were fully appropriated for the three week interim period and under the final Act. Reflecting the final implementation of the restructuring of State taxes commenced in the 2006-07 biennium and a conservative underlying economic forecast, the Act makes total GRF biennial appropriations of approximately \$50.5 billion (a 3.8 percent decrease from the 2008-09 biennial expenditures) based on GRF biennial estimated revenues of approximately \$51.1 billion (a 4.2 percent decrease from the 2008-09 biennial revenues). Appropriations for major program categories compared to 2008-09 actual spending reflect an increase of 3.4 percent for Medicaid (the Act also includes a number of Medicaid reform and cost containment initiatives), an increase of .7 percent for corrections and youth services, a decrease of 13.8 percent for mental health and development disabilities, a decrease of 8.3 percent for higher education, and a decrease of 5.15 percent for elementary and secondary education. The Act also includes the restructuring of \$736 million of fiscal years 2010 and 2011 general revenue fund debt service into fiscal years 2012 through 2025. Both the Executive Budget and the GRF appropriations complied with the law, signed into law June 5, 2006, limiting GRF appropriations commencing with the 2008-09 biennium.

Major new or recurring sources of revenues reflected in the 2010-11 appropriations Act include the following:

- "Federal Stimulus" funding received under the American Recovery and Reinvestment Act of 2009 (ARRA) of \$2.4 billion, including \$1.46 billion for elementary and secondary education, \$628 million for Federal Medical Assistance Payments (FMAP), and \$326 million for other purposes.

- Gaming and license revenues of \$933 million from the Ohio Lottery Commission's implementation of video lottery terminals (VLTs) at seven horse racing tracks in the State.
- A transfer of \$259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund (TUPAC) to be deposited into a special State fund (non-GRF) to be used for various health care initiatives.
- "One-time" revenues or savings of \$1.04 billion, including \$364 million from the spend-down of carry-forward balances, \$250 million transferred from an Ohio School Facilities Commission funds cash account, \$272 million of savings for two week unpaid "furlough" during each biennium for the State's employees, \$84.3 million from a reduction in State funding to public libraries, and \$65 million from the transfer of interest on the proceeds of the State's 2007 tobacco securitization to the GRF.
- Transfers of \$530 million to the GRF from unclaimed funds and other non-GRF funds.

In response to the Ohio Supreme Court's decision that the VLTs are subject to voter referendum, the Governor proposed for General Assembly consideration the postponement for two years of the final installment of the personal income tax reduction that was currently scheduled to take effect for the tax year 2009 (for returns filed in 2010). After extended hearings and review, the General Assembly approved, and the Governor signed into law on December 22, 2009, legislation keeping personal income tax rates at 2008 levels through tax year 2010. The Ohio Department of Taxation estimates that this postponement will result in \$844 million of additional State GRF revenues in the 2010-11 biennium.

Under referendum provisions of the Ohio Constitution, if referendum petitions are submitted containing at least 241,366 valid signatures (six percent of the electors of the State) with at least half of those signatures from 44 of the State's 88 counties, those statutory provisions for VLTs will not take effect "unless and until approved by a majority of those [electors] voting upon the same" at an election held on November 2, 2010. After review of the signatures on the timely submitted petitions and supplemental petitions, the Ohio Secretary of State, on March 26, 2010, notified the committee for the petitioners those petitions contained a sufficient number of valid signatures and the referendum will be placed on the November 2, 2010, ballot.

The Court of Appeals has ruled in favor of the State regarding litigation filed to halt the transfers from the TUPAC Endowment Fund. The plaintiffs appealed the Court of Appeals decision to the Ohio Supreme Court which was accepted on March 10, 2010.

Unemployment Compensation Fund

Due to the declining revenues and rising unemployment claims resulting from the challenging economic climate, the State sought federal assistance in meeting the unemployment benefit costs in fiscal year 2009. In accordance with Title XII of the Social Security Act, the State drew repayable advances in the Unemployment Trust Fund of \$862.5 million from the Federal Unemployment Account to cover the insufficient State funds for benefit claims. By the end of fiscal year 2010, the accumulated total repayable advance balance is expected to be approximately \$3 billion. Under current federal regulations, the State will begin accruing interest on any repayable advances balances beginning on January 1, 2011.

Contacting the Ohio Office of Budget and Management

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

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2009
(dollars in thousands)

PRIMARY GOVERNMENT				
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer.....	\$ 5,815,272	\$ 109,029	\$ 5,924,301	\$ 1,205,322
Cash and Cash Equivalents.....	122,257	522,474	644,731	1,403,559
Investments.....	1,087,926	16,647,053	17,734,979	5,413,031
Collateral on Lent Securities.....	2,764,289	40,792	2,805,081	1,418,710
Deposit with Federal Government.....	—	87,656	87,656	—
Taxes Receivable.....	1,355,191	—	1,355,191	—
Intergovernmental Receivable.....	1,740,297	9,963	1,750,260	61,509
Premiums and				
Assessments Receivable.....	—	3,722,487	3,722,487	—
Investment Trade Receivable.....	—	346,239	346,239	—
Loans Receivable, Net.....	1,106,243	—	1,106,243	297,019
Receivable from Primary Government.....	—	—	—	40,703
Receivable from Component Units.....	3,948,282	—	3,948,282	—
Other Receivables.....	552,444	446,505	998,949	1,090,908
Inventories.....	96,075	39,871	135,946	58,993
Other Assets.....	112,626	22,677	135,303	574,819
Restricted Assets:				
Cash Equity with Treasurer.....	—	70	70	1,396,733
Cash and Cash Equivalents.....	138,791	978	139,769	613,681
Investments.....	389,357	1,288,227	1,677,584	1,104,907
Collateral on Lent Securities.....	—	256,550	256,550	—
Intergovernmental Receivable.....	—	—	—	281
Loans Receivable, Net.....	—	—	—	4,059,997
Other Receivables.....	206,823	3,702	210,525	—
Capital Assets Being Depreciated, Net.....	2,409,448	104,748	2,514,196	8,273,811
Capital Assets Not Being Depreciated.....	22,470,088	11,994	22,482,082	1,251,050
TOTAL ASSETS.....	44,315,409	23,661,015	67,976,424	28,265,033
LIABILITIES:				
Accounts Payable.....	627,565	35,851	663,416	473,997
Accrued Liabilities.....	434,942	6,371	441,313	657,028
Medicaid Claims Payable.....	1,145,877	—	1,145,877	—
Obligations Under Securities Lending.....	2,764,289	297,342	3,061,631	1,418,710
Investment Trade Payable.....	—	401,074	401,074	—
Intergovernmental Payable.....	1,900,085	951	1,901,036	23,449
Internal Balances.....	776,459	(776,459)	—	—
Payable to Primary Government.....	—	—	—	3,948,282
Payable to Component Units.....	40,703	—	40,703	—
Unearned Revenue.....	279,903	165	280,068	431,890
Benefits Payable.....	—	14,167	14,167	—
Refund and Other Liabilities.....	738,039	88,130	826,169	82,622
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	857,523	15,930	873,453	1,139,808
Due in More Than One Year.....	15,354,677	64,727	15,419,404	5,610,174
Certificates of Participation:				
Due in One Year.....	14,785	—	14,785	425
Due in More Than One Year.....	201,752	—	201,752	4,245
Other Noncurrent Liabilities:				
Due in One Year.....	142,038	2,450,331	2,592,369	1,111,737
Due in More Than One Year.....	478,635	19,155,456	19,634,091	1,493,753
TOTAL LIABILITIES.....	25,757,272	21,754,036	47,511,308	16,396,120

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS (DEFICITS):				
<i>Invested in Capital Assets,</i>				
<i>Net of Related Debt.....</i>	22,325,346	37,059	22,362,405	5,450,662
<i>Restricted for:</i>				
<i>Primary, Secondary and Other Education...</i>	37,174	—	37,174	1,379,978
<i>Transportation and Highway Safety.....</i>	1,031,932	—	1,031,932	—
<i>State and Local</i>				
<i>Highway Construction.....</i>	113,009	—	113,009	—
<i>Federal Programs.....</i>	61,929	—	61,929	29
<i>Coal Research</i>				
<i>and Development Program.....</i>	—	—	—	2,389
<i>Clean Ohio Program.....</i>	44,060	—	44,060	—
<i>Community and Economic Development</i>				
<i>and Capital Purposes.....</i>	1,045,542	—	1,045,542	16,755
<i>Debt Service.....</i>	—	—	—	2,782,157
<i>Enterprise Bond Program.....</i>	10,000	—	10,000	—
<i>Deferred Lottery Prizes.....</i>	—	57,059	57,059	—
<i>Ohio Building Authority.....</i>	—	23,072	23,072	—
<i>Nonexpendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	2,667,119
<i>Expendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,702,744
Unrestricted.....	(6,110,855)	1,789,789	(4,321,066)	(2,132,920)
TOTAL NET ASSETS.....	\$ 18,558,137	\$ 1,906,979	\$ 20,465,116	\$ 11,868,913

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(dollars in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education.....	\$ 11,888,145	\$ 40,526	\$ 1,750,879	\$ —	\$ (10,096,740)
Higher Education Support	2,967,485	3,854	39,747	—	(2,923,884)
Public Assistance and Medicaid	17,903,102	966,010	12,985,969	—	(3,951,123)
Health and Human Services	4,061,765	406,139	2,418,763	2,672	(1,234,191)
Justice and Public Protection	3,251,316	938,297	258,584	2,114	(2,052,321)
Environmental Protection and Natural Resources.....	413,398	212,403	74,017	15,493	(111,485)
Transportation	2,171,475	100,698	68,367	1,154,100	(848,310)
General Government	642,467	591,405	221,664	14,986	185,588
Community and Economic Development.....	4,265,827	388,895	407,842	8,835	(3,460,255)
Interest on Long-Term Debt (excludes interest charged as program expense).....	165,908	—	—	—	(165,908)
TOTAL GOVERNMENTAL ACTIVITIES	47,730,888	3,648,227	18,225,832	1,198,200	(24,658,629)
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation.....	2,158,753	2,378,127	(194,735)	—	24,639
Lottery Commission.....	1,774,308	2,425,832	55,842	—	707,366
Unemployment Compensation.....	3,485,942	1,172,554	1,103,591	—	(1,209,797)
Ohio Building Authority.....	26,837	24,304	105	—	(2,428)
Tuition Trust Authority.....	94,888	9,317	63,931	—	(21,640)
Liquor Control.....	479,919	689,283	—	—	209,364
Underground Parking Garage.....	2,804	3,127	6	—	329
Office of Auditor of State.....	85,575	47,670	16	—	(37,889)
TOTAL BUSINESS-TYPE ACTIVITIES.....	8,109,026	6,750,214	1,028,756	—	(330,056)
TOTAL PRIMARY GOVERNMENT.....	\$ 55,839,914	\$ 10,398,441	\$ 19,254,588	\$ 1,198,200	\$ (24,988,685)
COMPONENT UNITS:					
School Facilities Commission.....	\$ 1,240,843	\$ 12,835	\$ 12,712	\$ —	\$ (1,215,296)
Ohio Water Development Authority.....	124,024	146,863	127,865	—	150,704
Ohio State University.....	4,086,558	2,920,569	647,561	18,960	(499,468)
University of Cincinnati.....	1,004,925	464,999	(16,948)	6,347	(550,527)
Other Component Units.....	4,896,603	2,858,525	283,047	47,001	(1,708,030)
TOTAL COMPONENT UNITS.....	\$ 11,352,953	\$ 6,403,791	\$ 1,054,237	\$ 72,308	\$ (3,822,617)

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

PRIMARY GOVERNMENT

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net (Expense) Revenue.....	\$ (24,658,629)	\$ (330,056)	\$ (24,988,685)	\$ (3,822,617)
General Revenues:				
Taxes:				
Income.....	8,228,349	—	8,228,349	—
Sales.....	7,276,288	—	7,276,288	—
Corporate and Public Utility	2,443,059	—	2,443,059	—
Cigarette.....	924,764	—	924,764	—
Other.....	648,284	—	648,284	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,743,151	—	1,743,151	—
Total Taxes.....	21,263,895	—	21,263,895	—
Tobacco Settlement.....	366,197	—	366,197	—
Escheat Property.....	117,172	—	117,172	—
Unrestricted Investment Income.....	(8,765)	—	(8,765)	(794,792)
State Assistance	—	—	—	2,362,795
Other.....	134	321	455	275,441
Additions to Endowments and Permanent Fund Principal.....	—	—	—	68,186
Transfers-Internal Activities.....	899,385	(899,385)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS AND TRANSFERS.....	22,638,018	(899,064)	21,738,954	1,911,630
CHANGE IN NET ASSETS.....	(2,020,611)	(1,229,120)	(3,249,731)	(1,910,987)
NET ASSETS, JULY 1 (as restated).....	20,578,748	3,136,099	23,714,847	13,779,900
NET ASSETS, JUNE 30.....	\$ 18,558,137	\$ 1,906,979	\$ 20,465,116	\$ 11,868,913

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer.....	\$ 1,472,414	\$ 305,553	\$ 102,708
Cash and Cash Equivalents.....	9,415	3,136	56
Investments.....	675,210	7,153	2,151
Collateral on Lent Securities.....	610,626	131,569	44,195
Taxes Receivable	819,146	—	—
Intergovernmental Receivable.....	701,305	429,360	107,666
Loans Receivable, Net	232,443	—	58
Interfund Receivable	2,994	2	—
Receivable from Component Units.....	—	—	—
Other Receivables	165,012	268,573	718
Inventories	26,145	—	—
Other Assets	16,403	2,027	8,423
TOTAL ASSETS	\$ 4,731,113	\$ 1,147,373	\$ 265,975
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 156,111	\$ 89,552	\$ 15,005
Accrued Liabilities.....	169,135	23,974	2,543
Medicaid Claims Payable.....	897,066	4,031	—
Obligations Under Securities Lending.....	610,626	131,569	44,195
Intergovernmental Payable.....	465,221	228,381	54,440
Interfund Payable.....	647,418	15,355	2,711
Payable to Component Units.....	10,489	1,220	998
Deferred Revenue.....	304,500	163,438	8,766
Unearned Revenue.....	—	201,028	45,344
Refund and Other Liabilities.....	687,921	4,995	—
Liability for Escheat Property.....	8,810	—	—
TOTAL LIABILITIES.....	3,957,297	863,543	174,002
FUND BALANCES (DEFICITS):			
Reserved for:			
Debt Service.....	—	—	—
Encumbrances.....	238,400	1,332,974	31,723
Noncurrent Portion of Loans Receivable.....	228,321	—	46
Loan Commitments.....	—	—	—
Inventories.....	26,145	—	—
State and Local Highway Construction.....	—	—	—
Federal Programs.....	—	4,014	7,018
Other.....	67,896	22,251	469
Unreserved/Undesignated:			
General Fund.....	213,054	—	—
Special Revenue Funds.....	—	(1,075,409)	52,717
Capital Projects Funds.....	—	—	—
TOTAL FUND BALANCES (DEFICITS).....	773,816	283,830	91,973
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 4,731,113	\$ 1,147,373	\$ 265,975

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

		BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS	NONMAJOR GOVERNMENTAL FUNDS	
HIGHWAY OPERATING	REVENUE DISTRIBUTION			TOTAL
\$ 984,583	\$ 207,187	\$ —	\$ 2,742,827	\$ 5,815,272
683	10,731	138,791	98,236	261,048
—	—	389,357	403,412	1,477,283
421,356	89,212	—	1,467,331	2,764,289
66,976	463,829	—	5,240	1,355,191
98,652	—	—	403,314	1,740,297
116,848	—	—	756,894	1,106,243
422	89,831	900,400	3,581	997,230
—	—	3,948,282	—	3,948,282
6,566	—	206,823	111,298	758,990
46,564	—	—	23,366	96,075
3,187	—	—	6,436	36,476
\$ 1,745,837	\$ 860,790	\$ 5,583,653	\$ 6,021,935	\$ 20,356,676
\$ 151,309	\$ —	\$ —	\$ 215,588	\$ 627,565
29,433	—	—	65,714	290,799
—	—	—	244,780	1,145,877
421,356	89,212	—	1,467,331	2,764,289
168	943,419	—	208,456	1,900,085
90,650	828	—	1,016,727	1,773,689
552	—	—	27,444	40,703
7,432	12,682	206,787	198,673	902,278
—	6,776	—	26,755	279,903
—	42,043	—	1,764	736,723
—	—	—	—	8,810
700,900	1,094,960	206,787	3,473,232	10,470,721
—	—	5,376,866	35,060	5,411,926
1,342,691	746	—	2,046,308	4,992,842
115,289	—	—	744,138	1,087,794
—	—	—	197,689	197,689
46,564	—	—	23,367	96,076
—	113,009	—	—	113,009
15,486	—	—	20,516	47,034
6,470	—	—	66,988	164,074
—	—	—	—	213,054
(481,563)	(347,925)	—	(437,208)	(2,289,388)
—	—	—	(148,155)	(148,155)
1,044,937	(234,170)	5,376,866	2,548,703	9,885,955
\$ 1,745,837	\$ 860,790	\$ 5,583,653	\$ 6,021,935	\$ 20,356,676

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009
(dollars in thousands)

Total Fund Balances for Governmental Funds..... **\$ 9,885,955**

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.....	1,927,909
Buildings and Improvements, net of \$1,728,621 accumulated depreciation.....	1,898,089
Land Improvements, net of \$212,870 accumulated depreciation.....	210,117
Machinery and Equipment, net of \$476,278 accumulated depreciation.....	180,448
Vehicles, net of \$147,393 accumulated depreciation.....	125,520
Infrastructure, net of \$9,368 accumulated depreciation.....	18,604,311
Construction-in-Progress.....	1,933,142
	<u>24,879,536</u>

Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.

Taxes Receivable.....	214,957
Intergovernmental Receivable.....	360,358
Other Receivables.....	318,748
Other Assets.....	8,489
	<u>902,552</u>

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

76,150

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

<i>Accrued Liabilities:</i>	
Interest Payable.....	(144,137)
Refunds and Other Liabilities.....	(1,319)
<i>Bonds and Notes Payable:</i>	
General Obligation Bonds.....	(7,138,051)
Revenue Bonds.....	(6,646,593)
Special Obligation Bonds.....	(2,427,556)
Certificates of Participation.....	(216,537)
<i>Other Noncurrent Liabilities:</i>	
Compensated Absences.....	(341,496)
Capital Leases Payable.....	(9,929)
Litigation Liabilities.....	(8,735)
Estimated Claims Payable.....	(10,352)
Pollution Remediation.....	(5,533)
Liability for Escheat Property.....	(235,818)
	<u>(17,186,056)</u>

Total Net Assets of Governmental Activities..... **\$ 18,558,137**

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, 2009

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes.....	\$ 7,705,081	\$ —	\$ —
Sales Taxes.....	7,062,149	—	—
Corporate and Public Utility Taxes.....	814,415	—	—
Motor Vehicle Fuel Taxes.....	—	—	—
Cigarette Taxes.....	924,764	—	—
Other Taxes.....	587,806	2,581	—
Licenses, Permits and Fees.....	435,849	479,799	702
Sales, Services and Charges.....	51,653	497	387
Federal Government.....	6,848,974	6,694,617	1,743,671
Tobacco Settlement.....	—	—	—
Escheat Property.....	102,347	—	—
Investment Income.....	170,371	8,035	2,954
Other.....	455,254	179,838	23,040
TOTAL REVENUES.....	25,158,663	7,365,367	1,770,754
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education.....	7,951,818	596	2,461,239
Higher Education Support.....	2,472,425	2,252	39,358
Public Assistance and Medicaid.....	11,361,489	6,508,355	—
Health and Human Services.....	1,175,616	649,421	1,648
Justice and Public Protection.....	2,107,886	51,710	15,939
Environmental Protection and Natural Resources.....	82,412	—	1
Transportation.....	21,476	—	—
General Government.....	373,695	3,232	—
Community and Economic Development.....	743,422	759	—
CAPITAL OUTLAY.....	67	1,442	—
DEBT SERVICE.....	—	—	—
TOTAL EXPENDITURES.....	26,290,306	7,217,767	2,518,185
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,131,643)	147,600	(747,431)
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued.....	30,000	—	—
Refunding Bonds Issued.....	—	—	—
Payment to Refunded Bond Escrow Agents.....	—	—	—
Premiums/Discounts.....	500	—	—
Capital Leases.....	600	—	—
Transfers-in.....	446,576	11,053	728,246
Transfers-out.....	(1,173,439)	(14,867)	(3,941)
TOTAL OTHER FINANCING SOURCES (USES).....	(695,763)	(3,814)	724,305
NET CHANGE IN FUND BALANCES.....	(1,827,406)	143,786	(23,126)
FUND BALANCES (DEFICITS), July 1.....	2,601,372	140,044	115,099
Increase (Decrease) for Changes in Inventories.....	(150)	—	—
FUND BALANCES (DEFICITS), JUNE 30.....	\$ 773,816	\$ 283,830	\$ 91,973

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
\$ —	\$ 691,464	\$ —	\$ 7,673	\$ 8,404,218
—	180,850	—	22,515	7,265,514
—	1,633,799	—	846	2,449,060
617,952	1,086,336	—	38,863	1,743,151
—	—	—	—	924,764
—	14,840	—	43,057	648,284
69,629	342,954	—	1,090,526	2,419,459
1,263	5,120	—	29,169	88,089
1,200,458	—	—	2,418,060	18,905,780
—	—	362,379	4,516	366,895
—	—	—	—	102,347
17,515	1,228	12,295	72,002	284,400
83,709	2	—	390,722	1,132,565
1,990,526	3,956,593	374,674	4,117,949	44,734,526
—	993,904	66,348	369	11,474,274
—	—	—	301,589	2,815,624
—	—	—	12,350	17,882,194
—	1,872	—	2,146,397	3,974,954
—	308,316	—	693,694	3,177,545
—	—	—	314,399	396,812
2,054,517	—	—	1,604	2,077,597
—	—	—	202,530	579,457
—	2,170,366	—	1,225,357	4,139,904
—	—	—	564,290	565,799
—	—	380,597	1,522,555	1,903,152
2,054,517	3,474,458	446,945	6,985,134	48,987,312
(63,991)	482,135	(72,271)	(2,867,185)	(4,252,786)
—	—	—	970,770	1,000,770
—	—	—	506,480	506,480
—	—	—	(555,025)	(555,025)
—	—	—	71,113	71,613
—	—	—	—	600
457,034	204,094	—	1,623,848	3,470,851
(368,616)	(875,049)	(15,270)	(120,284)	(2,571,466)
88,418	(670,955)	(15,270)	2,496,902	1,923,823
24,427	(188,820)	(87,541)	(370,283)	(2,328,963)
1,003,610	(45,350)	5,464,407	2,915,903	12,195,085
16,900	—	—	3,083	19,833
\$ 1,044,937	\$ (234,170)	\$ 5,376,866	\$ 2,548,703	\$ 9,885,955

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, 2009

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds.....	\$ (2,328,963)
Change in Inventories.....	19,833
	<u>(2,309,130)</u>

The change in net assets reported for governmental activities in the Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay Expenditures.....	463,999	
Depreciation Expense.....	<u>(214,227)</u>	
Excess of Capital Outlay Over Depreciation Expense.....		<u>249,772</u>

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.....	(339,980)	
Revenue Bonds.....	(425,000)	
Special Obligation Bonds.....	(196,685)	
Refunding Bonds, including Bond Premium/Discount, Net.....	(558,176)	
Certificates of Participation.....	(39,105)	
Premiums and Discounts, Net:		
General Obligation Bonds.....	(4,329)	
Revenue Bonds.....	(9,067)	
Special Obligation Bonds.....	(7,599)	
Certificates of Participation.....	(1,162)	
Deferred Refunding Loss.....	25,975	
Capital Leases.....	<u>(600)</u>	
Total Debt Proceeds.....		<u>(1,555,728)</u>

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

Debt Principal Retirement and Defeasements:		
General Obligation Bonds.....	983,364	
Revenue Bonds.....	243,295	
Special Obligation Bonds.....	399,621	
Certificates of Participation.....	9,810	
Capital Lease Payments.....	<u>475</u>	
Total Long-Term Debt Repayment.....		<u>1,636,565</u>

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues decreased by this amount this year.

(98,782)

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

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

<i>Increase in Bond Issue Costs Included in Other Assets.....</i>	<i>46</i>	
<i>Decrease in Accrued Interest and Other Accrued Liabilities.....</i>	<i>612</i>	
<i>Amortization of Bond Premiums/Accretion of Bond Discount, Net.....</i>	<i>7,572</i>	
<i>Amortization of Deferred Refunding Loss.....</i>	<i>(21,058)</i>	
<i>Decrease in Compensated Absences.....</i>	<i>56,815</i>	
<i>Decrease in Litigation Liabilities.....</i>	<i>2,568</i>	
<i>Increase in Estimated Claims Payable.....</i>	<i>(6,565)</i>	
<i>Decrease in Pollution Remediation.....</i>	<i>1,878</i>	
<i>Decrease in Liability for Escheat Property.....</i>	<i>14,824</i>	
		<hr/>
<i>Total additional expenditures.....</i>		<i>56,692</i>
<i>Change in Net Assets of Governmental Activities.....</i>		<i>\$ (2,020,611)</i>

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, 2009

(dollars in thousands)

	GENERAL			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET			
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes.....	\$ 9,096,147	\$ 8,257,610	\$ 7,627,989	\$ (629,621)
Sales Taxes.....	7,792,160	7,452,050	7,112,816	(339,234)
Corporate and Public Utility Taxes.....	766,938	805,122	841,233	36,111
Motor Vehicle Fuel Taxes.....	—	—	—	—
Cigarette Taxes.....	941,650	916,961	924,764	7,803
Other Taxes.....	630,906	615,064	589,124	(25,940)
Licenses, Permits and Fees.....	444,666	444,666	435,461	(9,205)
Sales, Services and Charges.....	74,126	74,126	74,594	468
Federal Government.....	6,698,688	7,073,306	6,916,556	(156,750)
Tobacco Settlement.....	—	—	2,016	2,016
Investment Income.....	164,460	164,460	141,233	(23,227)
Other.....	1,088,937	1,088,937	1,076,784	(12,153)
TOTAL REVENUES.....	27,698,678	26,892,302	25,742,570	(1,149,732)
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education.....	8,530,208	8,479,359	8,093,085	386,274
Higher Education Support.....	2,541,026	2,521,580	2,509,009	12,571
Public Assistance and Medicaid.....	12,079,665	11,937,558	11,747,567	189,991
Health and Human Services.....	1,558,884	1,436,631	1,373,756	62,875
Justice and Public Protection.....	2,320,228	2,318,486	2,264,434	54,052
Environmental Protection and Natural Resources.....	134,678	122,727	116,955	5,772
Transportation.....	34,163	31,498	31,340	158
General Government.....	794,216	815,574	702,246	113,328
Community and Economic Development.....	871,178	869,073	807,669	61,404
CAPITAL OUTLAY.....	125	83	82	1
DEBT SERVICE.....	1,285,733	1,185,396	1,089,090	96,306
TOTAL BUDGETARY EXPENDITURES.....	30,150,104	29,717,965	28,735,233	982,732
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....	(2,451,426)	(2,825,663)	(2,992,663)	(167,000)
OTHER FINANCING SOURCES (USES):				
Transfers-in.....	1,710,084	1,750,084	1,702,035	(48,049)
Transfers-out.....	(2,105,890)	(2,105,890)	(1,148,617)	957,273
TOTAL OTHER FINANCING SOURCES (USES).....	(395,806)	(355,806)	553,418	909,224
NET CHANGE IN FUND BALANCES.....	\$ (2,847,232)	\$ (3,181,469)	(2,439,245)	\$ 742,224
BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....			2,229,541	
Outstanding Encumbrances at Beginning of Fiscal Year.....			1,043,289	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30.....			\$ 833,585	

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

JOB, FAMILY AND OTHER HUMAN SERVICES				EDUCATION			
BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL			ORIGINAL	FINAL		
		\$ —				\$ —	
		—				—	
		—				—	
		—				—	
		2,581				—	
		478,841				702	
		496				386	
		4,496,315				1,754,024	
		—				—	
		8,027				2,861	
		400,548				34,027	
		<u>5,386,808</u>				<u>1,792,000</u>	
\$ 2,937	\$ 2,937	2,534	\$ 403	\$ 2,386,803	\$ 2,697,076	2,502,687	\$ 194,389
7,667	7,667	2,970	4,697	30,182	48,729	36,777	11,952
6,377,108	6,765,184	6,200,309	564,875	—	—	—	—
788,626	815,484	671,075	144,409	3,805	4,143	1,704	2,439
95,258	99,542	56,624	42,918	37,519	37,519	26,005	11,514
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
3,685	5,252	2,207	3,045	—	—	—	—
15,917	16,417	1,416	15,001	—	—	—	—
41,484	41,484	1,963	39,521	—	—	—	—
—	—	—	—	—	—	—	—
<u>\$ 7,332,682</u>	<u>\$ 7,753,967</u>	<u>6,939,098</u>	<u>\$ 814,869</u>	<u>\$ 2,458,309</u>	<u>\$ 2,787,467</u>	<u>2,567,173</u>	<u>\$ 220,294</u>
		(1,552,290)				(775,173)	
		4,108				718,946	
		(17,071)				(3,941)	
		<u>(12,963)</u>				<u>715,005</u>	
		(1,565,253)				(60,168)	
		(913,699)				59,772	
		<u>1,208,182</u>				<u>49,834</u>	
		<u>\$ (1,270,770)</u>				<u>\$ 49,438</u>	

(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, 2009

(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.....		617,397		
Cigarette Taxes.....		—		
Other Taxes.....		—		
Licenses, Permits and Fees.....		70,274		
Sales, Services and Charges.....		1,263		
Federal Government.....		1,191,557		
Tobacco Settlement.....		—		
Investment Income.....		17,194		
Other.....		126,884		
TOTAL REVENUES.....		2,024,569		
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.....	6,855,960	6,855,996	3,606,244	
General Government.....	—	—	—	
Community and Economic Development.....	—	—	—	
CAPITAL OUTLAY.....	—	—	—	
DEBT SERVICE.....	173,099	173,063	154,205	
TOTAL BUDGETARY EXPENDITURES.....	\$ 7,029,059	\$ 7,029,059	3,760,449	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....			(1,735,880)	
OTHER FINANCING SOURCES (USES):				
Transfers-in.....		528,581		
Transfers-out.....		(286,018)		
TOTAL OTHER FINANCING SOURCES (USES).....		242,563		
NET CHANGE IN FUND BALANCES.....			(1,493,317)	
BUDGETARY FUND BALANCES				
(DEFICITS), JULY 1.....		(587,988)		
Outstanding Encumbrances at Beginning of Fiscal Year....		1,538,420		
BUDGETARY FUND BALANCES				
(DEFICITS), JUNE 30.....		\$ (542,885)		

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

REVENUE DISTRIBUTION			
BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL	ACTUAL	
		\$ 686,550	
		207,084	
		1,658,294	
		1,097,625	
		—	
		14,840	
		508,688	
		—	
		—	
		—	
		1,255	
		3	
		<u>4,174,339</u>	
\$ 854,440	\$ 890,595	881,781	\$ 8,814
—	—	—	—
—	—	—	—
1,832	1,922	1,920	2
594,565	594,565	487,857	106,708
—	—	—	—
—	—	—	—
—	—	—	—
2,345,886	2,357,795	2,167,041	190,754
—	—	—	—
—	—	—	—
<u>\$ 3,796,723</u>	<u>\$ 3,844,877</u>	<u>3,538,599</u>	<u>\$ 306,278</u>
		<u>635,740</u>	
		795,174	
		(1,441,525)	
		<u>(646,351)</u>	
		(10,611)	
		208,343	
		—	
		<u>\$ 197,732</u>	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS – ENTERPRISE
JUNE 30, 2009
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 14,111	\$ 63,581	\$ —
Cash and Cash Equivalents.....	490,202	31,029	—
Collateral on Lent Securities.....	6,076	27,191	—
Restricted Assets:			
Cash Equity with Treasurer.....	—	70	—
Investments.....	—	37,847	—
Collateral on Lent Securities.....	—	256,550	—
Other Receivables.....	—	3,702	—
Deposit with Federal Government.....	—	—	87,656
Intergovernmental Receivable.....	—	—	465
Premiums and Assessments Receivable.....	930,334	—	15,270
Investment Trade Receivable.....	346,239	—	—
Interfund Receivable.....	69,403	—	—
Other Receivables.....	397,248	29,694	13,067
Inventories.....	—	—	—
Other Assets.....	7,180	7,916	6,498
TOTAL CURRENT ASSETS.....	2,260,793	457,580	122,956
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents.....	978	—	—
Investments.....	—	715,289	—
Investments.....	16,566,494	—	—
Premiums and Assessments Receivable.....	2,776,883	—	—
Interfund Receivable.....	711,464	—	—
Capital Assets Being Depreciated, Net.....	91,742	5,640	—
Capital Assets Not Being Depreciated.....	11,994	—	—
TOTAL NONCURRENT ASSETS.....	20,159,555	720,929	—
TOTAL ASSETS.....	22,420,348	1,178,509	122,956
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable.....	3,648	6,694	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	6,076	283,741	—
Investment Trade Payable.....	401,074	—	—
Intergovernmental Payable.....	—	—	533
Deferred Prize Awards Payable.....	—	41,620	—
Interfund Payable.....	—	144	—
Unearned Revenue.....	—	—	—
Benefits Payable.....	1,823,493	—	14,167
Refund and Other Liabilities.....	541,115	45,367	6,930
Bonds and Notes Payable.....	15,930	—	—
TOTAL CURRENT LIABILITIES.....	2,791,336	377,566	21,630
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	—	—	862,538
Deferred Prize Awards Payable.....	—	658,229	—
Interfund Payable.....	—	1,813	—
Benefits Payable.....	15,602,880	—	—
Refund and Other Liabilities.....	1,446,063	2,232	—
Bonds and Notes Payable.....	64,727	—	—
TOTAL NONCURRENT LIABILITIES.....	17,113,670	662,274	862,538
TOTAL LIABILITIES.....	19,905,006	1,039,840	884,168
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt.....	24,057	5,640	—
Restricted for Deferred Lottery Prizes.....	—	57,059	—
Unrestricted.....	2,491,285	75,970	(761,212)
TOTAL NET ASSETS (DEFICITS).....	\$ 2,515,342	\$ 138,669	\$ (761,212)

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

NONMAJOR PROPRIETARY FUNDS		TOTAL	
\$	31,337	\$	109,029
	1,243		522,474
	7,525		40,792
	—		70
	406,091		443,938
	—		256,550
	—		3,702
	—		87,656
	9,498		9,963
	—		945,604
	—		346,239
	2,240		71,643
	6,496		446,505
	39,871		39,871
	1,083		22,677
	505,384		3,346,713
	—		978
	129,000		844,289
	80,559		16,647,053
	—		2,776,883
	10,244		721,708
	7,366		104,748
	—		11,994
	227,169		21,107,653
	732,553		24,454,366
	25,509		35,851
	6,371		6,371
	7,525		297,342
	—		401,074
	418		951
	—		41,620
	3,159		3,303
	165		165
	74,100		1,911,760
	5,836		599,248
	—		15,930
	123,083		3,313,615
	—		862,538
	—		658,229
	11,776		13,589
	574,400		16,177,280
	9,114		1,457,409
	—		64,727
	595,290		19,233,772
	718,373		22,547,387
	7,362		37,059
	—		57,059
	6,818		1,812,861
\$	14,180	\$	1,906,979

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS – ENTERPRISE FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services.....	\$ —	\$ 2,417,679	\$ 22,367
Premium and Assessment Income.....	2,360,930	—	1,092,003
Federal Government.....	—	—	689,425
Investment Income.....	—	—	—
Other.....	17,197	8,153	33,244
TOTAL OPERATING REVENUES.....	2,378,127	2,425,832	1,837,039
OPERATING EXPENSES:			
Costs of Sales and Services.....	—	—	—
Administration.....	36,747	122,120	—
Bonuses and Commissions.....	—	150,061	—
Prizes.....	—	1,459,048	—
Benefits and Claims.....	2,073,534	—	3,485,800
Depreciation.....	12,806	1,802	—
Other.....	35,666	12	142
TOTAL OPERATING EXPENSES.....	2,158,753	1,733,043	3,485,942
OPERATING INCOME (LOSS).....	219,374	692,789	(1,648,903)
NONOPERATING REVENUES (EXPENSES):			
Investment Income.....	(194,735)	55,842	9,870
Interest Expense.....	—	(2,485)	—
Federal Grants.....	—	—	429,236
Other.....	—	(38,780)	315
TOTAL NONOPERATING REVENUES (EXPENSES).....	(194,735)	14,577	439,421
INCOME (LOSS) BEFORE TRANSFERS.....	24,639	707,366	(1,209,482)
TRANSFERS:			
Transfers-in.....	—	—	—
Transfers-out.....	(12,586)	(702,626)	(3,812)
TOTAL TRANSFERS.....	(12,586)	(702,626)	(3,812)
NET INCOME (LOSS).....	12,053	4,740	(1,213,294)
NET ASSETS, JULY 1.....	2,503,289	133,929	452,082
NET ASSETS (DEFICITS), JUNE 30.....	\$ 2,515,342	\$ 138,669	\$ (761,212)

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
\$ 770,549	\$ 3,210,595
—	3,452,933
—	689,425
(87,369)	(87,369)
154,452	213,046
837,632	7,478,630
517,207	517,207
84,471	243,338
—	150,061
—	1,459,048
84,495	5,643,829
1,905	16,513
1,695	37,515
689,773	8,067,511
147,859	(588,881)
111	(128,912)
—	(2,485)
16	429,252
(244)	(38,709)
(117)	259,146
147,742	(329,735)
43,739	43,739
(224,100)	(943,124)
(180,361)	(899,385)
(32,619)	(1,229,120)
46,799	3,136,099
\$ 14,180	\$ 1,906,979

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS – ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers.....	\$ —	\$ 2,430,836	\$ —
Cash Received from Premiums and Assessments.....	2,446,298	—	1,106,680
Cash Received from Multi-State Lottery for Grand Prize Winner.....	—	179,565	—
Cash Received from Interfund Services Provided.....	64,094	2,021	—
Other Operating Cash Receipts.....	35,611	6,133	31,975
Cash Payments to Suppliers for Goods and Services.....	(57,558)	(95,747)	(139)
Cash Payments to Employees for Services.....	(246,428)	(25,888)	—
Cash Payments for Benefits and Claims.....	(2,128,360)	—	(3,143,864)
Cash Payments for Lottery Prizes.....	—	(1,715,262)	—
Cash Payments for Bonuses and Commissions.....	—	(150,023)	—
Cash Payments for Premium Reductions and Refunds.....	(102,196)	—	—
Cash Payments for Interfund Services Used.....	(12,889)	(4,031)	—
Other Operating Cash Payments.....	—	(12)	(110,453)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	(1,428)	627,592	(2,115,801)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	—
Transfers-out	(12,586)	(702,626)	(3,812)
Federal Grants.....	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....	(12,586)	(702,626)	(3,812)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases.....	(16,005)	—	—
Interest Paid	(4,596)	—	—
Acquisition and Construction of Capital Assets	(2,038)	(3,179)	—
Proceeds from Sales of Capital Assets	25	126	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....	(22,614)	(3,053)	—
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments.....	(4,145,874)	(371,802)	(1,090,686)
Proceeds from the Sales and Maturities of Investments	3,561,024	441,637	3,205,408
Investment Income Received	752,293	18,806	274
Borrower Rebates and Agent Fees.....	(4,818)	(2,662)	—
Due to State.....	—	(5,563)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....	162,625	80,416	2,114,996
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS.....	125,997	2,329	(4,617)
CASH AND CASH EQUIVALENTS, JULY 1	379,294	92,351	4,617
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 505,291	\$ 94,680	\$ —

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

NONMAJOR PROPRIETARY FUNDS		TOTAL	
\$	749,592	\$	3,180,428
	—		3,552,978
	—		179,565
	12,426		78,541
	11,664		85,383
	(499,800)		(653,244)
	(96,017)		(368,333)
	—		(5,272,224)
	—		(1,715,262)
	—		(150,023)
	—		(102,196)
	(6,383)		(23,303)
	(85,802)		(196,267)
	85,680		(1,403,957)
	40,585		40,585
	(224,100)		(943,124)
	37		37
	(183,478)		(902,502)
	(9)		(16,014)
	—		(4,596)
	(177)		(5,394)
	31		182
	(155)		(25,822)
	(994,248)		(6,602,610)
	1,053,198		8,261,267
	26,538		797,911
	—		(7,480)
	—		(5,563)
	85,488		2,443,525
	(12,465)		111,244
	45,045		521,307
\$	32,580	\$	632,551

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS – ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(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).....	\$ 219,374	\$ 692,789	\$ (1,648,903)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	—
Depreciation	12,806	1,802	—
Provision for Uncollectible Accounts.....	108,620	—	—
Amortization of Premiums and Discounts.....	(624)	—	—
Interest on Bonds, Notes and Capital Leases.....	4,596	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government.....	—	—	(473,104)
Intergovernmental Receivable.....	—	—	(328)
Premiums and Assessments Receivable.....	(21,767)	—	1,916
Interfund Receivable.....	46,493	—	—
Other Receivables	(135,078)	14,737	(1,298)
Inventories	—	—	—
Other Assets	(4,494)	(728)	(102)
Increase (Decrease) in Liabilities:			
Accounts Payable	(4,039)	(2,655)	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	24
Deferred Prize Awards Payable.....	—	(78,808)	—
Interfund Payable.....	—	(538)	—
Unearned Revenue	—	(1,579)	—
Benefits Payable.....	(173,972)	—	8,772
Refund and Other Liabilities.....	(53,343)	2,572	(2,778)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ (1,428)	\$ 627,592	\$ (2,115,801)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments.....	\$ (928,019)	\$ (18,572)	\$ —

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

NONMAJOR PROPRIETARY FUNDS		TOTAL	
\$	147,859	\$	(588,881)
	87,369		87,369
	1,905		16,513
	—		108,620
	—		(624)
	—		4,596
	—		(473,104)
	720		392
	—		(19,851)
	(3,102)		43,391
	767		(120,872)
	(2,565)		(2,565)
	(117)		(5,441)
	(941)		(7,635)
	779		779
	3		27
	—		(78,808)
	2,616		2,078
	72		(1,507)
	—		(165,200)
	(149,685)		(203,234)
\$	85,680	\$	(1,403,957)

\$	—	\$	(946,591)
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STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009
(dollars in thousands)

	PENSION TRUST	PRIVATE- PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/08)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	14,794	40,703	—
Investments (at fair value):			
U.S. Government and Agency Obligations.....	—	—	4,136,474
Common and Preferred Stock.....	111,963	—	—
Corporate Bonds and Notes.....	—	—	—
Foreign Stocks and Bonds.....	8,601	—	—
Commercial Paper.....	—	—	213,411
Repurchase Agreements.....	—	—	10,725
Mutual Funds.....	375,206	4,294,425	319,823
Real Estate.....	9,579	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	—	—	—
Partnership and Hedge Funds.....	61,324	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio).....	—	—	—
Collateral on Lent Securities.....	36,888	—	—
Employer Contributions Receivable.....	1,678	—	—
Employee Contributions Receivable.....	1,048	—	—
Other Receivables.....	865	6,334	806
Other Assets.....	4	—	—
Capital Assets, Net.....	6	—	—
TOTAL ASSETS.....	621,956	4,341,462	4,681,239
LIABILITIES:			
Accounts Payable.....	996	—	—
Accrued Liabilities.....	12,625	5,243	—
Obligations Under Securities Lending.....	36,888	—	—
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	31	4,455	3,689
TOTAL LIABILITIES.....	50,540	9,698	3,689
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits.....	491,595	—	—
Employees' Postemployment Healthcare Benefits.....	79,821	—	—
Individuals, Organizations and Other Governments.....	—	4,331,764	—
Pool Participants.....	—	—	4,677,550
TOTAL NET ASSETS.....	\$ 571,416	\$ 4,331,764	\$ 4,677,550

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

AGENCY

\$	254,140
	141,832
	12,257,951
	42,004,135
	10,345,689
	27,967,226
	4,828,231
	250,000
	6,356,021
	12,334,291
	6,341,345
	8,085,247
	9,093
	93,377
	109,430
	—
	—
	1,122
	438,430
	—
	131,817,560

	—
	—
	109,430
	158,795
	131,549,335
	131,817,560

	—
	—
	—
	—
\$	—

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STATE OF OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2009 (dollars in thousands)

	PENSION TRUST	PRIVATE- PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/08)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer.....	\$ 24,653	\$ —	\$ —
Employees.....	8,871	—	—
Plan Participants.....	—	1,357,087	—
Other.....	633	—	—
Total Contributions.....	34,157	1,357,087	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	(245,121)	(897,172)	—
Interest, Dividends and Other.....	13,352	89,640	76,927
Total Investment Income.....	(231,769)	(807,532)	76,927
Less: Investment Expense.....	6,624	23,318	4,321
Net Investment Income.....	(238,393)	(830,850)	72,606
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	18,288,052
Reinvested Distributions.....	—	—	72,606
Shares Redeemed.....	—	—	(18,641,156)
Net Capital Share and Individual Account Transactions.....	—	—	(280,498)
TOTAL ADDITIONS.....	(204,236)	526,237	(207,892)
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries.....	47,939	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	8,547	—	—
Refunds of Employee Contributions.....	571	—	—
Administrative Expense.....	712	—	—
Transfers to Other Retirement Systems.....	283	—	—
Distributions to Shareholders and Plan Participants.....	—	1,379,315	72,606
TOTAL DEDUCTIONS.....	58,052	1,379,315	72,606
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits.....	(227,184)	—	—
Employees' Postemployment Healthcare Benefits.....	(35,104)	—	—
Individuals, Organizations and Other Governments.....	—	(853,078)	—
Pool Participants.....	—	—	(280,498)
TOTAL CHANGE IN NET ASSETS.....	(262,288)	(853,078)	(280,498)
NET ASSETS, JULY 1.....	833,704	5,184,842	4,958,048
NET ASSETS, JUNE 30.....	\$ 571,416	\$ 4,331,764	\$ 4,677,550

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, 2009
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/08)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 1,187,883	\$ —	\$ —
Cash and Cash Equivalents.....	—	31,213	712,604
Investments.....	—	54,895	460,292
Collateral on Lent Securities.....	1,406,605	—	—
Intergovernmental Receivable.....	—	478	5,165
Loans Receivable, Net.....	2,640	2,455	12,816
Receivable from Primary Government.....	—	—	1,932
Other Receivables.....	16	7	441,823
Inventories.....	—	—	28,205
Other Assets.....	39	—	35,164
TOTAL CURRENT ASSETS.....	2,597,183	89,048	1,698,001
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer.....	1,379,978	—	—
Cash and Cash Equivalents.....	—	570,277	—
Investments.....	—	660,201	—
Intergovernmental Receivable.....	—	281	—
Loans Receivable, Net.....	—	4,059,997	—
Investments.....	—	6,907	1,732,623
Loans Receivable, Net.....	3,529	42,927	58,761
Other Receivables.....	—	4,477	11,256
Other Assets.....	—	51,519	—
Capital Assets Being Depreciated, Net.....	241	1,171	2,658,176
Capital Assets Not Being Depreciated.....	2,040	539	432,492
TOTAL NONCURRENT ASSETS.....	1,385,788	5,398,296	4,893,308
TOTAL ASSETS.....	3,982,971	5,487,344	6,591,309
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable.....	12,018	40,851	175,491
Accrued Liabilities.....	471	9,433	355,359
Obligations Under Securities Lending.....	1,406,605	—	—
Intergovernmental Payable.....	983,192	809	—
Unearned Revenue.....	—	—	169,158
Refund and Other Liabilities.....	904	—	34,649
Bonds and Notes Payable.....	—	337,571	623,636
Certificates of Participation.....	—	—	425
TOTAL CURRENT LIABILITIES.....	2,403,190	388,664	1,358,718
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	758,303	—	—
Unearned Revenue.....	—	—	—
Refund and Other Liabilities.....	1,249	199	234,068
Payable to Primary Government.....	3,948,282	—	—
Bonds and Notes Payable.....	—	2,161,244	708,333
Certificates of Participation.....	—	—	4,245
TOTAL NONCURRENT LIABILITIES.....	4,707,834	2,161,443	946,646
TOTAL LIABILITIES.....	7,111,024	2,550,107	2,305,364
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt.....	241	1,709	1,730,423
Restricted for:			
Primary, Secondary and Other Education.....	1,379,978	—	—
Federal Programs.....	—	—	—
Coal Research and Development Program.....	—	—	—
Community and Economic Development and Capital Purposes.....	—	—	—
Debt Service.....	—	2,782,157	—
Nonexpendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Endowments and Quasi-Endowments.....	—	—	868,466
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.....	—	—	1,932
Endowments and Quasi-Endowments.....	—	—	110,441
Current Operations.....	—	—	355,749
Loans, Grants and Other College and University Purposes.....	—	—	—
Unrestricted.....	(4,508,272)	153,371	1,218,934
TOTAL NET ASSETS (DEFICITS).....	\$ (3,128,053)	\$ 2,937,237	\$ 4,285,945

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 17,439	\$ 1,205,322
67,477	592,265	1,403,559
121,638	980,327	1,617,152
—	12,105	1,418,710
—	55,866	61,509
2,938	20,636	41,485
1,182	37,589	40,703
86,120	377,957	905,923
2,040	28,748	58,993
10,188	60,487	105,878
291,583	2,183,419	6,859,234
—	16,755	1,396,733
—	43,404	613,681
—	444,706	1,104,907
—	—	281
—	—	4,059,997
889,386	1,166,963	3,795,879
34,614	115,703	255,534
49,762	119,490	184,985
359,534	57,888	468,941
1,359,992	4,254,231	8,273,811
65,959	750,020	1,251,050
2,759,247	6,969,160	21,405,799
3,050,830	9,152,579	28,265,033
53,806	191,831	473,997
76,789	214,976	657,028
—	12,105	1,418,710
—	4,722	988,723
33,738	252,983	455,879
44,732	124,812	205,097
108,044	70,557	1,139,808
—	—	425
317,109	871,986	5,339,667
—	8,318	766,621
—	6,152	6,152
203,734	281,729	720,979
—	—	3,948,282
828,530	1,912,067	5,610,174
—	—	4,245
1,032,264	2,208,266	11,056,453
1,349,373	3,080,252	16,396,120
388,581	3,329,708	5,450,662
—	—	1,379,978
—	29	29
—	2,389	2,389
—	16,755	16,755
—	—	2,782,157
108,388	135,294	243,682
78,962	7,374	86,336
475,870	554,054	1,898,390
351,632	87,079	438,711
43,205	125,246	168,451
90,570	15,692	106,262
29,526	131,992	161,518
45,305	16,755	62,060
25,841	148,548	174,389
1,668	11,314	12,982
20,296	67,116	89,344
90,981	22,816	224,238
12,240	96,225	464,214
14,176	225,110	239,286
(75,784)	1,078,831	(2,132,920)
\$ 1,701,457	\$ 6,072,327	\$ 11,868,913

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/08)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education.....	\$ 1,240,831	\$ —	\$ —
Community and Economic Development.....	—	—	—
Cost of Services.....	—	108,498	—
Administration.....	—	11,534	—
Education and General:			
Instruction and Departmental Research.....	—	—	840,697
Separately Budgeted Research.....	—	—	392,033
Public Service.....	—	—	120,015
Academic Support.....	—	—	133,655
Student Services.....	—	—	87,993
Institutional Support.....	—	—	177,548
Operation and Maintenance of Plant.....	—	—	112,097
Scholarships and Fellowships.....	—	—	69,721
Auxiliary Enterprises.....	—	—	214,807
Hospitals.....	—	—	1,669,832
Interest on Long-Term Debt.....	—	852	36,613
Depreciation.....	12	111	221,894
Other.....	—	3,029	9,653
TOTAL EXPENSES.....	1,240,843	124,024	4,086,558
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures.....	12,835	146,863	2,920,569
Operating Grants, Contributions and Restricted Investment Income.....	12,712	127,865	647,561
Capital Grants, Contributions and Restricted Investment Income.....	—	—	18,960
TOTAL PROGRAM REVENUES.....	25,547	274,728	3,587,090
NET PROGRAM (EXPENSE) REVENUE	(1,215,296)	150,704	(499,468)
GENERAL REVENUES:			
Unrestricted Investment Income.....	—	4,737	(435,898)
State Assistance.....	194,813	—	557,611
Other.....	—	4	2,183
TOTAL GENERAL REVENUES.....	194,813	4,741	123,896
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....	—	—	35,816
CHANGE IN NET ASSETS.....	(1,020,483)	155,445	(339,756)
NET ASSETS (DEFICITS), JULY 1 (as restated).....	(2,107,570)	2,781,792	4,625,701
NET ASSETS (DEFICITS), JUNE 30.....	\$ (3,128,053)	\$ 2,937,237	\$ 4,285,945

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 21,407	\$ 1,262,238
—	27,987	27,987
—	—	108,498
—	—	11,534
281,437	1,557,254	2,679,388
161,964	198,136	752,133
56,820	135,384	312,219
67,464	414,881	616,000
39,131	223,326	350,450
78,943	461,436	717,927
60,118	321,072	493,287
25,611	234,446	329,778
85,261	593,608	893,676
—	305,236	1,975,068
44,783	80,884	163,132
93,664	281,531	597,212
9,729	40,015	62,426
1,004,925	4,896,603	11,352,953
464,999	2,858,525	6,403,791
(16,948)	283,047	1,054,237
6,347	47,001	72,308
454,398	3,188,573	7,530,336
(550,527)	(1,708,030)	(3,822,617)
—	(363,631)	(794,792)
220,901	1,389,470	2,362,795
4,923	268,331	275,441
225,824	1,294,170	1,843,444
20,333	12,037	68,186
(304,370)	(401,823)	(1,910,987)
2,005,827	6,474,150	13,779,900
\$ 1,701,457	\$ 6,072,327	\$ 11,868,913

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2009, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

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

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

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

1. Blended Component Units

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

2. Discretely Presented Component Units

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

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

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

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

Ohio Water Development Authority
Ohio State University
University of Cincinnati
Ohio University
Miami University
University of Akron
Bowling Green State University
Kent State University
University of Toledo
Cleveland State University



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Youngstown State University
Wright State University
Shawnee State University
Central State University
Terra State Community College
Columbus State Community College
Clark State Community College
Edison State Community College
Southern State Community College
Washington State Community College
Cincinnati State Community College
Northwest State Community College
Owens State Community College

The School Facilities Commission, Cultural Facilities Commission, and eTech Ohio Commission, which are governmental component units 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.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Operating revenues for the State's proprietary funds mainly consist of charges for 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.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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, 2008.

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, 2008. The Ohio State University Fund accounts for the university's operations, including its health system, supercomputer center, agricultural research



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
- Revitalization Project Revenue Bonds
- Buckeye Tobacco Settlement Financing Authority
 - Revenue Bonds



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Chapter 154 Special Obligations
Ohio Building Authority Special Obligations
School Building Program 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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940; investments in the 2a7-like pool are reported at amortized cost (which approximates fair value).

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

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

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

G. Taxes Receivable

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

H. Intergovernmental Receivable

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

I. Inventories

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

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

J. Restricted Assets

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

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.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The State has established the following capitalization thresholds:

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

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

Buildings	20-45 Years
Land Improvements	10-30 Years
Machinery and Equipment....	3-15 Years
Vehicles	7-15 Years
Park and Natural Resources Infrastructure Network.....	10-50 Years

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit Funds

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

L. Medicaid Claims Payable

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

M. Noncurrent Liabilities

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

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

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

N. Compensated Absences

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

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

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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, 2008, for the primary government and component units that resulted from implementation of a new standard, changes in accounting principles and other adjustments, are presented in the following table (dollars in thousands).

Government-Wide Financial Statements:			
	Governmental Activities	Total Primary Government	Total Component Units
Net Assets, as of June 30, 2008, As Previously Reported	\$20,586,159	\$23,722,258	\$13,791,104
<i>Implementation of New Accounting Standard:</i>			
Refund & Other Liabilities-Due in More Than One Year.....	(7,411)	(7,411)	-
<i>Change in Accounting Principle:</i>			
Accounts Payable and Accrued Liabilities.....	-	-	(413)
Other Long-Term Liabilities.....	-	-	(2,464)
Capital Assets Not Being Depreciated.....	-	-	(8,318)
<i>Other Adjustments that Increased/(Decreased) Net Assets:</i>			
Accounts Receivable Write-Off for Permanently Restricted Pledge.....	-	-	(9)
Total Changes in Net Assets.....	(7,411)	(7,411)	(11,204)
Net Assets, July 1, 2008, As Restated	\$20,578,748	\$23,714,847	\$13,779,900

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2009, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
- Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.



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

- Governmental Accounting Standards Board (GASB) Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

GASB 49 establishes the accounting and financial reporting standard 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.

GASB 52 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.

GASB 57 amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, by establishing standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. (The GASB 57 provisions related to the frequency and timing of measurements are effective at a later date).

C. Recently Issued GASB Pronouncements

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 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.

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

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The requirements of GASB 58 are effective for financial statements for periods beginning after June



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

15, 2009. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan.

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 2009. An appropriated budget is the expenditure authority created by appropriation bills that are signed into law and related estimated revenues. The original budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

Final Budget amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to fiscal year 2009, whenever signed into law or otherwise legally authorized.

For fiscal year 2009, 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, 2009
(dollars in thousands)

	Major Special Revenue Funds				
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	\$773,816	\$283,830	\$91,973	\$1,044,937	(\$234,170)
Less: Reserved Fund Balances	560,762	1,359,239	39,256	1,526,500	113,755
Unreserved/Undesignated Fund Balances — GAAP Basis	213,054	(1,075,409)	52,717	(481,563)	(347,925)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(83,355)	(17,159)	(73)	(14,840)	(8,653)
Taxes Receivable	(819,146)	-	-	(66,976)	(463,829)
Intergovernmental Receivable	(701,305)	(429,360)	(107,666)	(98,652)	-
Loans Receivable, Net	(232,443)	-	(58)	(116,848)	-
Interfund Receivable	(2,994)	(2)	-	(422)	(89,831)
Receivables from Component Units	-	-	-	-	-
Other Receivables	(165,012)	(268,573)	(718)	(6,566)	-
Deferred Revenue	304,500	163,438	8,766	7,432	12,682
Unearned Revenue	-	201,028	45,344	-	6,776
Total Revenue Accruals/Adjustments	(1,699,755)	(350,628)	(54,405)	(296,872)	(542,855)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(46,979)	(6,083)	(596)	(9,528)	-
Inventories	(26,145)	-	-	(46,564)	-
Other Assets	(16,403)	(2,027)	(8,423)	(3,187)	-
Accounts Payable	156,111	89,552	15,004	151,309	-
Accrued Liabilities	169,135	23,974	2,543	29,433	-
Medicaid Claims Payable	897,066	4,031	-	-	-
Intergovernmental Payable	465,221	228,381	54,440	168	943,419
Interfund Payable	647,418	15,355	2,711	90,650	828
Payable to Component Units	10,489	1,220	998	552	-
Refund and Other Liabilities	687,921	4,995	-	-	42,043
Liability for Escheat Property	8,810	-	-	-	-
Total Expenditure Accruals/Adjustments	2,952,644	359,398	66,677	212,833	986,290
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	228,321	-	46	115,289	-
Noncurrent Portion of Interfund Receivable	-	-	-	-	-
Inventories	26,145	-	-	46,564	-
State and Local Highway Construction	-	-	-	-	113,009
Federal Programs	-	4,014	7,018	15,486	-
Other	67,896	22,251	469	6,470	-
Cash and Investments Held					
Outside of State Treasury	(684,625)	(10,289)	(2,207)	(683)	(10,731)
Other	7	(1)	2	1	-
Total Other Adjustments	(362,256)	15,975	5,328	183,127	102,278
Total Basis Differences	890,633	24,745	17,600	99,088	545,713
TIMING DIFFERENCES					
Encumbrances	(270,102)	(220,106)	(20,879)	(160,410)	(56)
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	\$833,585	(\$1,270,770)	\$49,438	(\$542,885)	\$197,732



NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

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

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

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- Obligations of a board of education, as authorized under Section 133.10, Ohio Revised Code.

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

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

B. State-Sponsored Investment Pool

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

C. Deposit and Investment Risks

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

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

1. Custodial Credit Risk

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

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

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

The table below reports the carrying amount of deposits, as of June 30, 2009, 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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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, 2009					
(dollars in thousands)					
			Uninsured Portion of Reported Bank Balance		
				Collateralized with Securities Held by the Pledging Institution's Trust	Collateralized with Securities Held by the Pledging Institution
	Carrying Amount	Bank Balance	Uncollateralized	Department or Agent but not in the Depositor- Government's Name	
Primary Government	\$1,431,565	\$1,483,474	\$260	\$235,208	\$ -
Component Units	1,446,532	1,553,798	42,913	1,249,876	125,416
Total Deposits — Reporting Entity	<u>\$2,878,097</u>	<u>\$3,037,272</u>	<u>\$43,173</u>	<u>\$1,485,084</u>	<u>\$125,416</u>

The following tables report the fair value, as of June 30, 2009, 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).



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities) and Component Units

Investments—Custodial Credit Risk

As of June 30, 2009

(dollar in thousands)

Uninsured,
Unregistered, and
Held by the
Counterparty's Trust
Department or Agent
but not in the State's
Name

Investments for the Primary Government

(including Fiduciary Activities), as of June 30, 2009

Total Fair Value

Investments Subject to Custodial Credit Risk Exposure:

U.S. Government Obligations	\$11,485,163	\$197,182
U.S. Government Obligations—Strips	483,551	-
U.S. Agency Obligations	14,293,182	-
U.S. Agency Obligations—Strips	404,254	-
Common and Preferred Stock	45,737,321	264,221
Corporate Bonds and Notes	14,528,144	-
Corporate Bonds and Notes—Strips	221	-
Municipal Obligations	284,183	-
Commercial Paper	4,837,234	-
Repurchase Agreements	269,756	-
Mortgage and Asset-Backed Securities	8,123,597	-
International Investments:		
Foreign Stocks	25,891,157	-
Foreign Bonds	2,813,731	-
High-Yield and Emerging Markets Fixed Income	1,097,661	-
Securities Lending Collateral:		
Commercial Paper	209,990	-
Repurchase Agreements	1,955,000	-
Mortgage and Asset-Backed Securities	971	-
Foreign Bonds	1,999	-
Variable Rate Notes	564,767	-
Master Notes	182,000	-
U.S. Agency Obligations	2,998	-
Corporate Bonds	17,445	-
Equity Mutual Funds	5,517	-
Bond Mutual Funds	1,679,347	-
Negotiable Certificates of Deposit	-	-

Investments Not Subject to Custodial Credit Risk Exposure:

Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:

U.S. Government Obligations	165,317	-
U.S. Agency Obligations	4,306,423	-
U.S. Agency Obligations—Strips	6,997	-
Common and Preferred Stock	34,830	-
Corporate Bonds and Notes	-	-
International Investments:		
Foreign Stocks	1,136	-
Foreign Bonds	-	-
High-Yield and Emerging Markets Fixed Income	-	-
International Investments-Commingled Equity Funds	1,069,698	-
International Investments-Commingled Bond Funds	40,194	40,194
Equity Mutual Funds	7,319,308	-
Bond Mutual Funds	6,713,728	-
Real Estate	12,295,893	-
Venture Capital	6,341,345	-
Partnerships and Hedge Funds	61,485	-
Investment Contracts	5,947	-
Deposit with Federal Government	87,656	-
Component Units' Equity in State Treasurer's Cash and Investment Pool	(4,020,766)	-
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(546,252)	-
Total Investments — Primary Government	\$168,752,128	\$501,597



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

		Uninsured, Unregistered, and Held by the	
		Counterparty's Trust	
		Department or Agent but not in the Component	Counterparty but not in the Component
Investments for Component Units, as of June 30, 2009	Total Fair Value	Unit's Name	Unit's Name
<i>Investments Subject to Custodial Credit Risk Exposure:</i>			
U.S. Government Obligations	\$269,628	\$135,186	\$58,064
U.S. Government Obligations—Strips	4,856	3,055	-
U.S. Agency Obligations	1,138,484	794,550	160,112
Common and Preferred Stock	837,707	192,960	247,230
Corporate Bonds and Notes	459,682	214,842	184,913
Commercial Paper	14,103	13,893	-
Repurchase Agreements	81,536	913	75,942
Mortgage and Asset-Backed Securities	72,483	283	-
Negotiable Certificates of Deposit	4,812	-	-
Municipal Obligations	12,988	8,664	129
International Investments:			
Foreign Stocks	198,787	721	-
Foreign Bonds	1,175	-	-
Other Investments	25,179	-	-
		\$1,365,067	\$726,390
<i>Investments Not Subject to Custodial Credit Risk Exposure:</i>			
Equity Mutual Funds	1,153,494		
Bond Mutual Funds	962,425		
Real Estate	60,003		
Life Insurance	17,833		
Investment Contracts	25,885		
Charitable Remainder Trusts	198,173		
Partnerships and Hedge Funds	1,003,155		
Investment in State Treasurer's Cash and Investment Pool	4,020,765		
Investment in the State Treasury Asset Reserve of Ohio (STAR)	546,252		
Total Investment Units	\$11,109,405		
Total Investments — Reporting Entity	\$179,861,533		

Reconciliation of Deposits and Investments Disclosures with Financial Statements

As of June 30, 2009

(dollars in thousands)

	Government-Wide Statement of Net Assets			Fiduciary Funds	
	Governmental Activities	Business-Type Activities	Component Units	Statement of Net Assets	Total
Cash Equity with Treasurer	\$5,815,272	\$109,029	\$1,205,322	\$254,140	\$7,383,763
Cash and Cash Equivalents	122,257	522,474	1,403,559	197,329	2,245,619
Investments	1,087,926	16,647,053	5,413,031	140,414,137	163,562,147
Collateral on Lent Securities	2,764,289	40,792	1,418,710	146,318	4,370,109
Deposit with Federal Government	-	87,656	-	-	87,656
<i>Restricted Assets:</i>					
Cash Equity with Treasurer	-	70	1,396,733	-	1,396,803
Cash and Cash Equivalents	138,791	978	613,681	-	753,450
Investments	389,357	1,288,227	1,104,907	-	2,782,491
Collateral on Lent Securities	-	256,550	-	-	256,550
Total Reporting Entity	<u>\$10,317,892</u>	<u>\$18,952,829</u>	<u>\$12,555,943</u>	<u>\$141,011,924</u>	<u>\$182,838,588</u>
Total Carrying Amount of Deposits and Investments per Financial Statements					\$182,838,588
Outstanding Warrants and Other Reconciling Items					(100,224)
Differences Resulting from Component Units with December 31 Year-Ends					1,266
Total Carrying Amount of Deposits and Investments Disclosed in Note 4					<u>\$182,739,630</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2009, reported for the primary government and its component units is (dollars in thousands) \$182,838,588. The total of the carrying amounts of both deposits in the amount of \$2,878,097 and investments in the amount of \$179,861,533 that has been categorized and disclosed in this note is \$182,739,630. 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 "Aa", "Aa-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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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,

- 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, 2009

(dollars in thousands)

Investment Type	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$15,545,782	\$2,430	\$2,971,280	\$ -	\$ -	\$ -
U.S. Agency Obligations—Strips	411,251	-	-	-	-	-
Corporate Bonds and Notes	2,198,564	1,241,799	5,390,932	4,492,219	528,985	363,655
Corporate Bonds and Notes—Strips	221	-	-	-	-	-
Municipal Bonds	80,094	130,163	64,167	9,759	-	-
Commercial Paper	4,380,353	144,966	261,933	49,982	-	-
Repurchase Agreements	264,571	-	-	-	-	-
Mortgage and Asset-Backed Securities	7,333,255	261,598	116,735	152,484	59,789	111,339
Foreign Bonds	296,751	152,435	536,599	1,163,725	165,719	42,482
High-Yield & Emerging Markets Fixed Income	18,855	2,156	13,232	93,266	296,066	315,119
Bond Mutual Funds	5,790,207	-	29,693	-	6,410	699
Investment Contracts	-	-	-	-	-	-
Securities Lending Collateral:						
Commercial Paper	-	-	209,990	-	-	-
Repurchase Agreements	-	445,000	1,510,000	-	-	-
Mortgage and Asset-Backed Securities	-	-	-	971	-	-
Foreign Bonds	1,999	-	-	-	-	-
Variable Rate Notes	-	105,549	329,938	129,280	-	-
Master Notes	-	-	182,000	-	-	-
Corporate Bonds	-	9,944	7,501	-	-	-
U.S. Government Agency	2,998	-	-	-	-	-
Bond Mutual Funds	1,670,419	-	-	-	-	-
International Investments-Commingled Bond Funds	-	40,194	-	-	-	-
Total Primary Government	\$37,995,320	\$2,536,234	\$11,624,000	\$6,091,686	\$1,056,969	\$833,294

Investment Type	Credit Rating					Total
	CCC/Caa	CC/Ca	C	D	Unrated	
U.S. Agency Obligations	\$ -	\$ -	\$ -	\$ -	\$ 80,113	\$18,599,605
U.S. Agency Obligations—Strips	-	-	-	-	-	411,251
Corporate Bonds and Notes	175,502	20,697	10,274	11,380	94,137	14,528,144
Corporate Bonds and Notes—Strips	-	-	-	-	-	221
Municipal Bonds	-	-	-	-	-	284,183
Commercial Paper	-	-	-	-	-	4,837,234
Repurchase Agreements	-	-	-	-	5,185	269,756
Mortgage and Asset-Backed Securities	74,333	2,893	8,360	-	2,811	8,123,597
Foreign Bonds	15,856	2,339	1,145	-	436,680	2,813,731
High-Yield & Emerging Markets Fixed Income	146,695	26,283	1,039	13,473	171,477	1,097,661
Bond Mutual Funds	-	-	-	-	886,719	6,713,728
Investment Contracts	-	-	-	-	5,947	5,947
Securities Lending Collateral:						
Commercial Paper	-	-	-	-	-	209,990
Repurchase Agreements	-	-	-	-	-	1,955,000
Mortgage and Asset-Backed Securities	-	-	-	-	-	971
Foreign Bonds	-	-	-	-	-	1,999
Variable Rate Notes	-	-	-	-	-	564,767
Master Notes	-	-	-	-	-	182,000
Corporate Bonds	-	-	-	-	-	17,445
U.S. Government Agency	-	-	-	-	-	2,998
Bond Mutual Funds	-	-	-	-	8,928	1,679,347
International Investments-Commingled Bond Funds	-	-	-	-	-	40,194
Total Primary Government	\$ 412,386	\$ 52,212	\$ 20,818	\$ 24,853	\$1,691,997	\$62,339,769



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units Investment Credit Ratings As of June 30, 2009 (dollars in thousands)						
Investment Type	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$1,138,484	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds and Notes	58,938	97,492	233,113	61,742	4,189	1,008
Commercial Paper	51	6,466	7,560	20	-	-
Repurchase Agreements	81,536	-	-	-	-	-
Mortgage and Asset-Backed Securities	1,867	-	-	-	-	-
Negotiable Certificates of Deposit	500	-	-	-	-	-
Municipal Obligations	6,727	5,920	108	-	-	-
Bond Mutual Funds	493,146	239,384	39,231	45,626	11,344	2,334
Foreign Bonds	-	127	125	792	-	-
Investment Contracts	-	-	-	-	-	-
Total Component Units	<u>\$1,781,249</u>	<u>\$349,389</u>	<u>\$280,137</u>	<u>\$108,180</u>	<u>\$15,533</u>	<u>\$3,342</u>

Investment Type	Credit Rating			
	CCC/Caa	CC/Ca	Unrated	Total
U.S. Agency Obligations	\$ -	\$ -	\$ -	\$1,138,484
Corporate Bonds and Notes	450	190	2,560	459,682
Commercial Paper	-	-	6	14,103
Repurchase Agreements	-	-	-	81,536
Mortgage and Asset-Backed Securities	-	-	70,616	72,483
Negotiable Certificates of Deposit	-	-	4,312	4,812
Municipal Obligations	-	-	233	12,988
Bond Mutual Funds	2,684	-	128,676	962,425
Foreign Bonds	-	-	131	1,175
Investment Contracts	-	-	25,885	25,885
Total Component Units	<u>\$3,134</u>	<u>\$190</u>	<u>\$232,419</u>	<u>\$2,773,573</u>

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

3. Concentration of Credit Risk

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

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

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

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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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, 2009, all investments meet the requirements of the State's law and policies, when applicable. However, investments in certain issuers are at least five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
<i>Governmental and Business-Type Activities:</i>		
Federal National Mortgage Association	\$2,696,366	9%
Federal Home Loan Bank	3,046,398	10%
<i>STAR Ohio Investment Trust Fund:</i>		
Federal National Mortgage Association	1,715,002	27%
Federal Home Loan Bank	2,160,798	34%
Federal Home Loan Mortgage Corporation	1,694,148	27%
<i>School Facilities Commission Component Unit Fund:</i>		
Federal National Mortgage Association	131,510	19%
Federal Home Loan Bank	186,051	27%
Federal Home Loan Mortgage Corporation	56,355	8%
<i>Ohio Water Development Authority Component Unit Fund (12/31/08):</i>		
AIGMFC	111,515	15%
FNMA	272,421	7%
FHLB.....	146,564	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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

Investments purchased under the Cash Management Policy of the Ohio Public Employees Retirement System are limited to a weighted average maturity of 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, 2009, 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 \$3.66 billion of investments with call dates during fiscal years 2010 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, 2009. Variable rate notes of \$50 million have daily reset dates. Mortgage and asset-backed securities of \$1 million and variable rate notes of \$70 million have monthly reset dates. Variable rate notes of \$420 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has collateral on lent securities with reset dates. Variable rate notes with reset dates are reported as collateral on lent securities. Variable rate notes of \$25 million have daily reset dates.

Also during fiscal year 2009, 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, 2009, 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, 2009					
(dollars in thousands)					
Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$427,846	\$2,133,792	\$1,471,976	\$7,616,866	\$11,650,480
U.S. Government Obligations—Strips	10,897	65,911	75,370	331,373	483,551
U.S. Agency Obligations	10,917,759	3,299,950	767,975	3,613,921	18,599,605
U.S. Agency Obligations—Strips	14,837	80,483	140,490	175,441	411,251
Corporate Bonds and Notes	1,602,301	3,235,207	2,621,405	7,069,231	14,528,144
Corporate Bonds and Notes—Strips	-	-	61	160	221
Municipal Bonds	-	-	-	284,183	284,183
Commercial Paper	4,837,234	-	-	-	4,837,234
Repurchase Agreements	269,756	-	-	-	269,756
Mortgage and Asset-Backed Securities	12,330	142,100	434,817	7,534,350	8,123,597
Foreign Bonds	124,916	429,927	486,026	1,772,862	2,813,731
High-Yield & Emerging Markets Fixed Income	147,631	273,882	444,378	231,770	1,097,661
Bond Mutual Funds	3,081,129	1,246,062	1,325,675	1,060,862	6,713,728
Investment Contracts	-	5,947	-	-	5,947
Securities Lending Collateral:					
Commercial Paper	209,990	-	-	-	209,990
Repurchase Agreements	1,955,000	-	-	-	1,955,000
Mortgage and Asset-Backed Securities	971	-	-	-	971
Variable Rate Notes	564,767	-	-	-	564,767
Master Notes	182,000	-	-	-	182,000
Corporate Bonds	17,445	-	-	-	17,445
U.S. Agency Obligations	2,998	-	-	-	2,998
Bond Mutual Funds	1,679,347	-	-	-	1,679,347
Foreign Bonds	1,999	-	-	-	1,999
International Investments-Commingled Bond Funds	-	40,194	-	-	40,194
Total Primary Government	<u>\$26,061,153</u>	<u>\$10,953,455</u>	<u>\$7,768,173</u>	<u>\$29,691,019</u>	<u>\$74,473,800</u>

Component Units					
Investments Subject to Interest Rate Risk					
As of June 30, 2009					
(dollars in thousands)					
Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$96,782	\$143,012	\$18,672	\$11,162	\$269,628
U.S. Government Obligations—Strips	860	3,524	349	123	4,856
U.S. Agency Obligations	648,342	354,552	57,008	78,582	1,138,484
Corporate Bonds and Notes	154,333	193,121	89,653	22,575	459,682
Commercial Paper	12,131	1,972	-	-	14,103
Repurchase Agreements	81,536	-	-	-	81,536
Mortgage and Asset-Backed Securities	3,222	1,962	7,381	59,918	72,483
Negotiable Certificates of Deposit	3,502	1,310	-	-	4,812
Municipal Obligations	5,552	5,555	1,520	361	12,988
Bond Mutual Funds	379,125	299,566	227,155	56,579	962,425
Foreign Bonds	-	361	809	5	1,175
Investment Contracts	-	-	-	25,885	25,885
Other Investments	6,909	1,652	-	-	8,561
Total Component Units	<u>\$1,392,294</u>	<u>\$1,006,587</u>	<u>\$402,547</u>	<u>\$255,190</u>	<u>\$3,056,618</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

5. Foreign Currency Risk

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

According to Chapter 135, Ohio Revised Code, investments managed by the Treasurer of State's Office, and reported as "Cash Equity with Treasurer", are limited to the debt of nations diplomatically recognized by the United States and that are backed by 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, 2009, investments denominated in the currency of foreign nations, as detailed in the tables appearing on the next three 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, 2009 (dollars in thousands)					
Currency	Fiduciary Activities				Total
	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Commingled International Equity and Bonds	
Argentinean Peso	\$270	\$581	\$ -	\$ -	\$851
Australian Dollar	507,260	8,277	-	-	515,537
Brazilian Real	342,068	33,283	8,172	-	383,523
British Pound	1,845,592	105,595	-	-	1,951,187
Bulgarian Lev	503	-	-	-	503
Canadian Dollar	490,343	81,760	-	-	572,103
Chilean Peso.....	29,171	-	-	-	29,171
Chinese Yuan	-	-	-	-	-
Colombian Peso	3,091	8,030	3,799	-	14,920
Czech Koruna	33,537	563	-	-	34,100
Danish Krone	109,721	-	-	-	109,721
Egyptian Pound	32,096	1,121	75	-	33,292
Euro	2,809,282	216,909	-	-	3,026,191
Hong Kong Dollar	1,065,783	-	-	-	1,065,783
Hungarian Forint	29,232	-	-	-	29,232
Indian Rupee	157,663	-	-	-	157,663
Indonesian Rupiah	58,793	1,912	-	-	60,705
Israeli Shekel	47,275	975	-	-	48,250
Japanese Yen	2,172,405	10,393	106	-	2,182,904
Jordanian Dollar	1	-	-	-	1
Malaysian Ringgit	73,032	1,930	-	-	74,962
Mexican Peso	80,889	10,361	4,326	-	95,576
New Zealand Dollar	81,767	4,471	-	-	86,238
Norwegian Krone	131,390	-	-	-	131,390
Pakistani Rupee	2,367	-	-	-	2,367
Philippines Peso	15,673	-	-	-	15,673
Polish Zloty	49,544	2,033	-	-	51,577
Romanian Leu	7	-	-	-	7
Russian Ruble	11,475	-	-	-	11,475
Singapore Dollar	214,559	-	-	-	214,559
South African Rand	295,483	-	-	-	295,483
South Korean Won	443,872	170	-	-	444,042
Sri Lankan Rupee	5,216	-	-	-	5,216
Swedish Krona	176,933	30,335	-	-	207,268
Swiss Franc	690,151	-	-	-	690,151
Taiwan Dollar	397,050	-	-	-	397,050
Thailand Baht	105,694	-	-	-	105,694
Turkish Lira	130,733	11,943	-	-	142,676
Ukraine Hryvana.....	420	-	-	-	420
Uruguayuan Peso	-	1,951	-	-	1,951
Zimbabwean Dollar	1,529	-	-	-	1,529
Investments Held in Foreign Currency	\$12,641,870	\$532,593	\$16,478	\$ -	\$13,190,941
Foreign Investments Held in U.S. Dollars	13,250,423	2,281,138	1,081,183	1,109,892	17,722,636
Total Foreign Investments-Primary Government, including Fiduciary Activities					<u>\$30,913,577</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units International Investments—Foreign Currency Risk As of June 30, 2009 (dollars in thousands)			
<u>The Ohio State University:</u>			
Currency	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate & International Bonds	Total
Australian Dollar	\$2,942	\$ -	\$2,942
Brazilian Real	2,288	-	2,288
British Pound	22,074	-	22,074
Canadian Dollar	7,528	-	7,528
Danish Krone	773	-	773
Euro	39,674	-	39,674
Hong Kong Dollar	7,360	-	7,360
Hungarian Forint.....	277	-	277
Indonesian Rupiah	171	-	171
Israeli Shekel	108	-	108
Japanese Yen	26,612	-	26,612
Malaysian Ringgit	334	-	334
Mexican Peso	394	507	901
New Zealand Dollar	455	-	455
Norwegian Krone	2,122	-	2,122
Polish Zloty	181	-	181
Singapore Dollar	1,559	-	1,559
South African Rand	2,520	-	2,520
South Korean Won	6,027	-	6,027
Swedish Krona	2,695	-	2,695
Swiss Franc	4,668	-	4,668
Taiwan Dollar	3,008	-	3,008
Thailand Baht	1,558	-	1,558
Investments Held in Foreign Currency	\$135,328	\$507	\$135,835
Foreign Investments Held in U.S. Dollars	-	7	7
Total Investments Held in Foreign Currency-Ohio State University ..	\$135,328	\$514	\$135,842



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Nonmajor Component Units:

Currency	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate & International Bonds	Total
Australian Dollar	\$3,573	\$ -	\$3,573
Brazilian Real	2,854	-	2,854
British Pound	7,090	-	7,090
Bulgarian Lev.....	432	-	432
Canadian Dollar	4,865	-	4,865
Caymanian Dollar.....	17	-	17
Chinese Yuan.....	918	-	918
Czech Koruna.....	276	-	276
Euro	19,179	-	19,179
Hong Kong Dollar	1,928	-	1,928
Hungarian Forint.....	100	-	100
Indian Rupee.....	1,013	-	1,013
Indonesian Rupiah	706	-	706
Japanese Yen	10,222	-	10,222
Labanese Pound.....	46	-	46
Mexican Peso	287	-	287
Netherlands Antilles Guilder.....	1,372	-	1,372
Polish Zloty.....	144	-	144
Romanian Leu.....	286	-	286
Russian Ruble.....	1,133	-	1,133
Serbian Dinar.....	68	-	68
Singapore Dollar	385	-	385
South African Rand	1,765	-	1,765
South Korean Won	2,019	-	2,019
Taiwan Dollar	763	-	763
Thailand Baht	823	-	823
Turkish Lira	429	-	429
Venezuelan Bolivar.....	33	-	33
Zimbabwean Dollar.....	12	-	12
Investments Held in Foreign Currency	\$62,738	\$0	\$62,738
Foreign Investments Held in U.S. Dollars	721	661	1,382
Total Nonmajor Component Units	<u>\$63,459</u>	<u>\$661</u>	<u>\$64,120</u>

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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Consequently, as of June 30, 2009, 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.

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 2009, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2009, 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, 2009, approximately \$215 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet of which \$202.3 million is reported in the General Fund and \$12.7 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income and corporation franchise taxes, totaling approximately \$712.6 million are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which \$670.6 million is reported in the General Fund and \$42.0 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds			Nonmajor Governmental Activities	Total Primary Government
	General	Highway Operating	Revenue Distribution		
Current-Due Within One Year:					
Income Taxes	\$415,873	\$ -	\$26,075	\$149	\$442,097
Sales Taxes	305,475	-	19,153	655	325,283
Motor Vehicle Fuel Taxes	-	66,976	86,823	2,216	156,015
Commercial Activity Taxes	-	-	298,933	-	298,933
Public Utility Taxes	57,007	-	30,287	-	87,294
Severance Taxes	-	-	-	2,220	2,220
	778,355	66,976	461,271	5,240	1,311,842
Noncurrent-Due in More Than One Year:					
Income Taxes	40,791	-	2,558	-	43,349
Taxes Receivable, Net	\$819,146	\$66,976	\$463,829	\$5,240	1,355,191



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, 2009 (dollars in thousands):

	Programs		Services		
	Federal Government	Local Government	Other State Governments	Local Government	Total Primary Government
Governmental Activities:					
Major Governmental Funds:					
General	\$663,253	\$33,416	\$ -	\$4,636	\$701,305
Job, Family and Other Human Services ..	331,138	98,222	-	-	429,360
Education	36,407	71,259	-	-	107,666
Highway Operating	98,652	-	-	-	98,652
Nonmajor Governmental Funds	342,421	12,842	-	48,051	403,314
Total Governmental Activities	<u>\$1,471,871</u>	<u>215,739</u>	<u>-</u>	<u>\$52,687</u>	<u>\$1,740,297</u>
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	-	465	-	465
Nonmajor Proprietary Funds	-	-	-	9,498	9,498
Total Business-Type Activities	<u>-</u>	<u>-</u>	<u>465</u>	<u>9,498</u>	<u>9,963</u>
Intergovernmental Receivable	<u>\$1,471,871</u>	<u>\$215,739</u>	<u>465</u>	<u>\$62,185</u>	<u>\$1,750,260</u>



NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2009, are detailed in the following tables (dollars in thousands):

Primary Government - Loans Receivable					
Loan Program	Governmental Activities				
	Major Governmental Funds			Nonmajor Governmental Funds	Total Primary Government
	General	Education	Highway Operating		
Housing Finance	\$215,409	\$ -	\$ -	\$ -	\$215,409
School District Solvency Assistance	9,938	-	-	-	9,938
Wayne Trace Local School District	3,769	-	-	-	3,769
State Workforce Development	798	-	-	-	798
Office of Minority Financial Incentives	821	-	-	-	821
Professional Development	576	-	-	-	576
Small Government Fire Departments	1,286	-	-	-	1,286
Nurses Education Assistance	-	58	-	-	58
Highway, Transit, & Aviation Infrastructure Bank.....	-	-	116,848	-	116,848
Economic Development					
Office of Financial Incentives	-	-	-	389,471	389,471
Rail Development	-	-	-	3,276	3,276
Brownfield Revolving Loan	-	-	-	3,127	3,127
Local Infrastructure Improvements	-	-	-	361,020	361,020
Loans Receivable, Gross	232,597	58	116,848	756,894	1,106,397
Estimated Uncollectible	(154)	-	-	-	(154)
Loans Receivable, Net	<u>\$232,443</u>	<u>\$58</u>	<u>\$116,848</u>	<u>\$756,894</u>	<u>\$1,106,243</u>
Current-Due Within One Year	\$11,447	\$29	\$1,559	\$39,908	\$52,943
Noncurrent-Due in More Than One Year	220,996	29	115,289	716,986	1,053,300
Loans Receivable, Net	<u>\$232,443</u>	<u>\$58</u>	<u>\$116,848</u>	<u>\$756,894</u>	<u>\$1,106,243</u>

Major Component Units - Loans Receivable			
Loan Program	Ohio Water Development Authority (12/31/08)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment (including restricted portion).....	\$4,105,379	\$ -	\$ -
Student	-	89,027	41,033
Other	-	-	2,657
Loans Receivable, Gross.....	4,105,379	89,027	43,690
Estimated Uncollectible.....	-	(17,450)	(6,138)
Loans Receivable, Net.....	<u>\$4,105,379</u>	<u>\$71,577</u>	<u>\$37,552</u>
Current-Due Within One Year.....	\$2,455	\$12,816	\$2,938
Noncurrent-Due in More Than One Year.....	\$4,102,924	\$58,761	\$34,614
Loans Receivable, Net.....	<u>\$4,105,379</u>	<u>\$71,577</u>	<u>\$37,552</u>



NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

The other receivables balances reported for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2009, 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	\$61,094	\$152,276	\$ -	\$ -	\$ -	\$17,302	\$230,672
Tobacco Settlement	-	-	-	-	206,787	74,452	281,239
Health Facility Bed Assessments	-	59,602	-	-	-	-	59,602
Interest	25,948	-	-	3,446	36	1,481	30,911
Accounts	72,321	55,307	630	2,524	-	6,778	137,560
Environmental Legal Settlements	-	-	-	-	-	9,759	9,759
Miscellaneous	5,649	1,388	88	596	-	1,526	9,247
	<u>\$165,012</u>	<u>\$268,573</u>	<u>\$718</u>	<u>\$6,566</u>	<u>\$206,823</u>	<u>\$111,298</u>	<u>\$758,990</u>

Reconciliation of balances included in

"Other Receivables" balance in the government-wide financial statements.....	\$277	-	-	-	-	-	\$277
Other Receivables, Net.....	<u>\$165,289</u>	<u>\$268,573</u>	<u>718</u>	<u>6,566</u>	<u>206,823</u>	<u>111,298</u>	<u>\$759,267</u>
Current-Due Within One Year	\$165,012	\$268,573	\$718	\$6,566	\$36	\$36,846	\$477,751
Noncurrent-Due in More Than One Year..	277	-	-	-	206,787	74,452	281,516
Other Receivables, Net.....	<u>\$165,289</u>	<u>\$268,573</u>	<u>\$718</u>	<u>\$6,566</u>	<u>\$206,823</u>	<u>\$111,298</u>	<u>\$759,267</u>

Business-Type Activities

Major Proprietary Funds					
Type of Receivables	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts.....	\$ 1,199,204	\$ -	\$ 83,170	\$ 870	\$ 1,283,244
Interest and Dividends (including restricted portion)...	186,206	3,702	-	5,528	195,436
Lottery Sales Agents.....	-	30,050	-	-	30,050
Miscellaneous.....	-	-	-	98	98
Other Receivables, Gross.....	1,385,410	33,752	83,170	6,496	1,508,828
Estimated Uncollectible.....	(988,162)	(356)	(70,103)	-	(1,058,621)
Other Receivables, Net-Due Within One Year.....	<u>\$397,248</u>	<u>\$33,396</u>	<u>\$13,067</u>	<u>\$6,496</u>	<u>\$450,207</u>
Total Primary Government.....					<u>\$1,209,474</u>



NOTE 5 RECEIVABLES (Continued)

Major Component Units - Other Receivables		
Types of Receivables	Ohio State University	University of Cincinnati
Accounts.....	\$973,931	\$25,566
Interest.....	16,684	8,982
Investment Trade Receivable (Stock Proceeds).....	-	4
Dividends Receivable.....	-	-
Pledges.....	41,044	69,227
Unbilled Charges.....	-	41,910
Other Receivables, Gross.....	1,031,659	145,689
Estimated Uncollectible.....	(578,580)	(9,807)
Other Receivables, Net.....	\$453,079	\$135,882
Current-Due Within One Year.....	\$441,823	\$86,120
Noncurrent-Due Within More Than One Year.....	11,256	49,762
Other Receivables, Net.....	\$453,079	\$135,882

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2009, is comprised of interest due of approximately \$3.2 million, investment trade receivable of \$3.7 million, and miscellaneous receivables of \$2.2 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, 2009, follow (dollars in thousands).

Primary Government - Accrued Liabilities				
	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General.....	\$169,135	\$ -	\$ -	\$169,135
Job, Family and Other Human Services.....	23,974	-	-	23,974
Education.....	2,543	-	-	2,543
Highway Operating.....	29,433	-	-	29,433
Nonmajor Governmental Funds.....	65,694	-	20	65,714
	\$290,779	\$ -	\$20	\$290,799
Reconciliation of fund level statements to government-wide statements due to basis differences.....	-	144,137	6	144,143
Total Governmental Activities.....	290,779	144,137	26	434,942
Business-Type Activities:				
Nonmajor Proprietary Funds.....	6,371	-	-	6,371
Total Primary Government.....	\$297,150	\$144,137	\$26	\$441,313
	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Expenses
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/2008).....	\$11,781	\$844	\$ -	12,625
Variable College Savings Plan Private-Purpose Trust.....	-	-	5,243	5,243
Total Fiduciary Activities.....	\$11,781	\$844	\$5,243	\$17,868



NOTE 6 PAYABLES (Continued)

Major Component Units - Accrued Liabilities					
	Wages and Employee Benefits	Self- Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	\$165,718	\$148,477	\$3	\$41,161	\$355,359
University of Cincinnati	32,780	-	4,975	39,034	76,789

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2009, are comprised of the following (dollars in thousands).

Primary Government - Intergovernmental Payable					
	Local Government				
	Shared Revenue and Local				
	Permissive Taxes	Subsidies and Other	Federal Government	Other States	Total
Governmental Activities:					
Major Governmental Funds:					
General	\$286,466	\$147,040	\$31,715	\$0	\$465,221
Job, Family and Other Human Services ..	-	228,381	-	-	228,381
Education	-	54,440	-	-	54,440
Highway Operating	-	168	-	-	168
Revenue Distribution	941,405	-	-	2,014	943,419
Nonmajor Governmental Funds	-	208,456	-	-	208,456
Total Governmental Activities	<u>\$1,227,871</u>	<u>\$ 638,485</u>	<u>\$ 31,715</u>	<u>\$ 2,014</u>	<u>\$ 1,900,085</u>
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	147	862,924	-	863,071
Nonmajor Proprietary Funds	418	-	-	-	418
	<u>418</u>	<u>147</u>	<u>862,924</u>	<u>-</u>	<u>863,489</u>
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the business-type financial statements	-	-	(862,538)	-	(862,538)
Total Business-Type Activities	<u>\$ 418</u>	<u>\$ 147</u>	<u>\$ 386</u>	<u>\$ -</u>	<u>\$ 951</u>
			Total Primary Government		<u>\$ 1,901,036</u>
Fiduciary Activities:					
Holding and Distribution Agency Fund	\$ -	\$ -	\$104	\$5,950	\$6,054
Payroll Withholding and Fringe Benefits Agency Fund	-	20,226	-	-	20,226
Other Agency Fund	115,227	17,288	-	-	132,515
Total Fiduciary Activities	<u>\$ 115,227</u>	<u>\$ 37,514</u>	<u>\$ 104</u>	<u>\$ 5,950</u>	<u>\$ 158,795</u>

As of June 30, 2009, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately \$1.74 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."



NOTE 6 PAYABLES (Continued)

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, 2009, consist of the balances, as follows (dollars in thousands):

Primary Government - Refund and Other Liabilities						
	Estimated Tax Refund Claims			Interest on		
	Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities	Lawyers' Trust Accounts	Other	Total
Governmental Activities:						
Major Governmental Funds:						
General	\$581,414	\$103,172	\$684,586	\$ -	\$3,335	\$687,921
Job, Family and Other Human Services	-	-	-	1,742	3,253	4,995
Revenue Distribution	35,574	6,469	42,043	-	-	42,043
Nonmajor Governmental Funds	-	-	-	-	1,764	1,764
	616,988	109,641	726,629	1,742	8,352	736,723
Reconciliation of balances included in the "Refund and Other Liabilities" and "Other Noncurrent Liabilities" balances in the government-wide financial statements.....	-	-	-	-	1,316	1,316
Total Governmental Activities	\$616,988	\$109,641	\$726,629	\$1,742	\$9,668	\$738,039
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	\$1,819,999	\$88,474	\$18,203	\$ -	\$60,502	\$1,987,178
Lottery Commission	-	42,833	2,586	-	2,180	47,599
Unemployment Compensation	-	6,930	-	-	-	6,930
Nonmajor Proprietary Funds	-	2,798	11,598	3	551	14,950
	1,819,999	141,035	32,387	3	63,233	2,056,657
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements.....	(1,819,999)	(88,474)	(31,920)	(3)	(28,131)	(1,968,527)
Total Business-Type Activities	\$ -	\$52,561	\$467	\$ -	\$35,102	\$88,130
Total Primary Government						\$826,169



NOTE 6 PAYABLES (Continued)

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/2008).....	\$ -	\$ -	\$ -	\$ -	\$31	\$ 31
Variable College Savings Plan Private-Purpose Trust.....	-	-	-	-	4,455	4,455
STAR Ohio Investment Trust	-	-	-	-	3,689	3,689
Agency Funds:						
Holding and Distribution	-	19,298	-	-	-	19,298
Centralized Child Support Collections.....	58,565	-	-	-	-	58,565
Retirement Systems	-	-	-	130,760,031	-	130,760,031
Payroll Withholding and Fringe Benefits	-	-	99,759	-	-	99,759
Other	-	413,064	-	51,138	147,480	611,682
Total Fiduciary Activities.....	<u>\$58,565</u>	<u>\$432,362</u>	<u>\$99,759</u>	<u>\$130,811,169</u>	<u>\$155,655</u>	<u>\$131,557,510</u>

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.....	\$47,185	\$103,581	\$23,606	\$38,844	\$55,501	\$268,717
University of Cincinnati.....	30,211	63,704	146,220	-	8,331	\$248,466

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

A. Interfund Balances

Interfund balances, as of June 30, 2009, consist of the following (in thousands):

Due from	Due To						
	Governmental Activities						
	General	Job, Family and Other Human Services	Highway Operating	Revenue Distribution	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Major Governmental Funds:							
General	\$ -	\$ 2	\$ -	\$89,831	\$ -	\$3,174	\$93,007
Revenue Distribution	-	-	422	-	-	406	828
Nonmajor Governmental Funds	-	-	-	-	900,400	1	900,401
Total Governmental Activities ...	-	2	422	89,831	900,400	3,581	994,236
Business-Type Activities:							
Nonmajor Proprietary Funds	2,994	-	-	-	-	-	2,994
Total Business-Type Activities .	2,994	-	-	-	-	-	2,994
Total Primary Government	\$2,994	\$2	\$422	\$89,831	\$900,400	\$3,581	\$997,230



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

Due from	Business-Type Activities			
	Major Proprietary Fund			Total Primary Government
	Workers' Compensation	Nonmajor Proprietary Funds	Total	
Major Governmental Funds:				
General	\$541,929	\$12,482	\$554,411	\$647,418
Job, Family, Other Human Services	15,355	-	15,355	15,355
Education	2,711	-	2,711	2,711
Highway Operating	90,650	-	90,650	90,650
Revenue Distribution	-	-	-	828
Nonmajor Governmental Funds	116,324	2	116,326	1,016,727
Total Governmental Activities	766,969	12,484	779,453	1,773,689
Business-Type Activities:				
Major Proprietary Funds:				
Lottery Commission	1,957	-	1,957	1,957
Nonmajor Proprietary Funds	11,941	-	11,941	14,935
Total Business-Type Activities	13,898	-	13,898	16,892
Total Primary Government	\$780,867	\$12,484	\$793,351	\$1,790,581

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 \$900.4 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 \$780.9 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 \$776.5 million in the internal balance reported for governmental activities.

B. Interfund Transfers

Interfund transfers, for the fiscal year ended of June 30, 2009, consist of the following (dollars in thousands):



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

Transferred from	Transferred to						Total
	Governmental Activities						
	Major Governmental Funds					Nonmajor Govern- mental Funds	
	General	Job, Family and Other Human Services	Education	Highw ay Operating	Revenue Distribution		
Major Governmental Funds:							
General	\$ -	\$6,883	\$8,187	\$ -	\$13,390	\$1,101,240	\$1,129,700
Job, Family and Other Human Services	13,367	-	1,500	-	-	-	14,867
Education	3,480	208	-	-	-	253	3,941
Highw ay Operating	400	-	-	-	190,704	177,512	368,616
Revenue Distribution	141,381	-	16,268	455,534	-	261,866	875,049
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	-	-	-	-	-	15,270	15,270
Nonmajor Governmental Funds	116,567	150	-	1,500	-	2,067	120,284
Total Governmental Activities	275,195	7,241	25,955	457,034	204,094	1,558,208	2,527,727
Major Proprietary Funds:							
Workers' Compensation	8,046	-	-	-	-	4,540	12,586
Lottery Commission	335	-	702,291	-	-	-	702,626
Unemployment Compensation	-	3,812	-	-	-	-	3,812
Nonmajor Proprietary Funds	163,000	-	-	-	-	61,100	224,100
Total Business-Type Activities	171,381	3,812	702,291	-	-	65,640	943,124
Total Primary Government	\$446,576	\$11,053	\$728,246	\$457,034	\$204,094	\$1,623,848	\$3,470,851

Transferred from	Business-Type Activities		Total Primary Government
	Nonmajor Proprietary Funds	Total	
Major Governmental Funds:			
General	\$43,739	\$ 43,739	1,173,439
Job, Family and Other Human Services	-	-	14,867
Education	-	-	3,941
Highw ay Operating	-	-	368,616
Revenue Distribution	-	-	875,049
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	-	-	15,270
Nonmajor Governmental Funds	-	-	120,284
Total Governmental Activities	43,739	43,739	2,571,466
Major Proprietary Funds:			
Workers' Compensation	-	-	12,586
Lottery Commission	-	-	702,626
Unemployment Compensation	-	-	3,812
Nonmajor Proprietary Funds	-	-	224,100
Total Business-Type Activities	-	-	943,124
Total Primary Government	\$43,739	\$43,739	\$3,514,590

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



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

C. Component Units

For fiscal year 2009, the component units reported \$2.36 billion in state assistance revenue from the primary government in the Statement of Activities.

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

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

The primary government also transferred bond proceeds to the School Facilities Commission to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. This assistance is included as a receivable of the Buckeye Tobacco Settlement Financing Authority for \$3.95 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.

Primary Government (dollars in thousands)						
Program Expenses for State Assistance to Component Units						
	Receivable from the Component Units	Payable to the Component Units	Primary, Secondary, and Other Education Function	Higher Education Support Function	Community and Economic Development Function	Total State Assistance to the Component Units
Major Governmental Funds:						
General	\$ -	\$10,489	\$213,859	\$1,903,125	\$30,500	\$2,147,484
Job, Family and Other Human	-	1,220	-	-	-	-
Education	-	998	-	-	-	-
Highway Operating	-	552	-	-	-	-
Buckeye Tobacco Settlement Authority Revenue Bonds.....	3,948,282	-	-	-	-	-
Nonmajor Governmental Funds	-	27,444	-	215,311	-	215,311
Total Governmental Activities.....	<u>3,948,282</u>	<u>40,703</u>	<u>213,859</u>	<u>2,118,436</u>	<u>30,500</u>	<u>2,362,795</u>
Total Primary Government	<u>\$3,948,282</u>	<u>\$40,703</u>	<u>\$213,859</u>	<u>\$2,118,436</u>	<u>\$30,500</u>	<u>\$2,362,795</u>

Component Units			
	Receivable from the Primary Government	Payable to the Primary Government	Total State Assistance from the Primary Government
Major Component Units:			
School Facilities Commission	\$ -	\$3,948,282	\$194,813
Ohio State University	1,932	-	557,611
University of Cincinnati	1,182	-	220,901
Nonmajor Component Units	<u>37,589</u>	<u>-</u>	<u>1,389,470</u>
Total Component Units	<u>\$40,703</u>	<u>\$3,948,282</u>	<u>\$2,362,795</u>



NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2009, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$1,885,135	\$45,195	(\$2,421)	\$1,927,909
Buildings	59,908	-	-	59,908
Land Improvements	1,202	-	-	1,202
Construction-in-Progress	1,825,691	423,030	(315,579)	1,933,142
Infrastructure:				
Highway Network:				
General Subsystem	8,387,073	64,299	(5,677)	8,445,695
Priority Subsystem	7,469,454	73,316	-	7,542,770
Bridge Network	2,541,870	55,129	(37,537)	2,559,462
Total Capital Assets Not Being Depreciated	22,170,333	660,969	(361,214)	22,470,088
Other Capital Assets:				
Buildings	3,506,319	78,871	(18,388)	3,566,802
Land Improvements	398,691	30,753	(7,659)	421,785
Machinery and Equipment	643,168	41,580	(28,022)	656,726
Vehicles	270,215	15,024	(12,326)	272,913
Infrastructure:				
Parks, Recreation and Natural Resources Network	54,309	11,443	-	65,752
Total Other Capital Assets at Historical Cost	4,872,702	177,671	(66,395)	4,983,978
Less Accumulated Depreciation for:				
Buildings	1,630,611	108,398	(10,388)	1,728,621
Land Improvements	200,657	16,397	(4,184)	212,870
Machinery and Equipment	443,767	62,309	(29,798)	476,278
Vehicles	131,320	24,426	(8,353)	147,393
Infrastructure:				
Parks, Recreation and Natural Resources Network	6,916	2,697	(245)	9,368
Total Accumulated Depreciation	2,413,271	214,227	(52,968)	2,574,530
Other Capital Assets, Net	2,459,431	(36,556)	(13,427)	2,409,448
Governmental Activities -				
Capital Assets, Net	\$24,629,764	\$624,413	(\$374,641)	\$24,879,536

For fiscal year 2009, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	(in 000s)
Primary, Secondary and Other Education	\$2,362
Public Assistance and Medicaid	5,509
Health and Human Services	20,330
Justice and Public Protection	97,207
Environmental Protection and Natural Resources	27,252
Transportation	76,299
General Government	65,459
Community and Economic Development	9,493
Total Depreciation Expense for Governmental Activities	303,911
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(89,684)
Fiscal Year 2009 Increases to Accumulated Depreciation	\$214,227



NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2009, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

Governmental Activities:	(in 000s)
Temporarily Impaired Assets Removed from Service:	
Buildings.....	\$30,623
Land Improvements	225
Construction-In-Progress.....	2,280
Total.....	<u>\$33,128</u>
Permanently Impaired Assets Removed from Service:	
Buildings.....	\$8,453
Land Improvements	2,342
Total.....	<u>\$10,795</u>

	Primary Government (Continued)			Balance June 30, 2009
	Balance July 1, 2008	Increases	Decreases	
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$11,994	\$ -	\$ -	\$11,994
Total Capital Assets Not Being Depreciated.....	<u>11,994</u>	<u>-</u>	<u>-</u>	<u>11,994</u>
Other Capital Assets:				
Buildings	223,423	211	-	223,634
Land Improvements	66	-	-	66
Machinery and Equipment	133,475	4,566	(18,282)	119,759
Vehicles	4,691	610	(744)	4,557
Total Other Capital Assets at Historical Cost.....	<u>361,655</u>	<u>5,387</u>	<u>(19,026)</u>	<u>348,016</u>
Less Accumulated Depreciation for:				
Buildings	130,308	7,386	-	137,694
Land Improvements	53	1	-	54
Machinery and Equipment	113,000	8,184	(17,814)	103,370
Vehicles	2,045	644	(539)	2,150
Total Accumulated Depreciation	<u>245,406</u>	<u>16,215</u>	<u>(18,353)</u>	<u>243,268</u>
Other Capital Assets, Net	<u>116,249</u>	<u>(10,828)</u>	<u>(673)</u>	<u>104,748</u>
Business-Type Activities - Capital Assets, Net.....	<u>\$128,243</u>	<u>(\$10,828)</u>	<u>(\$673)</u>	<u>\$116,742</u>

For fiscal year 2009, the State charged depreciation expense to the following business-type functions:

Business-Type Activities	(in 000s)
Workers' Compensation.....	\$12,806
Lottery Commission.....	1,802
Tuition Trust Authority.....	33
Liquor Control.....	507
Underground Parking Garage.....	626
Office of Auditor of State.....	739
Total Depreciation Expense for Business-Type Activities.....	<u>16,513</u>
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	<u>(298)</u>
Fiscal year 2009 Increase to Accumulated Depreciation.....	<u>\$16,215</u>



NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2009, reported for discretely presented major component unit funds with significant capital asset balance was as follows (dollars in thousands):

	Major Component Units			
	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
<u>Ohio State University:</u>				
Capital Assets Not Being Depreciated:				
Land	\$48,877	\$26,077	(\$836)	\$74,118
Construction-in-Progress	293,629	64,745	-	358,374
Total Capital Assets Not Being Depreciated.....	342,506	90,822	(836)	432,492
Other Capital Assets:				
Buildings	3,448,422	178,140	(18,738)	3,607,824
Land Improvements	269,802	9,930	-	279,732
Machinery, Equipment and Vehicles	845,285	116,039	(62,810)	898,514
Library Books and Publications	164,543	3,155	(5,363)	162,335
Total Other Capital Assets at Historical Cost.....	4,728,052	307,264	(86,911)	4,948,405
Other Capital Assets:				
Buildings	1,285,286	122,270	(15,849)	1,391,707
Land Improvements	149,017	11,921	-	160,938
Machinery, Equipment and Vehicles	565,552	82,987	(56,980)	591,559
Library Books and Publications	146,670	4,716	(5,361)	146,025
Total Accumulated Depreciation	2,146,525	221,894	(78,190)	2,290,229
Other Capital Assets, Net	2,581,527	85,370	(8,721)	2,658,176
Total Capital Assets, Net	\$2,924,033	\$176,192	(\$9,557)	\$3,090,668
<u>University of Cincinnati:</u>				
Capital Assets Not Being Depreciated:				
Land	\$21,923	\$ -	\$ -	\$21,923
Construction-in-Progress	223,254	29,469	(223,269)	29,454
Collections of Works of Art and Historical Treasures..	4,364	10,218	-	14,582
Total Capital Assets Not Being Depreciated.....	249,541	39,687	(223,269)	65,959
Other Capital Assets:				
Buildings	1,611,551	189,363	-	1,800,914
Land Improvements	86,402	7,033	-	93,435
Machinery, Equipment and Vehicles	203,487	14,944	(7,455)	210,976
Library Books and Publications	149,347	8,606	(9,472)	148,481
Infrastructure	100,244	15,472	-	115,716
Total Other Capital Assets at Historical Cost.....	2,151,031	235,418	(16,927)	2,369,522
Less Accumulated Depreciation for:				
Buildings	631,688	60,859	(5,467)	687,080
Land Improvements	18,809	4,416	-	23,225
Machinery, Equipment and Vehicles	129,093	16,300	(8,444)	136,949
Library Books and Publications	98,478	7,907	(329)	106,056
Infrastructure	52,038	4,182	-	56,220
Total Accumulated Depreciation	930,106	93,664	(14,240)	1,009,530
Other Capital Assets, Net	1,220,925	141,754	(2,687)	1,359,992
Total Capital Assets, Net	\$1,470,466	\$181,441	(\$225,956)	\$1,425,951

For fiscal year 2009, Ohio State University and the University of Cincinnati reported approximately \$221.9 million and \$93.7 million in depreciation expense, respectively.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

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

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

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

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

The retirement allowance for the defined benefit plan is 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, payments for a specific monthly amount, or various combinations of these options. Participants direct the investment of their accounts by selecting from sixteen professionally managed OPERS investment options.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Retirees covered under any one of the three OPERS plan options may also choose to take part of their retirement benefit in a Partial Lump-Sum Option Plan (PLOP). Under this option, the amount of the monthly pension benefit paid to the retiree is actuarially reduced to offset the amount received initially under the PLOP. The amount payable under the PLOP 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 2009, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
<u>Regular Employees:</u>		
July 1, 2008 through June 30, 2009	10.00%	14.00%
<u>Law Enforcement Employees:</u>		
July 1, 2008 through December 31, 2008	10.10%	17.40%
January 1, 2009 through June 30, 2009	10.10%	17.63%

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 17.87 percent, beginning January 1, 2010, and 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):

	2009	2008	2007
<u>Primary Government:</u>			
Regular Employees	\$216,623	\$217,003	\$ 254,977
Law Enforcement			
Employees.....	3,708	3,718	4,112
Total	<u>\$220,331</u>	<u>\$220,721</u>	<u>\$ 259,089</u>

Major Component Units:

School Facilities			
Commission	\$303	\$268	\$317
Ohio Water			
Development Authority.....	80	72	89
Ohio State University.....	67,273	63,104	70,385
University of Cincinnati.....	11,950	11,672	14,162

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

	2009	2008	2007
<i>Primary Government:</i>			
Employer Contributions	\$4,762	\$4,407	\$3,455
Employee Contributions	10,672	9,721	7,718
<i>Major Component Units:</i>			
<i>Ohio State University:</i>			
Employer Contributions ..	2,139	1,988	1,618
Employee Contributions .	5,288	4,425	3,536
<i>University of Cincinnati:</i>			
Employer Contributions ..	335	300	292
Employee Contributions .	775	640	595

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.

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 contribution rates for regular and law enforcement employees were as follows:

	Employer Share	
	Defined Benefit and Combined Plans	Defined Contribution Plan
July 1, 2008 through March 31, 2009	7.00%	4.50%
April 1, 2009 through June 30, 2009	5.50%	4.50%

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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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):

	2009	2008	2007
<i>Primary Government:</i>			
Regular Employees	\$196,410	\$190,963	\$135,968
Law Enforcement			
Employees.....	2,288	2,238	1,589
Total	<u>\$198,698</u>	<u>\$193,201</u>	<u>\$137,557</u>

Major Component Units:

School Facilities			
Commission	\$271	\$236	\$169
Ohio Water			
Development Authority.....	72	64	47
Ohio State University.....	60,263	55,482	37,523
University of Cincinnati.....	10,709	10,262	7,550

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2009, employers paid 4.5 percent of their share into members' accounts for the period covering July 1, 2008 through June 30, 2009. 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, for the period covering July 1, 2008 through December 31, 2008, and with 100 percent vesting attained after five years of credit service for the period covering January 1, 2009 through June 30, 2009. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

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

	2009	2008	2007
<i>Primary Government.....</i>	<u>\$2,454</u>	<u>\$2,272</u>	<u>\$1,805</u>
<i>Major Component Units:</i>			
Ohio State University.....	1,103	954	796
University of Cincinnati.....	172	144	144

The number of active contributing participants for the primary government was 57,131, as of December 31, 2008 (the latest information available).

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 allowed 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 three years and not more than five years.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

As of June 30, 2009, the state had a \$4.6 million liability relative to existing ERI agreements with state employees covered by OPERS. This liability is due for employees that were paid from the General Fund, Community and Economic Development Fund and the Natural Resources Fund. During fiscal year 2009, the State incurred expenditures/expenses totaling \$28.9 million for 1,098 employees who entered into ERI agreements with the State.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

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

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

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

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

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

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

Employees hired after July 1, 2001, and those with less than five years of service credit at that date, may choose to participate in the combined plan or the defined contribution plan, in lieu of participation in the defined benefit plan.

Participants in the defined contribution plan are eligible to retire at age 50. Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from various professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. Employer contributions become vested after one year of service, while employee contributions vest immediately.

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 2009 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):

	2009	2008	2007
<i>Primary Government</i>	\$7,498	\$7,536	\$7,477
<i>Major Component Units:</i>			
Ohio State University.....	38,355	36,631	35,523
University of Cincinnati.....	14,609	14,487	14,395

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):

	2009	2008	2007
<i>Primary Government:</i>			
Employer Contributions	\$98	\$105	\$88
Employee Contributions	163	170	148
<i>Major Component Units:</i>			
Ohio State University:			
Employer Contributions	3,155	2,707	2,103
Employee Contributions	3,633	3,149	2,475
University of Cincinnati:			
Employer Contributions	885	813	769
Employee Contributions	1,107	1,038	973

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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2009, net assets available for future healthcare benefits were \$2.68 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):

	2009	2008	2007
Primary Government.....	\$577	\$580	\$575
Major Component Units:			
Ohio State University.....	2,950	2,818	2,733
University of Cincinnati.....	1,124	1,114	1,107

The number of eligible benefit recipients for STRS as a whole was 169,828, as of June 30, 2009; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2009, 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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

Pension Benefits

The employer and employee contribution rates, as of December 31, 2008, were 25.5 percent and ten percent, respectively. During 2008, the board increased the employer contribution rate to a 26.5 percent effective July 1, 2009.

During calendar year 2008, all of the employees' contributions funded pension benefits while 21 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

The employer contributions for calendar year 2008 were approximately \$20.3 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
2008	\$21,221	95.7%
2007	21,666	92.1%
2006	19,567	98.5%

The 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, 2008. 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 an open period for an infinite number of years.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

SHPRS Schedule of Funding Progress Last Three Calendar Years-Pension						
(dollars in thousands)						
(A)	(B)	(C)	(D)	(E)	(F)	(G)
Valuation Year	Actuarial Accrued Liability (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	Ratio of Assets to AAL (C)/(B)	Active Member Payroll	UAAL as Percentage of Active Member Payroll (D)/(F)
2008	\$904,522	\$603,266	\$301,256	66.7%	\$94,302	319.5%
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%

Other Post Employment Benefits (OPEB)

During calendar year 2008, 4.5 percent of the employer's contributions funded healthcare benefits. Active members do not make contributions to the OPEB plan. The employer share that funds healthcare benefits will increase to 5.5 percent effective July 1, 2009.

The employer contributions for calendar year 2008 were approximately \$4.7 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 ARC Contributed
2008	\$19,273	24.2%
2007	18,303	25.0%
2006	15,962	21.2%

The 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 2008 expense was \$9.6 million. The number of active contributing plan participants, as of December 31, 2008, was 1,544.

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, 2008, 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 an open 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 2019. Net assets available for benefits allocated to healthcare costs at December 31, 2008 were \$95.8 million, and included investments carried at fair value, as previously described.

As of December 31, 2008, 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 \$228.4 million, the actuarial accrued liability for healthcare benefits at that date was \$324.2 million.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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)	(B)	(C)	(D)	(E)	(F)	(G)
Valuation Year	Actuarial Accrued Liability (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	Ratio of Assets to AAL (C)/(B)	Active Member Payroll	UAAL as Percentage of Active Member Payroll (D)/(F)
2008	\$324,171	\$95,785	\$228,386	29.5%	\$94,302	242.2%
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%

**D. Alternative Retirement Plan (ARP)
Pension Benefits**

The ARP is a defined contribution retirement plan that is authorized under Section 3305.02, Ohio Revised Code. The ARP provides at least three or more alternative retirement plans for academic and administrative employees of Ohio's institutions of higher education, who otherwise would be covered by OPERS or STRS. Unclassified civil service employees hired on or after August 1, 2005 are also eligible to participate in the ARP.

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

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Employees may also voluntarily make additional contributions to the ARP. These contribution rates are ten percent for OPERS and STRS.

For the year ended June 30, 2009, employers were required to contribute 0.77 percent of a participating employee's salary to OPERS in cases when the employee would have otherwise been enrolled in OPERS.

Ohio law also requires each public institution of higher education to contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2009, 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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2009, for the ARP follow (dollars in thousands):

	OPERS	STRS
<i>Major Component Units:</i>		
Ohio State University:		
Employer Contributions	\$21,769	\$21,803
Employee Contributions	15,550	15,574
University of Cincinnati:		
Employer Contributions	7,792	6,164
Employee Contributions	5,881	5,880

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 18 constitutional amendments (the last adopted November 2008 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, 2009, 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, 2009, the General Assembly had also authorized the issuance of \$2.61 billion in Higher Education Capital Facilities Bonds, of which \$2 billion has been issued.

Through the approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to \$220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than \$1.2 billion outstanding at any time. As of June 30, 2009, the General Assembly has authorized the issuance of approximately \$2.77 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, 2009, 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 \$2.64 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, 2009, 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, 2009, of which \$295 million had been issued.

A 2008 constitutional amendment allowed for outstanding Conservation Projects Bonds up to \$400 million. No more than \$50 million may be issued during a fiscal year. As of June 30, 2009, the General Assembly had authorized the issuance of approximately \$300 million in Conservation Projects Bonds of which \$200 million had been issued. This authorization is in addition to the 2000 constitutional amendment for the same purpose.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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, 2009, the General Assembly had authorized the issuance of \$350 million in Third Frontier Research and Development Bonds, of which \$181 million had been issued.

The issuance of \$150 million of Site Development Bonds was also authorized through the approval of the November 2005 amendment. Not more than \$30 million may be issued in each of the first three years 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, 2009, of which \$30 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2009, 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, 2009. 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, 2009
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-09	2.0%-5.5%	2027	\$2,771,926	\$55,000
Higher Education Capital Facilities	2000-09	2.0%-5.5%	2027	1,563,705	613,000
Highway Capital Improvements	2000-08	2.6%-5.6%	2018	701,177	827,000
Infrastructure Improvements	1990-09	2.0%-7.6%	2029	1,597,357	240,014
Coal Research and Development	2000-08	2.5%-5.0%	2016	25,619	73,000
Natural Resources Capital Facilities	2000-07	3.0%-5.0%	2020	141,652	55,000
Conservation Projects	2002-07	2.3%-5.3%	2023	159,702	100,000
Third Frontier Research and Development	2007-09	2.0%-5.5%	2019	154,995	169,300
Site Development	2007	3.4%-5.3%	2016	21,918	90,000
Total General Obligation Bonds				<u>\$7,138,051</u>	<u>\$2,222,314</u>

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2010.....	\$333,715	\$287,447	(\$116)	\$621,046
2011.....	513,065	271,904	-	784,969
2012.....	517,500	250,132	-	767,632
2013.....	534,960	228,240	-	763,200
2014.....	513,375	204,630	-	718,005
2015-2019	1,988,955	708,646	-	2,697,601
2020-2024	1,505,660	271,279	-	1,776,939
2025-2029	357,550	29,820	-	387,370
Total Current Interest and Capital Appreciation Bonds	<u>\$6,264,780</u>	<u>\$2,252,098</u>	<u>(\$116)</u>	<u>\$8,516,762</u>



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2010.....	\$19,345	\$3,651	\$17,510	\$40,506
2011.....	21,125	3,552	11,039	35,716
2012.....	19,230	3,467	10,809	33,506
2013.....	18,125	3,400	10,563	32,088
2014.....	36,045	3,267	10,312	49,624
2015-2019	294,690	9,974	43,132	347,796
2020-2024	242,945	3,100	18,947	264,992
2025-2029	39,680	187	1,109	40,976
Total Variable-Rate Bonds	<u>\$691,185</u>	<u>\$30,598</u>	<u>\$123,421</u>	<u>\$845,204</u>
Total General Obligation Bonds	6,955,965			
Unamortized Premium/(Discount), Net.....	244,213			
Deferred Refunding Loss	(62,127)			
Total Carrying Amount	<u>\$7,138,051</u>			

For the year ended June 30, 2009, NOTE 15 summarizes changes in general obligation bonds.

Interest Rate Swaps

As of June 30, 2009, approximately \$592.2 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 113 and 115. 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, 2009
(dollars in thousands)**

Issue	Type of Sw ap	Original Notational Amount	Underlying Index	Counterparty's Sw ap Rate at 06/30/2009	State's Sw ap Rate at 06/30/2009	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to Fixed knock-out	\$63,900	SIFMA Index	0.35%	4.63%	11/29/2001	8/1/2021	(\$9,874)
Credit Quality Ratings of Counterparty:		50% Aa1/AA- JP Morgan Chase; 50% A2/A Morgan Stanley Capital Services						
Infrastructure Improvements, Refunding Series 2003D	Floating to Fixed	\$58,085	Actual Bond Rate	0.35%	3.04%	3/20/2003	2/1/2010	(\$845)
Credit Quality Ratings of Counterparty:		A2/A Morgan Stanley Capital Services						
Infrastructure Improvements, Series 2003F	Fixed to Floating	\$30,115	SIFMA Index	2.54%	0.35%	12/4/2003	2/1/2010	\$62
Credit Quality Ratings of Counterparty:		Aa1/AA- JP Morgan Chase						
Infrastructure Improvements, Refunding Series 2004A	Floating to Fixed Enhanced LIBOR	\$58,725	LIBOR (See terms below)	0.44%	3.51%	3/3/2004	2/1/2023	(\$4,488)
Credit Quality Ratings of Counterparty:		A2/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, 2009. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

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

Infrastructure Improvements-Refunding Series 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.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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, 2009. 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 does not expose the State to basis risk (provided "Rate Change Events" do not occur). The State receives the Actual Bond Rate, which exactly offsets the State's payments to bondholders. Rate Change Events include a downgrade of the underlying bonds, a put to the liquidity provider, and extended market disruption. The rate change would be from the Actual Bond Rate to the SIFMA Index which has proven to be a good proxy for the State's variable-rate debt and substantially mitigates basis risk.

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 \$62 thousand at June 30, 2009.

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, 2009. 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, 2009 <i>(dollars in thousands)</i>								
Issue	Type of Swap	Original Notational Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2009	State's Swap Rate at 06/30/2009	Effective Date	Termination (Maturity) Date	Fair Value
Common Schools, Series 2003D	Floating to Fixed LIBOR	\$67,000	LIBOR (see terms below)	0.45%	3.41%	9/14/2007	3/15/2024	(\$4,244)
Credit Quality Ratings of Counterparty: 50% Aa1/AA- JP Morgan Chase; 50% A2/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)	0.93%	3.75%	1/15/2008	3/15/2010	(\$8,805)
Credit Quality Ratings of Counterparty: Aa1/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)	0.93%	3.75%	1/15/2008	3/15/2010	(\$8,805)
Credit Quality Ratings of Counterparty: Aa1/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)	0.45%	3.20%	6/15/2006	6/15/2026	(\$3,770)
Credit Quality Ratings of Counterparty: 50% Aa2/A+ 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)	0.45%	3.20%	6/15/2006	6/15/2026	(\$3,770)
Credit Quality Ratings of Counterparty: 50% Aa2/A+ 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, 2009. 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)



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

would effectively make the fixed rate the State pays on the swap higher. Given that the variable swap receipt is based on a taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities. Those changes would increase the interest rates on the underlying variable-rate debt but would not impact the variable-rate swap receipt based on the LIBOR index.

Common Schools-Series 2005A

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2009. 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 reduction 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, 2009. 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 reduction 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 was not exposed to credit risk because the swap had a negative fair value at June 30, 2009. 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



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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 was not exposed to credit risk because the swap had a negative fair value at June 30, 2009. 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.

Advance Refundings

During fiscal year 2009, there were six advance refundings of general obligations bonds as follows:

The State issued approximately \$91.2 million in Common Schools refunding bonds (Series 2009A) with a true interest cost rate of 2.6 percent to defease approximately \$89.8 million (in substance). Net refunding bond proceeds of \$99.5 million were deposited with escrow agents to provide for all future principal and interest payment on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$6.3 million over the next 11 years. The net economic gain from the refunding was \$5.5 million.

The State issued approximately \$103 million in Common Schools refunding bonds (Series 2009B) with a true interest cost rate of 2.8 percent to defease approximately \$112 million (in substance). Net refunding bond proceeds of \$114.9 million were deposited with escrow agents to provide for all future principal and interest payment on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$22 million over the next 13 years. The net economic gain from the refunding was \$155 thousand.

The State issued approximately \$86.9 million in Higher Education refunding bonds (Series 2009A) with a true interest cost rate of 2.6 percent to defease approximately \$87.9 million (in substance). Net refunding bond proceeds of \$95.5 million were deposited with escrow agents to provide for all future principal and interest payment on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$7.9 million over the next 12 years. The net economic gain from the refunding was \$6.7 million.

The State issued approximately \$48.7 million in Higher Education refunding bonds (Series 2009B) with a true interest cost rate of 2.9 percent to defease approximately \$53.4 million (in substance). Net refunding bond proceeds of \$55.2 million were deposited with escrow agents to provide for all future principal and interest payment on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$11.5 million over the next 12 years. The net economic gain from the refunding was \$608 thousand.

The State issued approximately \$50 million in Infrastructure refunding bonds (Series 2009A) with a true interest cost rate of 1.9 percent to defease approximately \$50.2 million (in substance). Net refunding bond proceeds of \$52 million were deposited with escrow agents to provide for all future principal and interest payment on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by \$3.8 million over the next seven years. The net economic gain from the refunding was \$3.7 million.

The State issued approximately \$82 million in Infrastructure refunding bonds (Series 2009B) with a true interest cost rate of 2.9 percent to defease approximately \$88.5 million (in substance). Net refunding bond proceeds of \$91 million were deposited with escrow agents to provide for all future principal and interest payment on the old



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

bonds. As a result of the refunding, the State's debt service payments will be reduced by \$19.1 million over the next 12 years. The net economic gain from the refunding was \$516 thousand.

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

The State had defeased general obligation bonds from prior years and placed the proceeds in irrevocable trusts. As of June 30, 2009, the balances in these trusts for bonds defeased in prior years were \$215.2 million for Infrastructure Improvement Bonds, \$20.1 million for Natural Resources Bonds, \$248.9 million for Common Schools Bonds, and \$247.3 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 2029, 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 \$680.4 million. During fiscal year 2009, pledged net revenues were \$209.9 million. Principal and interest requirements for fiscal year 2009 totaled \$45.3 million.

Since fiscal year 1998, the Treasurer of State has issued a total of \$1.31 billion in State Infrastructure Bank Bonds for various transportation construction projects financed by the Department of Transportation. The State has pledged federal highway receipts and loan repayments received under the State Infrastructure Bank Loan Program as the primary source of moneys for meeting the principal and interest requirements on the bonds. Issuances for the State Infrastructure Bank are, in part, used for the acquisition, construction, or improvement of capital assets. Total pledged federal highway receipts and loan repayments through the maturity of the bonds in 2022 are estimated at approximately \$936.3 million. For fiscal year 2009, principal and interest payments on the revenue bonds were \$158 million and pledged receipts were \$150.6 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



NOTE 11 REVENUE BONDS AND NOTES (Continued)

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, 2009, the total principal and interest payments remaining to be paid on the bonds were \$18.82 billion. Principal and interest paid and total net tobacco settlement receipts for fiscal year 2009 were \$380.6 million and \$374.6 million, respectively. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds. After the bonds and any related operating expenses have been fully paid, any remaining tobacco settlement receipts will become payable to the State. The bonds include fixed rate serial bonds, fixed rate current interest turbo term bonds, and capital appreciation turbo term bonds which will convert to fixed rate current interest turbo term bonds. They were issued to fund long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Additional information on these bonds can be found in BTSFA's stand-alone financial report.

Revenue bonds accounted for in business-type activities finance the construction costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus. The debt issuance for the William Green Building has been used for acquisition and construction of capital assets. The bonds are collateralized by lease rental payments pledged by BWC to OBA. The lease rental payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in the biennial budget. Total pledged payments through the maturity of the bonds in 2014 are estimated at approximately \$90.4 million. For fiscal year 2009, both the total lease rental payments and the principal and interest payments on the revenue bonds were \$20.6 million.

Revenue bonds outstanding for the primary government, as of June 30, 2009, are presented below.

For the year ended June 30, 2009, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2009, are presented below.

Primary Government Revenue Bonds As of June 30, 2009 (dollars in thousands)				
	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-09	3.0%-7.7%	2029	\$338,767
Revitalization Project	2003-08	2.5%-5.0%	2023	126,326
State Infrastructure Bank	2002-09	3.0%-6.0%	2022	772,783
Buckeye Tobacco Settlement Financing Authority....	2008	4.1%-7.5%	2052	5,408,717
Total Governmental Activities				<u>6,646,593</u>
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	80,657
Total Business-Type Activities				<u>80,657</u>
Total Revenue Bonds				<u><u>\$6,727,250</u></u>



NOTE 11 REVENUE BONDS AND NOTES (Continued)

**Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2009
(dollars in thousands)**

Year Ending June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010.....	\$152,730	\$338,946	\$491,676	\$15,930	\$3,867	\$19,797
2011.....	140,160	332,093	472,253	15,865	3,109	18,974
2012.....	150,735	325,528	476,263	15,890	2,326	18,216
2013.....	150,435	318,308	468,743	15,915	1,543	17,458
2014.....	160,205	310,608	470,813	15,200	751	15,951
2015-2019.....	826,370	1,429,217	2,255,587	-	-	-
2020-2024.....	828,545	1,207,994	2,036,539	-	-	-
2025-2029.....	596,185	1,011,336	1,607,521	-	-	-
2030-2034.....	627,300	836,309	1,463,609	-	-	-
2035-2039.....	664,014	787,313	1,451,327	-	-	-
2040-2044.....	1,131,275	489,241	1,620,516	-	-	-
2045-2049.....	1,105,563	3,103,412	4,208,975	-	-	-
2050-2052.....	144,108	3,273,193	3,417,301	-	-	-
	<u>6,677,625</u>	<u>13,763,498</u>	<u>20,441,123</u>	<u>78,800</u>	<u>11,596</u>	<u>90,396</u>
Net Unamortized Premium/(Discount).....	(24,275)	-	(24,275)	2,732	-	2,732
Deferred Refunding Loss	(6,757)	-	(6,757)	(875)	-	(875)
Total	<u>\$6,646,593</u>	<u>\$13,763,498</u>	<u>\$20,410,091</u>	<u>\$80,657</u>	<u>\$11,596</u>	<u>\$92,253</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2010.....	\$168,660	\$342,813	\$511,473
2011.....	156,025	335,202	491,227
2012.....	166,625	327,854	494,479
2013.....	166,350	319,851	486,201
2014.....	175,405	311,359	486,764
2015-2019.....	826,370	1,429,217	2,255,587
2020-2024.....	828,545	1,207,994	2,036,539
2025-2029.....	596,185	1,011,336	1,607,521
2030-2034.....	627,300	836,309	1,463,609
2035-2039.....	664,014	787,313	1,451,327
2040-2044.....	1,131,275	489,241	1,620,516
2045-2049.....	1,105,563	3,103,412	4,208,975
2050-2052.....	144,108	3,273,193	3,417,301
	<u>6,756,425</u>	<u>13,775,094</u>	<u>20,531,519</u>
Net Unamortized Premium/(Discount).....	(21,543)	-	(21,543)
Deferred Refunding Loss	(7,632)	-	(7,632)
Total	<u>\$6,727,250</u>	<u>\$13,775,094</u>	<u>\$20,502,344</u>

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.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

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, 2008, approximately \$1.34 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, 2008, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2009.....	\$80,420	\$64,727	\$145,147
2010.....	86,190	59,916	146,106
2011.....	89,895	55,640	145,535
2012.....	71,390	51,405	122,795
2013.....	70,570	47,802	118,372
2014-2018.....	384,560	183,885	568,445
2019-2023.....	405,350	80,264	485,614
2024-2028.....	110,075	6,275	116,350
	<u>1,298,450</u>	<u>549,914</u>	<u>1,848,364</u>
Net Unamortized			
Premium/(Discount).....	73,412	-	73,412
Deferred Refunding Loss..	(28,026)	-	(28,026)
Total	<u>\$1,343,836</u>	<u>\$549,914</u>	<u>\$1,893,750</u>

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately \$99.1 million in bonds have adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2008 the rate for variable-rate bonds was approximately 1.05 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.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2009, are shown below.

Major Component Units

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/2008)			Ohio State University		
	Principal	Interest	Total	Principal	Interest	Total
2009.....	\$336,525	\$107,577	\$444,102			
2010.....	142,055	97,528	239,583	\$623,636	\$36,045	\$659,681
2011.....	146,640	90,768	237,408	46,165	32,848	79,013
2012.....	151,235	83,955	235,190	59,331	30,796	90,127
2013.....	151,505	77,706	229,211	58,576	27,322	85,898
2014.....	-	-	-	38,829	25,079	63,908
2014-2018.....	701,675	297,120	998,795	-	-	-
2015-2019.....	-	-	-	180,641	98,495	279,136
2019-2023.....	608,900	136,190	745,090	-	-	-
2020-2024.....	-	-	-	163,395	58,610	222,005
2024-2028.....	204,060	22,501	226,561	-	-	-
2025-2029.....	-	-	-	115,230	24,154	139,384
2029-2033.....	20,750	2,983	23,733	-	-	-
2030-2034.....	-	-	-	35,585	3,872	39,457
2034-2038.....	1,640	61	1,701	-	-	-
2035-2039.....	-	-	-	10,581	175	10,756
	<u>\$2,464,985</u>	<u>\$916,389</u>	<u>\$3,381,374</u>	<u>\$1,331,969</u>	<u>\$337,396</u>	<u>\$1,669,365</u>
Net Unamortized Premium/(Discount).....	83,073	-	83,073	-	-	-
Deferred Refunding Loss	(49,243)	-	(49,243)	-	-	-
Total	<u>\$2,498,815</u>	<u>\$916,389</u>	<u>\$3,415,204</u>	<u>\$1,331,969</u>	<u>\$337,396</u>	<u>\$1,669,365</u>

Year Ending December 31 or June 30,	University of Cincinnati		
	Principal	Interest	Total
2009.....			
2010.....	\$106,985	\$39,584	\$146,569
2011.....	31,455	36,585	68,040
2012.....	33,700	35,248	68,948
2013.....	37,385	33,806	71,191
2014.....	38,610	32,149	70,759
2014-2018.....	-	-	-
2015-2019.....	223,330	132,696	356,026
2019-2023.....	-	-	-
2020-2024.....	226,105	79,177	305,282
2024-2028.....	-	-	-
2025-2029.....	159,400	33,430	192,830
2029-2033.....	-	-	-
2030-2034.....	71,945	5,536	77,481
2034-2038.....	-	-	-
2035-2039.....	-	-	-
	<u>\$928,915</u>	<u>\$428,211</u>	<u>\$1,357,126</u>
Net Unamortized Premium/(Discount).....	7,659	-	7,659
Deferred Refunding Loss	-	-	-
Total	<u>\$936,574</u>	<u>\$428,211</u>	<u>\$1,364,785</u>



NOTE 12 SPECIAL OBLIGATION BONDS

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

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

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

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2009, are presented in the following table.

Primary Government-Governmental Activities Special Obligation Bonds					
As of June 30, 2009 (dollars in thousands)					
	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized but Unissued
Ohio Building Authority	1997-09	2.0%-5.8%	2029	\$1,564,152	\$255,915
Treasurer of State Chapter 154	1997-09	2.9%-5.5%	2021	863,404	288,225
				<u>\$2,427,556</u>	<u>\$544,140</u>

Future special obligation debt service requirements, as of June 30, 2009, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2010.....	\$345,365	\$110,394	\$455,759
2011.....	325,440	91,935	417,375
2012.....	299,030	77,082	376,112
2013.....	251,125	63,942	315,067
2014.....	188,855	53,537	242,392
2015-2019.....	684,690	152,226	836,916
2020-2024.....	238,350	40,470	278,820
2025-2029.....	46,690	5,039	51,729
	<u>2,379,545</u>	<u>594,625</u>	<u>2,974,170</u>
Net Unamortized			
Premium/(Discount).....	86,345	-	86,345
Deferred Refunding Loss..	(38,334)	-	(38,334)
Total	<u>\$2,427,556</u>	<u>\$594,625</u>	<u>\$3,022,181</u>

For the year ended June 30, 2009, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2009, OBA had one current refunding issue. The proceeds of the refunding bonds were used to purchase U.S. Government securities in amounts sufficient, without further investment, to pay, when due, the principle, interest and redemption premium on the bonds being refunded.

The OBA issued approximately \$37.8 million in Juvenile Correctional refunding bonds (Series 2009A), with an average interest rate of 2.06 percent to defease approximately \$38.6 million of Juvenile Correctional Building Fund Project Bonds (Series 1999B). As a result of the refunding, the State's debt service payments will be



NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

reduced by \$2.55 million over the life of the bonds. The net economic gain from the refunding was \$2.47 million.

The Treasurer of State had one current refunding issue during fiscal year 2009. The net proceeds of the refunding bond, after payment of underwriting fees and bond issue costs, was deposited with a trustee to redeem the refunded bonds. A resulting economic gain/(loss) from a current refunding represents the difference between present values of debt service payments on the old and new debt.

Approximately \$6.9 million in Cultural Facilities lease revenue bonds, with an average coupon rate of 2.98 percent, were issued to defease approximately \$6.7 million of Sports Facilities Bonds (Series 1997A). The net proceeds of \$6.9 million were deposited with a trustee to redeem the refunded bonds. As a result of the refunding, the State's debt service payments will be reduced by \$321 thousand over the next four years. The net economic gain from the refunding was \$314 thousand.

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

Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2009, \$257.8 million and \$88.2 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, 2009, approximately \$216.5 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of \$8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. Beginning in fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of \$185.2 million of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system. These issuances are, in part, used for 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.

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2009, are presented in the following table.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2009
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.50%	2012	\$2,655
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-09	2.5%-5.25%	2019	173,112
State Taxation Accounting and Revenue System (STARS)....	2008	3.0%-5.0%	2019	40,770
Total Certificates of Participation				<u>\$216,537</u>



NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

As of June 30, 2009, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending	Principal	Interest	Total
2010.....	\$14,725	\$8,995	\$23,720
2011.....	19,255	8,164	27,419
2012.....	22,180	7,321	29,501
2013.....	21,610	6,357	27,967
2014.....	22,530	5,430	27,960
2015-2019.....	109,555	11,333	120,888
	<u>209,855</u>	<u>47,600</u>	<u>257,455</u>
Net Unamortized			
Premium.....	6,682	-	6,682
Total	<u>\$216,537</u>	<u>\$47,600</u>	<u>\$264,137</u>

For the year ended June 30, 2009, NOTE 15 summarizes changes in COP obligations.

B. Component Units

For the State's component units, approximately \$4.7 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at The Ohio State University.

As of June 30, 2009, 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, 2009			
<i>(dollars in thousands)</i>			
<i>Ohio State University</i>			
Year Ending	Principal	Interest	Total
2010.....	\$425	\$222	\$647
2011.....	445	202	647
2012.....	465	180	645
2013.....	490	156	646
2014.....	515	130	645
2015-2019	2,330	242	2,572
2020-2024	-	-	-
Total.....	<u>\$4,670</u>	<u>\$1,132</u>	<u>\$5,802</u>



NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2009, 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	\$341,496
Capital Leases Payable	9,929
Litigation Liabilities	8,735
Pollution Remediation Liabilities	5,533
Estimated Claims Payable	10,352
Liability for Escheat Property	244,628
Total Governmental Activities	620,673
Business-Type Activities:	
Compensated Absences	31,920
Capital Leases Payable	3
Workers' Compensation:	
Benefits Payable	17,426,373
Other	1,936,604
Unemployment Compensation:	
Intergovernmental Payable	862,538
Deferred Prize Awards Payable	699,849
Tuition Benefits Payable	648,500
Total Business-Type Activities	21,605,787
Total Primary Government	\$22,226,460

For the year ended June 30, 2009, 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, 2009, was \$373.4 million, of which \$341.5 million is allocable to governmental activities and \$31.9 million is allocable to business-type activities.

As of June 30, 2009, discretely presented major component units reported a total of \$168.1 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 computer and office equipment. Although the lease terms vary, most leases are renewable subject to biennial appropriations by the General Assembly. If the likelihood of the exercise of a fiscal funding clause in the lease agreement is, in the management's judgment, remote, then the lease is considered noncancelable for financial reporting purposes and is reported as a fund expenditure/expense for operating leases or as a liability for capital leases.

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.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

The primary government's total operating lease expenditures/expenses for fiscal year 2009 were approximately \$76.6 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2009, were as follows (dollars in thousands):

Primary Government	
Year Ending June 30,	Operating Leases
2010.....	\$3,892
2011.....	358
2012.....	64
2013.....	64
2014.....	0
Total minimum lease payments	<u>\$4,378</u>

Capital Leases			
Year Ending June 30,	Business-		Total
	Governmental Activities	Type Activities	
2010.....	\$2,434	\$3	\$2,437
2011.....	2,753	-	2,753
2012.....	2,399	-	2,399
2013.....	2,198	-	2,198
2014.....	1,017	-	1,017
2015-2019.....	335	-	335
Total Lease Payments.....	11,136	3	11,139
Amount for Interest.....	(1,207)	-	(1,207)
Present Value of Net Minimum Lease Payments..	<u>\$9,929</u>	<u>\$3</u>	<u>\$9,932</u>

As of June 30, 2009, the primary government had the following capital assets under capital leases (dollars in thousands):

Primary Government			
	Business-		Total
	Governmental Activities	Type Activities	
Equipment	\$27,435	\$12	\$27,447
Vehicles	1,059	-	1,059
Total	<u>\$28,494</u>	<u>\$12</u>	<u>\$28,506</u>

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

Capital leases are reported under the "Refund and Other Liabilities" account in the proprietary 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, 2009, 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
2010.....	\$8,410	\$15,159
2011.....	6,018	14,140
2012.....	4,818	13,711
2013.....	4,107	12,590
2014.....	2,001	12,934
2015-2019.....	422	59,277
2020-2024.....	-	55,659
2025-2029.....	-	29,907
2030-2034.....	-	13,920
Total Minimum Lease Payments.....	25,776	227,297
Amount for interest.....	(2,170)	(81,077)
Present Value of Net Minimum Lease Payments.....	\$23,606	\$146,220
Equipment & Vehicles.....	\$61,074	\$ -
Buildings	-	183,013
Total	\$61,074	\$183,013

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, 2009, \$8.7 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, 2009, 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 \$3.8 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Programs at the Department of Development, as of June 30, 2009. 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, 2009, the liability totaled approximately \$244.6 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, 2009, in the amount of approximately \$17.43 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



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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, 2009, this payable totals \$699.8 million.

Future payments of prize awards, stated at present value, as of June 30, 2009, follow (dollars in thousands)

Year Ending June 30,	
2010.....	\$78,612
2011.....	75,398
2012.....	75,321
2013.....	75,168
2014.....	75,077
2015-2019.....	332,328
2020-2024.....	172,356
2025-2029.....	69,519
2030-2034.....	40,693
2035-2039.....	530
	<u>995,002</u>
Unamortized Discount	(295,153)
Net Prize Liability	<u>\$699,849</u>

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

H. Unemployment Compensation

During the year ending June 30, 2009, the State's Unemployment Compensation Fund received \$862.5 million for the payment of compensation benefits. The State recognized a liability for the repayable advances to the Federal government.

I. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately \$648.5 million, as of June 30, 2009. 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 3.5 percent for 2010, and seven percent thereafter, as well as a 2.5 percent Consumer Price Index inflation rate. The effect of changes due to experience and actuarial assumption changes follow (dollars in millions):

Actuarial Deficit, as of June 30, 2008.....	(\$40.2)
Adjustment to Beginning of Year's	
Assets.....	0.1
Interest on the Deficit at 7 Percent	(2.6)
Investment Loss	(134.9)
Lower-Than-Assumed Tuition Increase ...	39.0
Change in Assumption for Future	
Tuition Growth.....	73.3
Interest Gain on Late Tuition Payouts	0.9
Change in the investment	
return assumption.....	0.0
Other.....	<u>1.6</u>
Actuarial Deficit, as of June 30, 2009.....	<u>(\$62.8)</u>

As of June 30, 2009, the market value of actuarial net assets available for the payment of the tuition benefits payable was \$585.7 million.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

J. Other Liabilities

The State recognizes a liability for pollution remediation in the amount \$5.5 million, as of June 30, 2009. This represents the cost to the State to the extent that is probable for future clean up and reclamation of polluted sites within the State. See note 19 for further detail.

The Workers' Compensation Enterprise Fund reports approximately \$1.94 billion in other noncurrent liabilities, as of June 30, 2009, of which 1.) \$1.82 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.) \$88.5 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) \$28.1 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, 2009, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2009
(dollars in thousands)

	Balance June 30, 2008 (restated)	Additions	Reductions	Balance June 30, 2009	Amount Due Within One Year
<i>Governmental Activities:</i>					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	\$7,310,376	\$871,937	\$1,044,262	\$7,138,051	\$353,751
Revenue Bonds (NOTE 11)	6,413,182	483,895	250,484	6,646,593	151,151
Special Obligation Bonds (NOTE 12)	2,585,319	264,129	421,892	2,427,556	352,621
Total Bonds and Notes Payable	<u>16,308,877</u>	<u>1,619,961</u>	<u>1,716,638</u>	<u>16,212,200</u>	<u>857,523</u>
Certificates of Participation (NOTE 13)	187,336	40,274	11,073	216,537	14,785
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	398,846	333,892	391,242	341,496	56,574
Capital Leases Payable	9,804	600	475	9,929	2,008
Litigation Liabilities	4,698	7,178	3,141	8,735	3,310
Pollution Remediation Liabilities	7,411	1,421	3,299	5,533	-
Estimated Claims Payable	9,857	1,638	1,143	10,352	1,926
Liability for Escheat Property	258,017	39,769	53,158	244,628	78,220
Total Other Noncurrent Liabilities	<u>688,633</u>	<u>384,498</u>	<u>452,458</u>	<u>620,673</u>	<u>142,038</u>
Total Noncurrent Liabilities	<u>\$17,184,846</u>	<u>\$2,044,733</u>	<u>\$2,180,169</u>	<u>\$17,049,410</u>	<u>\$1,014,346</u>
<i>Business-Type Activities:</i>					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	\$97,286	\$432	\$17,061	\$80,657	\$15,930
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	35,537	26,102	29,719	31,920	3,945
Capital Leases Payable	12	-	9	3	3
Workers' Compensation:					
Benefits Payable	17,600,345	1,963,775	2,137,747	17,426,373	1,823,493
Other:					
Adjustment Expenses Liability	1,834,993	169,261	184,257	1,819,997	479,038
Premium Payment Security Deposits ..	88,918	1,826	2,270	88,474	-
Miscellaneous	56,661	29,010	57,538	28,133	28,132
Unemployment Compensation:					
Intergovernmental Payable	-	862,538	-	862,538	-
Deferred Prize Awards Payable	740,188	242,224	282,563	699,849	41,620
Tuition Benefits Payable	799,800	-	151,300	648,500	74,100
Total Other Noncurrent Liabilities	<u>21,156,454</u>	<u>3,294,736</u>	<u>2,845,403</u>	<u>21,605,787</u>	<u>2,450,331</u>
Total Noncurrent Liabilities	<u>\$21,253,740</u>	<u>\$3,295,168</u>	<u>\$2,862,464</u>	<u>\$21,686,444</u>	<u>\$2,466,261</u>

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 2009, 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



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

programs supported by the borrowings provide direct state assistance to local governments for their respective capital and construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt.

	<i>(in 000s)</i>
Governmental Activities:	
Primary, Secondary and Other Education	\$352,322
Higher Education Support	148,687
Environmental Protection and Natural Resources	932
Community and Economic Development.....	97,202
Total Interest Expense.....	
Charged to Governmental Functions	<u>\$599,143</u>

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2009 (December 31, 2008 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, 2009**
(dollars in thousands)

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amount Due Within One Year
<i>School Facilities Commission:</i>					
Intergovernmental Payable	\$1,694,296	\$982,132	\$952,850	\$1,723,578	\$965,275
Other Liabilities*	-	1,000	65	935	203
Compensated Absences*	705	493	587	611	94
Total	<u>\$1,695,001</u>	<u>\$983,625</u>	<u>\$953,502</u>	<u>\$1,725,124</u>	<u>\$965,572</u>
<i>Ohio Water Development Authority:</i>					
Revenue Bonds & Notes Payable (NOTE 11)	\$2,485,697	\$385,550	\$372,432	\$2,498,815	\$337,571
Compensated Absences*	180	133	114	199	-
Total	<u>\$2,485,877</u>	<u>\$385,683</u>	<u>\$372,546</u>	<u>\$2,499,014</u>	<u>\$337,571</u>
<i>Ohio State University:</i>					
Compensated Absences*	\$97,038	\$13,068	\$6,525	\$103,581	\$6,524
Capital Leases Payable*	23,009	8,033	7,436	23,606	7,543
Other Liabilities*	110,665	24,820	11,233	124,252	3,304
Revenue Bonds & Notes Payable (NOTE 11)	1,048,013	413,501	129,545	1,331,969	623,636
Certificates of Participation (NOTE 13)	5,075	-	405	4,670	425
Total	<u>\$1,283,800</u>	<u>\$459,422</u>	<u>\$155,144</u>	<u>\$1,588,078</u>	<u>\$641,432</u>
<i>University of Cincinnati:</i>					
Compensated Absences*	\$62,864	\$4,343	\$3,503	\$63,704	\$34,982
Capital Leases Payable*	153,725	-	7,505	146,220	7,765
Other Liabilities*	36,228	76,981	74,667	38,542	1,985
Revenue Bonds & Notes Payable (NOTE 11)	932,227	198,815	194,468	936,574	108,044
Total	<u>\$1,185,044</u>	<u>\$280,139</u>	<u>\$280,143</u>	<u>\$1,185,040</u>	<u>\$152,776</u>

*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, 2009 (December 31, 2008 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	\$175,230
Hospital Facilities Bonds	7,320
Ohio Department of Transportation:	
State Transportation Infrastructure Bond	
Fund Program	10,710
Total Primary Government	<u>\$193,260</u>
Component Units (12/31/08):	
Ohio Water Development Authority	\$2,217,205
Ohio Air Quality Development Authority .	2,400,000
Total Component Units	<u>\$4,617,205</u>

NOTE 17 FUND DEFICITS AND "OTHER" RESERVES

A. Fund Deficits

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2009 (dollars in thousands):

Primary Government:	
Major Government Funds:	
Revenue Distribution	(\$234,170)
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	(61,850)
Higher Education Improvements Special Revenue Fund	(443,916)
Total Governmental Funds:	<u>(\$739,936)</u>
Major Proprietary Funds:	
Unemployment Compensation	(\$761,212)
Nonmajor Proprietary Funds:	
Tuition Trust Authority	(52,841)
Total Business-Type Funds:	<u>(\$814,053)</u>
Component Units:	
Major Component Units:	
School Facilities Commission Fund	(\$3,128,053)
Nonmajor Component Units:	
Ohio Capital Fund	(30,048)
Total Component Units:	<u>(\$3,158,101)</u>



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

The Unemployment Fund deficit disclosed above is due to an unusually high level of benefit claims and a reduction in State revenues as a result of the current economic recession. Federal loans have been required to maintain current benefit levels. The State anticipates Federal assistance to continue into future fiscal years.

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

B. "Other" Fund Balance Reserves

Details on the "Reserved for Other" account reported in the governmental funds, as of June 30, 2009, are presented in the following table:

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2009
(dollars in thousands)

	General Fund	Job, Family, and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	\$18,361	\$2,468	\$260	\$3,283	\$6,752	\$31,124
Prepays (included in "Other Assets") ...	16,382	2,027	209	3,187	6,375	28,180
Advances to Local Governments	33,153	17,756	-	-	-	50,909
Ohio Enterprise Bond Program	-	-	-	-	10,000	10,000
Loan Guarantee Programs	-	-	-	-	22,334	22,334
Assets in Excess of						
Debt Service Requirements	-	-	-	-	3	3
Environmental Protection and						
Natural Resources	-	-	-	-	1,683	1,683
Community and Economic Development .	-	-	-	-	19,841	19,841
Total Reserved for Other	<u>\$67,896</u>	<u>\$22,251</u>	<u>\$469</u>	<u>\$6,470</u>	<u>\$66,988</u>	<u>\$164,074</u>

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

The Great Lakes Protection Fund is an Illinois non-profit organization that was formed to further federal and state commitments to the restoration and maintenance of the Great Lake's 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 \$35 thousand) to the operations of its own projections program, known as the Lake Erie Protection Program, which is modeled after the GLPF.



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2008 (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	<u>\$97,000</u>	<u>\$81,000</u>	<u>100.00%</u>

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

Summary Financial information for the GLPF, for the fiscal year ended December 31, 2008, was as follows (dollars in thousands):

Cash and Investments	\$87,552
Other Assets	244
Total Assets	<u>\$87,796</u>
Total Liabilities	\$556
Total Net Assets	<u>87,240</u>
Total Liabilities and Net Assets ..	<u>\$87,796</u>
Total Net Unrealized Loss on Investments ..	(\$43,878)
Total Expenditures	<u>(4,170)</u>
Net Increase in Net Assets	<u>(\$48,048)</u>

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.



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Fiscal year 2009 expenses that were included in the "Higher Education Support" function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga	\$63,465	\$8,676	\$72,141
Jefferson	5,705	598	\$6,303
Lakeland	20,223	2,425	\$22,648
Lorain County	29,910	5,962	\$35,872
Rio Grande	5,937	128	\$6,065
Sinclair	52,588	3,195	55,783
Total Local Community Colleges	177,828	20,984	198,812
Technical Colleges:			
Belmont	6,109	3	6,112
Central Ohio	9,600	84	9,684
Hocking	17,609	1,261	18,870
James A. Rhodes	10,043	-	10,043
Marion	5,898	121	6,019
Zane	5,767	528	6,295
North Central	8,516	1,562	10,078
Stark	21,354	3,130	24,484
Total Technical Colleges	84,896	6,689	91,585
Total	\$262,724	\$27,673	\$290,397

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 2009, the State had the following related-party transactions with its related organizations:

- The General Fund reports \$215 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 \$2.1 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 \$5.2 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, the Department of Commerce, and the Bureau of Workers' Compensation is discussed below.

Department of Education

In litigation between Plaintiff Cincinnati City School District Board of Education and the Ohio Department of Education, the Plaintiff contested that the Ohio Department of Education improperly and retroactively recalculated the number of district residents attending community schools during fiscal year 2005 and that this resulted in significant reductions in state funding in fiscal years 2006 and 2007. A final judgment was entered on January 5, 2007, in favor of Plaintiff in an amount of \$4.7 million.

During fiscal year 2009, the Department of Education settled a related case with Dayton City School District for \$7.2 million. The Dayton City School District originally intended to join the suit with the Cincinnati City School District.

At June 30, 2009, \$8.7 million remains payable to the two districts as a result of these cases. Liabilities of \$5.4 million and \$3.3 million, respectively, have been included as "Other Noncurrent Liabilities-Due in More Than One Year" and "Other Noncurrent Liabilities-Due in One Year" for governmental activities in the government-wide Statement of Net Assets. A liability of \$3.3 million has been included as "Refund and Other Liabilities" for the General Fund in the governmental funds Balance Sheet.

Department of Commerce

In the *Sogg v. Department of Commerce* case, the plaintiff claims a provision in Section 169.08(D) of Ohio Revised Code creates an unconstitutional taking of property in violation of takings clause of the United States and Ohio Constitutions. In April 2009, the Supreme Court of Ohio declared Section 169.08(D) unconstitutional. The Court held that the State may not retain the interest earned on unclaimed funds and that claimants are entitled to interest on the funds for the four years prior to the filing of the claim. The case was remanded to the trial court to determine the method for determining the amount of interest owed to each claimant in the class. On August 18, 2009, the trial court issued an opinion in which it found that the eligible class members should be awarded interest on their accounts at the rate of six percent per annum. 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 ultimate outcome of this litigation cannot be presently determined. Accordingly, no provision for any liability resulting from this case has been reported in the financial statements.

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

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.

A class action case was filed against BWC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC to repay to the class members all excessive premiums collected by BWC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. Parties are awaiting the Court's decision on the motion for injunction.



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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 and \$30.3 million in fiscal year 2009.

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 2008 State of Ohio Single Audit (issued in October 2009), \$3.7 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, 2009.

C. Loan Commitments

As of June 30, 2009, 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	\$1,418
Brownfield Revolving Loans	584
	<u>2,002</u>

Local Infrastructure and Transportation

Ohio Public Works Commission:

State Capital Improvements Loans	98,863
Revolving Loans	96,824
	<u>195,687</u>

Total Nonmajor Governmental Funds	<u>\$197,689</u>
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NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

As of December 31, 2008, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan ...	\$369,733
Fresh Water	95,344
Drinking Water Assistance	78,698
Community Assistance	12,369
Rural Utility Services	4,006
Pure Water Refunding	310
Other Projects	6,097
Total	<u>\$566,557</u>

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

D. Construction Commitments

As of June 30, 2009, the Ohio Department of Transportation had total contractual commitments of approximately \$1.94 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 \$959.5 million, \$329.1 million, \$569.5 million and \$78.4 million, respectively.

As of June 30, 2009, 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):

<u>Primary Government</u>	
Mental Health/Mental Retardation	
Facilities Improvements	\$22,076
Parks and Recreation Improvements	1,648
Administrative Services	
Building Improvements	5,147
Youth Services Building Improvements	1,304
Adult Correctional Building Improvements	11,266
Highway Safety Building Improvements	26
Ohio Parks and Natural Resources	3,851
Total	<u>\$45,318</u>
<u>Major Component Units</u>	
Ohio State University	\$244,240
University of Cincinnati	250,417

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 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, since under the



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in BTSFA receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State's annual payments.

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

During fiscal year 2009, Ohio received \$339.7 million, which is approximately \$30.4 million or 8.2 percent less than the pre-adjusted base payment for the year.

As of June 30, 2009, the estimated tobacco settlement receivable in the amount of \$281.2 million is included in "Other Receivables" reported for the governmental funds. The receivable includes \$29.7 million for payments withheld from BTSFA beginning with fiscal year 2009 and \$74.5 million for payments withheld from the State for fiscal years 2007 and 2008. These amounts were withheld by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. The monies are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. Both the Authority and the State contend that they have met their obligations under the MSA and are due the payments withheld.

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

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

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

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

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-Adjusted Payments from the Strategic Contribution Fund	Total
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.....	367,789	24,230	392,019
2015-2019.....	1,996,586	74,373	2,070,959
2020-2024.....	2,260,082	—	2,260,082
2025-2029.....	2,408,257	—	2,408,257
2030-2034.....	2,573,239	—	2,573,239
2035-2039.....	2,742,919	—	2,742,919
2040-2044.....	2,920,625	—	2,920,625
2045-2049.....	3,107,378	—	3,107,378
2050-2052.....	1,961,754	—	1,961,754
Total	<u>\$21,768,734</u>	<u>\$192,818</u>	<u>\$21,961,552</u>



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

F. Pollution Remediation Activities

During fiscal year 2009, the State and its units were involved in remediation activities for pollution at various sites. These activities include site investigation, cleanup, and monitoring. The following describe the sites and the estimated cost of remediation activities:

The Ohio Department of Administrative Services has voluntarily assumed the responsibility for the pollution remediation activities at Water Tower Place in Cleveland, a site previously owned by the Ohio Department of Rehabilitation and Corrections. Project engineers have estimated the cost of system maintenance, testing, and closing of the project to be approximately \$150 thousand.

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

- As a result of the imminent danger to public health, EPA has assumed responsibility for operating and maintaining the collection and treatment system at the Lincoln Fields contaminated water system in Mansfield. The total costs associated with these activities are estimated to be approximately \$1.3 million. Cost was estimated by the EPA site coordinator using actual invoices to date.
- As a result of the imminent danger to public health and the laws and regulations concerning Superfund sites, EPA has assumed responsibility for operating and maintaining the collection and treatment system for the contaminated water system at the Copley Square Plaza Superfund site. The remaining costs associated with these remediation activities are estimated to be \$102 thousand. Cost was estimated by the EPA site coordinator using actual invoices to date.
- As a result of the imminent danger to public health and the laws of the State regarding scrap tires, EPA continues its progress in the cleanup of scrap tire sites across the State. As of June 30, 2009, the estimated cost of remediation activities currently in progress and any additional activities planned is approximately \$370 thousand. These costs were estimated by the EPA site coordinators using inventory counts and current market costs for tire removal and disposal.

In accordance with Resource Conservation Recovery Act (RCRA) regulations, the Ohio Department of Natural Resources (DNR) continues monitoring and maintenance activities of pollution at the closed Cowan Lake S. P. Wood Treatment Plant at an estimated cost of \$158 thousand. Cost was estimated by DNR using previous invoices to date and projecting the costs over the remaining 21 year commitment of testing the site for contamination.

DNR has recently commenced remediation activities for pollution created by a carbon rod stockpile near a natural marsh area after being named as a responsible party by EPA based on state laws and regulations. Due to the preliminary nature of the activities, costs are unable to be estimated at present.

The Ohio Department of Youth Services (DYS) been named as a responsible party to remediate pollution resulting from an underground storage tank leak at one of its sites. The current contractor employed to clean the area has estimated future costs to be approximately \$308 thousand and DYS expects approximately \$275 thousand of that amount to be recovered from the Petroleum Underground Storage Tank Release Compensation Board.

The Ohio Department of Transportation has been named as a responsible party to remediate pollution at five sites owned by the agency. The pollution at four of the sites is the result of underground storage tank leaks. Another site has contaminated soils on the agency-owned property and contaminated groundwater on the surrounding properties. In total, future costs to eliminate the pollution and continue monitoring activities is estimated to be \$3.2 million for four of the sites. Cost was estimated by the onsite coordinators using actual invoices to date. No estimate is available for the fifth site (one of the underground storage tank leak sites) due to unknown environmental factors.

The amounts of liabilities described above are included within the "Other Noncurrent Liabilities-Due in More Than One Year" account for governmental activities in the government-wide Statement of Net Assets. The final costs of these activities are estimates and are subject to change over time. Variances in the final costs may result from



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

changes in technology, changes in responsible parties, results of environmental studies, and changes in laws and regulations. Future recoveries from other responsible parties may also reduce the final cost paid by the State.

Capital assets may be created during the pollution remediation process. These capital assets will be reported in accordance with the State's capital assets policy. As of June 30, 2009, no capital assets have been created and reported as a result of any pollution remediation process.

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, 2009, in the amount of approximately \$17.43 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 \$1.82 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 4.5 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled \$33.70 billion, as of June 30, 2009, and \$36.40 billion, as of June 30, 2008. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2009.

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 on the following page.



NOTE 20 RISK FINANCING (Continued)

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

	Fiscal Year 2009	Fiscal Year 2008
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	\$19,435	\$19,271
Incurred Compensation and Compensation Adjustment Benefits	2,133	2,587
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,322)	(2,423)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	<u>\$19,246</u>	<u>\$19,435</u>

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, 2009, approximately \$80.4 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 2009	Fiscal Year 2008
Claims Liabilities, as of July 1	\$33,835	\$33,165
Incurred Claims	226,737	217,475
Claims Payments	(229,358)	(216,805)
Claims Liabilities, as of June 30	<u>\$31,214</u>	<u>\$33,835</u>



NOTE 20 RISK FINANCING (Continued)

As of June 30, 2009, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately \$49.2 million, thereby resulting in a funding surplus. Eighty-five percent or \$41.8 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, 2009, 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 2009	Fiscal Year 2008
Claims Liabilities, as of July 1	\$11,122	\$9,010
Incurred Claims	67,842	70,374
Claims Payments	(71,077)	(68,262)
Claims Liabilities, as of June 30	<u>\$7,887</u>	<u>\$11,122</u>

As of June 30, 2009, the estimated claims liability exceeded resources on deposit in the Agency Fund for the United Healthcare Plan by approximately \$58.1 million, thereby resulting in a funding deficit. Eighty-five percent or \$49.4 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, 2009, approximately \$26.8 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 2009	Fiscal Year 2008
Claims Liabilities, as of July 1	\$9,108	\$9,570
Incurred Claims	89,329	69,713
Claims Payments	(85,708)	(70,175)
Claims Liabilities, as of June 30	<u>\$12,729</u>	<u>\$9,108</u>

As of June 30, 2009, the resources on deposit in the Agency Fund for the Aetna Plan exceeded the estimated claims liability by approximately \$14.1 million, thereby resulting in a funding surplus. Eighty-five percent or \$12 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, 2009 (December 31, 2008, for the Ohio Water Development Authority), the State issued major debt as detailed in the table below:

Debt Issuances
Subsequent to June 30, 2009
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
<i>Ohio Public Facilities Commission-General Obligation Bonds:</i>			
Coal Development, Series J.....	08/25/09	3.03%	\$10,000
Coal Development, Series K.....	08/25/09	2.21%	30,000
Higher Education Capital Facilities, Refunding Series 2009C.....	09/22/09	2.66%	262,430
Common Schools Capital Facilities, Refunding Series 2009C.....	09/22/09	2.58%	240,830
Conservation Projects, Refunding Series 2009A.....	09/22/09	2.45%	34,040
Natural Resources, Refunding Series M.....	09/22/09	2.12%	5,285
Third Frontier Research and Development-Tax Exempt, Series 2009B.....	10/20/09	2.90%	75,000
Site Development-Tax Exempt, Series 2009A	11/04/09	2.60%	18,885
Site Development (Build America Bonds), Series 2009B	11/05/09	2.60%	26,115
Conservation Projects-Tax Exempt, Series 2009B.....	12/02/09	2.93%	16,765
Conservation Projects (Build America Bonds), Series 2009C.....	12/03/09	2.93%	33,235
Natural Resources-Tax Exempt, Series N.....	12/02/09	2.95%	9,835
Natural Resources (Build America Bonds), Series O.....	12/03/09	2.95%	20,165
Higher Education Capital Facilities, Refunding Series 2010A.....	01/06/10	3.18%	95,240
Common Schools Capital Facilities, Refunding Series 2010A.....	01/06/10	3.11%	131,170
Infrastructure Improvements, Refunding Series 2010A.....	01/06/10	3.20%	51,290
Higher Education Capital Facilities, Refunding Series 2010B.....	01/06/10	2.24%	24,360
Common Schools Capital Facilities, Refunding Series 2010B.....	01/06/10	2.03%	53,685
Infrastructure Improvement-Tax Exempt, Refunding Series 2010C.....	02/23/10	2.12%	54,400
Infrastructure Improvement-Taxable (Build America Bonds), Series 2010B	02/24/10	3.45%	120,000
Total General Obligation Bonds			<u>1,312,730</u>
<i>Treasurer of State-General Obligation Bonds:</i>			
Highway Capital Improvement (Build America Bonds), Series M	04/14/10	3.12%	170,000
Total General Obligation Bonds			<u>170,000</u>
<i>Treasurer of State-Revenue Bonds:</i>			
Development Assistance-Taxable, Series 2009C	10/27/09	5.07%	28,000
Development Assistance-Taxable, Series 2010A	02/09/10	5.64%	40,000
Revitalization Project-Tax Exempt, Series 2010A	02/09/10	3.40%	23,375
Revitalization Project-Taxable (Build America Bonds), Series 2010B	02/09/10	3.40%	26,625
Total Revenue Bonds			<u>118,000</u>
<i>Treasurer of State-Special Obligation Bonds:</i>			
Mental Health Capital Facilities, Series II-2009A	12/07/09	2.61%	40,000
Cultural and Sports Capital Facilities, Series 2010A	02/02/10	2.96%	30,000
Total Special Obligation Bonds			<u>70,000</u>
<i>Ohio Building Authority-Special Obligation Bonds</i>			
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
State Facilities (Administrative Building)-Tax Exempt, Series 2010A.....	03/16/10	3.52%	9,005
State Facilities (Admin Build-Build America Bonds), Series 2010B.....	03/16/10	3.52%	30,995
Juvenile Correctional Facility-Tax Exempt, Series 2010A.....	03/16/10	3.06%	5,445
Juvenile Correctional Facility (Build America Bonds), Series 2010C.....	03/16/10	3.06%	9,555
Juvenile Correctional Facility, Refunding Series 2010B.....	03/16/10	2.35%	11,450
Highway Safety, Refunding Series 2010B.....	03/16/10	2.84%	10,860
Total Special Obligation Bonds			<u>256,510</u>
Total Primary Government			<u>\$1,927,240</u>



NOTE 21 SUBSEQUENT EVENTS (Continued)

Debt Issuances (Continued)
Subsequent to June 30, 2009
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Major Component Units:			
<i>Ohio Water Development Authority Debt:</i>			
2009A Fresh Water Revenue Bonds.....	04/02/09	2.00% - 5.00%	\$122,205
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
2009B Fresh Water Refunding Revenue Bonds.....	10/22/09	2.00% - 5.25%	82,910
WPCLF Revenue Bonds-Water Quality Series 2010.....	01/28/10	1.25% - 5.00%	366,290
Total Ohio Water Development Authority			<u>\$825,710</u>
<i>The Ohio State University Debt:</i>			
General Receipts Bonds, Series 2010A	01/13/10	1.50% - 5.00%	\$241,170
Commercial Paper-Series J	03/01/10	Market Variable	121,000
Total The Ohio State University			<u>\$362,170</u>
<i>University of Cincinnati Debt:</i>			
<i>Bond Anticipation Notes (BANs):</i>			
Bond Anticipation Notes, Series 2009B	07/21/09	2.00%	\$31,350
Bond Anticipation Notes, Series 2009D	12/18/09	1.50%	25,000
Total Bond Anticipation Notes			<u>56,350</u>
<i>General Receipts Bonds:</i>			
General Receipts Bonds, Series 2009C	10/01/09	2.00% - 5.00%	105,350
General Receipts Bonds, Series 2009E	12/18/09	2.00% - 4.65%	6,135
Total General Receipts Bonds.....			<u>111,485</u>
Total University of Cincinnati			<u>\$167,835</u>

B. State Issue 1

On November 3, 2009, Ohio voters approved State Issue 1, a constitutional amendment that authorizes the State to issue \$200 million of bonds to provide compensation to veterans of the Persian Gulf, Afghanistan, and Iraq conflicts. All obligations must be issued by December 31, 2013.

C. Amended Substitute House Bill 318

In December 2009, the Ohio General Assembly approved, and the Governor signed into law, Amended Substitute House Bill 318. This legislation postpones the final installment of the personal income tax reduction that was scheduled to take effect for tax year 2009 (for returns filed in 2010). As a result, personal income tax rates will remain in effect at 2008 levels through tax year 2010.

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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.

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.

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.

Pavement Network Condition Assessment Data

Priority Subsystem

Calendar Year	Pavement Condition Ratings (PCR)								Total	
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 65-74		Poor PCR = Below 65			
	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2008	8,683	67.70	2,699	21.04	1,154	9.00	290	2.26	12,826	100.00
2007	8,457	66.50	2,752	21.63	1,120	8.81	389	3.06	12,718	100.00
2006	8,918	70.47	1,940	15.33	1,400	11.07	397	3.13	12,655	100.00
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

General Subsystem

Calendar Year	Pavement Condition Ratings (PCR)								Total	
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 55-74		Poor PCR = Below 55			
	Lane- Miles	%	Lane- Miles	%	Lane- Miles	%	Lane- Miles	%	Lane- Miles	%
2008	15,037	50.14	6,793	22.65	6,745	22.49	1,416	4.72	29,991	100.00
2007	14,650	48.73	6,531	21.72	7,319	24.34	1,564	5.21	30,064	100.00
2006	14,757	49.00	6,650	22.08	8,249	27.39	462	1.53	30,118	100.00
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



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
2009	\$352,644	\$407,564
2008	357,396	405,258
2007	403,067	418,936
2006	376,588	410,049
2005	337,213	350,368

General Subsystem

Fiscal Year	Estimated	Actual
2009	\$214,071	\$347,154
2008	178,252	237,050
2007	196,814	268,839
2006	214,826	312,105
2005	197,716	292,303

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)

Calendar Year	General Appraisal Condition Ratings (GACR)									
	Excellent GACR = 7-9		Good GACR = 5-6		Fair GACR = 3-4		Poor GACR = 0-2		Total	
	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%
2008	50,383	48.05	50,554	48.22	3,239	3.09	676	0.64	104,852	100.00
2007	50,056	48.09	50,484	48.50	3,493	3.36	51	.05	104,084	100.00
2006	43,942	52.03	38,104	45.12	2,396	2.84	5	.01	84,447	100.00
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



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
2009	\$308,655	\$360,451
2008	288,329	313,801
2007	290,732	313,272
2006	246,095	262,027
2005	241,670	231,864

**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, 2009

FEDERAL AGENCY

U.S. Department of Health and Human Services.....	\$12,390,678,863
U.S. Department of Labor.....	3,772,414,664
U.S. Department of Agriculture.....	2,806,653,860
U.S. Department of Education.....	1,400,535,559
U.S. Department of Transportation.....	1,216,131,449
U.S. Environmental Protection Agency.....	436,348,434
U.S. Department of Homeland Security.....	111,180,806
U.S. Department of Housing and Urban Development.....	85,490,744
Social Security Administration.....	84,182,205
U.S. Department of Justice.....	57,330,275
U.S. Department of Energy.....	38,027,219
U.S. Department of Defense.....	34,385,582
U.S. Department of the Interior.....	24,130,053
U.S. Department of Commerce.....	18,555,376
U.S. Department of Veterans Affairs.....	17,557,097
National Endowment for the Arts.....	7,141,126
Corporation for National and Community Service.....	6,332,017
Election Assistance Commission.....	4,470,224
U.S. Small Business Administration.....	4,284,667
U.S. Equal Employment Opportunity Commission.....	3,463,624
U.S. Appalachian Regional Commission.....	1,041,330
General Services Administration.....	106,881
TOTAL EXPENDITURES.....	\$22,520,442,055

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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, 2009

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Agriculture

SNAP Cluster:

10.551	Supplemental Nutrition Assistance Program.....	\$1,935,068,081
10.551	ARRA -- Supplemental Nutrition Assistance Program.....	1,417,462
	Total Supplemental Nutrition Assistance Program.....	1,936,485,543
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.....	116,360,192
10.561	ARRA -- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.....	1,132,391
	Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.....	117,492,583
	<i>Total SNAP Cluster.....</i>	<i>2,053,978,126</i>

Child Nutrition Cluster:

10.553	School Breakfast Program.....	76,807,775
10.555***	National School Lunch Program.....	303,262,956
10.556	Special Milk Program for Children.....	606,832
10.559	Summer Food Service Program for Children.....	8,098,210
	<i>Total Child Nutrition Cluster.....</i>	<i>388,775,773</i>

Emergency Food Assistance Cluster:

10.568	Emergency Food Assistance Program (Administrative Costs).....	2,252,207
10.568	ARRA -- Emergency Food Assistance Program (Administrative Costs).....	362,461
	Total Emergency Food Assistance Program (Administrative Costs).....	2,614,668
	<i>Total Emergency Food Assistance Cluster.....</i>	<i>2,614,668</i>

Schools and Roads Cluster:

10.665	Secure Payments for States and Counties Containing Federal Lands.....	479,095
	<i>Total Schools and Roads Cluster.....</i>	<i>479,095</i>
10.001	Agricultural Research -- Basic and Applied Research.....	11,930
10.025	Plant and Animal Disease, Pest Control, and Animal Care.....	2,253,023
10.029	* Avian Influenza Indemnity Program.....	60,571
10.153	Market News.....	51,218
10.156	Federal-State Marketing Improvement Program (Organic).....	37,716
10.163	Market Protection and Promotion.....	1,912,125
10.169	Specialty Crop Block Grant Program.....	207,984
10.170	Specialty Crop Block Grant Program -- Farm Bill.....	13,000
10.304	Homeland Security -- Agricultural.....	613
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection.....	4,857,798
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children.....	256,165,881
10.558	Child and Adult Care Food Program.....	83,924,974
10.560	State Administrative Expenses for Child Nutrition.....	4,714,123
10.565	Commodity Supplemental Food Program.....	999,247
10.572	WIC Farmers' Market Nutrition Program (FMNP).....	452,041
10.574	Team Nutrition Grants.....	8,194
10.576	Senior Farmers Market Nutrition Program.....	1,605,951
10.664	Cooperative Forestry Assistance.....	3,264,547
10.676	Forest Legacy Program.....	37,875
10.902	Soil and Water Conservation.....	222,953
10.904	Watershed Protection & Flood Prevention.....	4,434
	Total U.S. Department of Agriculture.....	\$2,806,653,860

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U.S. Department of Commerce

11.407	Interjurisdictional Fisheries Act of 1986.....	\$11,972
11.419	Coastal Zone Management Administration Awards.....	2,933,143
11.420	Coastal Zone Management Estuarine Research Reserves.....	482,631
11.555	Public Safety Interoperable Communications Grant Program.....	10,353,679
11.611	Manufacturing Extension Partnership.....	4,773,951
	Total U.S. Department of Commerce.....	\$18,555,376

U.S. Department of Defense

12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllium Site.....	\$19,233
12.002	Procurement Technical Assistance for Business Firms.....	505,005
12.005	Donation of Federal Surplus Personal Property.....	1,287,963
12.112	Payments to States in Lieu of Real Estate Taxes.....	554,118
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services.....	697,521
12.400	Military Construction, National Guard.....	1,496,233
12.401	National Guard Military Operations and Maintenance (O&M) Projects.....	29,355,458
12.401	ARRA -- National Guard Military Operations and Maintenance (O&M) Projects.....	412,108
	Total National Guard Military Operations and Maintenance (O&M) Projects.....	29,767,566
12.630	Basic, Applied and Advanced Research in Science and Engineering.....	57,943
	Total U.S. Department of Defense.....	\$34,385,582

U.S. Department of Housing and Urban Development

CDBG -- State Administered Small Cities Program Cluster:

14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.....	\$46,181,793
	<i>Total CDBG -- State Administered Small Cities Program Cluster.....</i>	<i>46,181,793</i>
14.231	Emergency Shelter Grants Program.....	3,540,329
14.235	Supportive Housing Program.....	245,665
14.239	HOME Investment Partnerships Program.....	33,025,351
14.241	Housing Opportunities for Persons with AIDS.....	1,062,887
14.401	Fair Housing Assistance Program -- State and Local.....	1,434,719
	Total U.S. Department of Housing and Urban Development.....	\$85,490,744

U.S. Department of the Interior

Fish and Wildlife Cluster:

15.605	Sport Fish Restoration Program.....	\$7,853,349
15.611	Wildlife Restoration.....	3,345,720
	<i>Total Fish and Wildlife Cluster.....</i>	<i>11,199,069</i>
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining.....	2,055,500
15.252	Abandoned Mine Land Reclamation (AMLR) Program.....	7,765,129
15.255	Applied Science Program -- Cooperative Agreements Related to Coal Mining and Reclamation.....	22,769
15.608	Fish and Wildlife Management Assistance.....	103,454
15.614	Coastal Wetlands Planning, Protection, and Restoration Act.....	135,279
15.615	Cooperative Endangered Species Conservation Fund.....	73,984
15.616	Clean Vessel Act.....	308,104
15.622	Sportfishing and Boating Safety Act.....	979,457
15.634	State Wildlife Grants.....	485,452
15.642	Challenge Cost Share.....	7,960
15.808	U.S. Geological Survey -- Research and Data Acquisition.....	169,511
15.809	National Spatial Data Infrastructure Cooperative Agreements Program.....	50,000

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U.S. Department of the Interior (Continued)

15.810	National Cooperative Geologic Mapping Program.....	95,396
15.916	Outdoor Recreation -- Acquisition, Development and Planning.....	678,989
	Total U.S. Department of the Interior.....	\$24,130,053

U.S. Department of Justice

16.2008-95	Domestic Cannabis Eradication Program.....	\$442,252
16.2009-98	Domestic Cannabis Eradication Program.....	1,777
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry).....	290,314
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM).....	71,994
16.321	Anti-terrorism Emergency Reserve.....	94,384
16.523	Juvenile Accountability Block Grants.....	876,399
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life.....	135
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States.....	1,309,533
16.548	Title V -- Delinquency Prevention Program.....	35,710
16.550	* State Justice Statistics Program for Statistical Analysis Centers.....	39,469
16.554	National Criminal History Improvement Program (NCHIP).....	213,048
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants.....	554,109
16.575	Crime Victim Assistance.....	13,053,209
16.576	Crime Victim Compensation.....	5,906,000
16.579	Edward Byrne Memorial Formula Grant Program.....	755,307
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program.....	2,441,521
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants.....	13,102,417
16.588	Violence Against Women Formula Grants.....	3,372,268
16.593	Residential Substance Abuse Treatment for State Prisoners.....	370,580
16.606	State Criminal Alien Assistance Program.....	1,488,422
16.607	Bulletproof Vest Partnership Program.....	6,297
16.609	Community Prosecution and Project Safe Neighborhoods.....	598,239
16.710	Public Safety Partnership and Community Policing Grants.....	376,185
16.727	Enforcing Underage Drinking Laws Program.....	403,331
16.734	* Special Data Collections and Statistical Studies.....	23,308
16.738	* Edward Byrne Memorial Justice Assistance Grant Program.....	308,608
16.738	Edward Byrne Memorial Justice Assistance Grant Program.....	7,396,745
16.739	National Prison Rape Statistics Program.....	157,631
16.740	Statewide Automated Victim Information Notification (SAVIN) Program.....	44,962
16.741	Forensic DNA Backlog Reduction Program.....	808,653
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program.....	509,816
16.743	Forensic Casework DNA Backlog Reduction Program.....	614,711
16.744	* Anti-Gang Initiative.....	38,259
16.744	Anti-Gang Initiative.....	1,603,286
16.746	Capital Case Litigation.....	21,396
	Total U.S. Department of Justice.....	\$57,330,275

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U.S. Department of Labor

Employment Service Cluster:

17.207	Employment Service/Wagner-Peyser Funded Activities.....	\$25,556,594
17.207	ARRA -- Employment Service/Wagner-Peyser Funded Activities.....	291
	Total Employment Service/Wagner-Peyser Funded Activities.....	25,556,885
17.801	Disabled Veterans' Outreach Program (DVOP).....	6,023,117
17.804	Local Veterans' Employment Representative Program.....	434,458
	Total Employment Service Cluster.....	32,014,460

WIA Cluster:

17.258	WIA Adult Program.....	71,908,730
17.258	ARRA -- WIA Adult Program.....	1,821,356
	Total WIA Adult Program.....	73,730,086
17.259	WIA Youth Activities.....	37,747,108
17.259	ARRA -- WIA Youth Activities.....	5,705,524
	Total WIA Youth Activities.....	43,452,632
17.260	WIA Dislocated Workers.....	65,361,036
17.260	ARRA -- WIA Dislocated Workers.....	2,246,460
	Total WIA Dislocated Workers.....	67,607,496
	Total WIA Cluster.....	184,790,214
17.002	Labor Force Statistics.....	2,641,427
17.005	Compensation and Working Conditions.....	49,976
17.225	Unemployment Insurance.....	3,167,674,588
17.225	ARRA -- Unemployment Insurance.....	359,460,729
	Total Unemployment Insurance	3,527,135,317
17.235	Senior Community Service Employment Program.....	4,530,349
17.235	ARRA -- Senior Community Service Employment Program.....	208,459
	Total Senior Community Service Employment Program.....	4,738,808
17.245	Trade Adjustment Assistance.....	14,887,931
17.261	* WIA Pilots, Demonstrations, and Research Projects.....	381,163
17.261	WIA Pilots, Demonstrations, and Research Projects.....	328,341
17.266	Work Incentive Grants.....	857,476
17.267	* Incentive Grants - WIA Section 503.....	380,195
17.268	H-1B Job Training Grants.....	1,011,991
17.270	Reintegration of Ex-Offenders.....	65,769
17.271	Work Opportunity Tax Credit Program (WOTC)	1,193,827
17.273	Temporary Labor Certification for Foreign Workers.....	360,652
17.504	Consultation Agreements.....	1,388,307
17.600	Mine Health and Safety Grants.....	188,810
	Total U.S. Department of Labor.....	\$3,772,414,664

U.S. Department of Transportation

*Highway Planning and Construction Cluster:***

20.205	* Highway Planning and Construction.....	\$3,619,021
20.205	Highway Planning and Construction.....	1,146,358,916
20.205	ARRA -- Highway Planning and Construction.....	118,307
	Total Highway Planning and Construction.....	1,150,096,244
20.219	Recreational Trails Program.....	1,203,445
23.003	Appalachian Development Highway System.....	6,633,755
	Total Highway Planning and Construction Cluster.....	1,157,933,444

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U.S. Department of Transportation (Continued)

Federal Transit Cluster:

20.507	Federal Transit -- Formula Grants.....	14,266,828
	<i>Total Federal Transit Cluster.....</i>	<i>14,266,828</i>

Transit Services Programs Cluster:

20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities.....	3,926,484
	<i>Total Transit Services Programs Cluster.....</i>	<i>3,926,484</i>

Highway Safety Cluster:

20.600	State and Community Highway Safety.....	14,241,578
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants.....	110,269
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons.....	10,479
	<i>Total Highway Safety Cluster.....</i>	<i>14,362,326</i>

20.106	Airport Improvement Program.....	107,146
20.218	National Motor Carrier Safety	7,510,275
20.230	Crash Data Improvement Program.....	48,300
20.231	Performance and Registration Information Systems Management.....	20,375
20.232	Commercial Driver License State Programs.....	157,373
20.237	Commercial Vehicle Information Systems and Networks.....	55,100
20.505	Federal Transit -- Metropolitan Planning Grants.....	896,387
20.509	Formula Grants for Other Than Urbanized Areas.....	16,029,291
20.700	Pipeline Safety Program Base Grant.....	418,980
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants.....	399,140
	Total U.S. Department of Transportation.....	\$1,216,131,449

U.S. Appalachian Regional Commission

23.002	Appalachian Area Development.....	\$831,056
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects.....	210,274
	Total U.S. Appalachian Regional Commission.....	\$1,041,330

U.S. Equal Employment Opportunity Commission

30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts.....	\$3,463,624
	Total U.S. Equal Employment Opportunity Commission.....	\$3,463,624

General Services Administration

39.003	Donation of Federal Surplus Personal Property.....	\$106,881
	Total General Services Administration.....	\$106,881

National Endowment for the Arts

45.025	Promotion of the Arts -- Partnership Agreements.....	\$1,417,000
45.310	Grants to States.....	5,724,126
	Total National Endowment for the Arts.....	\$7,141,126

U.S. Small Business Administration

59.037	Small Business Development Center.....	\$4,284,667
	Total U.S. Small Business Administration.....	\$4,284,667

U.S. Department of Veterans Affairs

64.005	Grants to States for Construction of State Home Facilities.....	\$649,329
64.014	Veterans State Domiciliary Care.....	2,689,694
64.015	Veterans State Nursing Home Care.....	13,601,728
64.124	All-Volunteer Force Educational Assistance.....	616,346
	Total U.S. Department of Veterans Affairs.....	\$17,557,097

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U.S. Environmental Protection Agency

66.001	Air Pollution Control Program Support.....	\$4,440,729
66.032	State Indoor Radon Grants.....	282,275
66.034	* Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act.....	48,379
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act.....	1,070,353
66.040	State Clean Diesel Grant Program.....	176,478
66.419	Water Pollution Control State, Interstate, and Tribal Program Support.....	5,612,917
66.432	State Public Water System Supervision.....	2,864,391
66.433	State Underground Water Source Protection.....	345,902
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements -- Section 104(b)(3) of the Clean Water Act.....	9,296
66.454	Water Quality Management Planning.....	438,588
66.458	Capitalization Grants for Clean Water State Revolving Funds.....	318,055,709
66.458	ARRA -- Capitalization Grants for Clean Water State Revolving Funds.....	21,276
	Total Capitalization Grants for Clean Water State Revolving Funds.....	318,076,985
66.460	Nonpoint Source Implementation Grants.....	5,587,570
66.461	Regional Wetland Program Development Grants.....	72,493
66.463	Water Quality Cooperative Agreements.....	100,000
66.468	Capitalization Grants for Drinking Water State Revolving Funds.....	86,134,679
66.469	Great Lakes Program.....	394,753
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs.....	50,450
66.472	Beach Monitoring and Notification Program Implementation Grants.....	250,860
66.474	Water Protection Grants to States.....	325,668
66.479	Wetland Program Grants -- State/Tribal Environmental Outcome Wetland Demonstration Program.....	331,724
66.501	Air Pollution Control Research Grants.....	332
66.606	Surveys, Studies, Investigations and Special Purpose Grants.....	55,661
66.608	Environmental Information Exchange Network Grant Program and Related Assistance.....	210,069
66.609	Protection of Children and Older Adults (Elderly) from Environmental Health Risks.....	66,096
66.700	Consolidated Pesticide Enforcement Cooperative Agreements.....	524,567
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals.....	325,592
66.709	Multi-media Capacity Building Grants for States and Tribes.....	13,899
66.801	Hazardous Waste Management State Program Support.....	4,214,159
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements.....	457,729
66.804	Underground Storage Tank Prevention, Detection and Compliance Program.....	641,949
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program.....	1,313,858
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements.....	219,315
66.817	State and Tribal Response Program Grants.....	1,160,846
66.818	Brownfield Assessments and Cleanup Cooperative Agreements.....	529,872
	Total U.S. Environmental Protection Agency.....	\$436,348,434

U.S. Department of Energy

81	Petroleum Violation Escrow Funds.....	\$574,120
81.000	Cost Recovery Grants -- Environmental Research.....	656,435

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U.S. Department of Energy (Continued)

81.041	* State Energy Program.....	107,115
81.041	State Energy Program.....	1,671,012
81.041	ARRA -- State Energy Program.....	79,305
	Total State Energy Program.....	1,857,432
81.042	Weatherization Assistance for Low-Income Persons.....	13,915,308
81.042	ARRA -- Weatherization Assistance for Low-Income Persons.....	20,328,180
	Total Weatherization Assistance for Low-Income Persons.....	34,243,488
81.079	Regional Biomass Energy Program.....	137,310
81.087	* Renewable Energy Research and Development.....	48,640
81.105	National Industrial Competitiveness through Energy, Environment and Economics.....	144,547
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance.....	42,897
81.119	State Energy Program Special Projects.....	322,350
	Total U.S. Department of Energy.....	\$38,027,219

U.S. Department of Education

Title I -- Part A Cluster:

84.010	Title I Grants to Local Educational Agencies.....	\$499,453,152
	Total Title I -- Part A Cluster.....	499,453,152

Special Education Cluster:

84.027	Special Education -- Grants to States.....	438,377,690
84.173	Special Education -- Preschool Grants.....	12,782,251
	Total Special Education Cluster.....	451,159,941

Vocational Rehabilitation Cluster:

84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States.....	96,593,072
	Total Vocational Rehabilitation Cluster.....	96,593,072

Early Intervention Services (IDEA) Cluster:

84.181	Special Education -- Grants for Infants and Families.....	16,468,150
	Total Early Intervention Services (IDEA) Cluster.....	16,468,150

84.000	Consolidated Administrative Fund.....	7,749,794
84.002	Adult Education -- Basic Grants to States.....	18,147,059
84.011	Migrant Education -- State Grant Program.....	2,468,809
84.013	Title I Program for Neglected and Delinquent Children.....	2,010,194
84.048	Career and Technical Education -- Basic Grants to States.....	43,950,588
84.069	Leveraging Educational Assistance Partnership.....	2,541,778
84.144	Migrant Education Coordination Program.....	131,378
84.161	Rehabilitation Services -- Client Assistance Program.....	414,432
84.169	Independent Living -- State Grants.....	678,423
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who Are Blind.....	1,122,409
84.185	Byrd Honors Scholarships.....	1,842,625
84.186	Safe and Drug-Free Schools and Communities -- State Grants.....	10,565,143
84.187	Supported Employment Services for Individuals with Significant Disabilities.....	757,552
84.196	Education for Homeless Children and Youth.....	2,145,012
84.203	* Star Schools.....	1,766,988
84.206	Javits Gifted and Talented Students Education Grant Program.....	208,031
84.213	Even Start -- State Educational Agencies.....	2,638,618
84.215	Fund for the Improvement of Education.....	1,015,413
84.235	Rehabilitation Services -- Demonstrations and Training Program.....	110,110

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U.S. Department of Education (Continued)

84.240	Program of Protection and Advocacy of Individual Rights.....	483,851
84.243	Tech-Prep Education.....	4,526,286
84.265	Rehabilitation Training -- State Vocational Rehabilitation Unit In-Service Training...	121,168
84.282	Charter Schools.....	11,710,711
84.287	Twenty-First Century Community Learning Centers.....	25,250,285
84.293	Foreign Language Assistance.....	297,374
84.298	State Grants for Innovative Programs.....	2,909,514
84.318	Education Technology State Grants.....	9,721,664
84.323	Special Education -- State Personnel Development.....	1,787,952
84.330	Advanced Placement Program.....	188,838
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals.....	1,372,681
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs.....	2,704,390
84.343	Assistive Technology -- State Grants for Protection and Advocacy.....	143,406
84.357	Reading First State Grants.....	15,191,897
84.358	Rural Education.....	1,776,783
84.365	English Language Acquisition Grants.....	7,354,430
84.366	Mathematics and Science Partnerships.....	8,045,692
84.367	Improving Teacher Quality State Grants.....	105,672,901
84.369	Grants for State Assessments and Related Activities.....	13,905,904
84.371	Striving Readers.....	2,314,994
84.372	Statewide Data Systems.....	2,074,761
84.373	Special Education Technical Assistance on State Data Collection.....	1,360,905
84.374	Teacher Incentive Fund.....	5,081,699
84.377	School Improvement Grant.....	10,373,787
84.378	College Access Challenge Grant Program.....	2,225,015
	Total U.S. Department of Education.....	\$1,400,535,559

Election Assistance Commission

90.400	Help America Vote Act College Program.....	\$1,444,099
90.401	Help America Vote Act Requirement Payments.....	3,026,125
	Total Election Assistance Commission.....	\$4,470,224

U.S. Department of Health and Human Services

Aging Cluster:

93.044	Special Programs for the Aging -- Title III, Part B -- Grants for Supportive Services and Senior Centers.....	\$14,831,759
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services.....	21,131,016
93.053	Nutrition Services Incentive Program.....	6,137,412
	<i>Total Aging Cluster.....</i>	<i>42,100,187</i>

Immunization Cluster:

93.268	Immunization Grants.....	7,150,777
	<i>Total Immunization Cluster.....</i>	<i>7,150,777</i>

TANF Cluster:

93.558	* Temporary Assistance for Needy Families.....	120,000
93.558	Temporary Assistance for Needy Families.....	1,011,152,257
	<i>Total TANF Cluster.....</i>	<i>1,011,272,257</i>

CSBG Cluster:

93.569	Community Services Block Grant.....	22,605,055
93.710	ARRA -- Community Services Block Grant.....	9,613,058
	Total Community Services Block Grant.....	32,218,113
	<i>Total CSBG Cluster.....</i>	<i>32,218,113</i>

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

CCDF Cluster:

93.575	Child Care and Development Block Grant.....	20,691,757
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund.....	162,332,724
	<i>Total CCDF Cluster.....</i>	<i>183,024,481</i>

Head Start Cluster:

93.600	Head Start.....	232,072
	<i>Total Head Start Cluster.....</i>	<i>232,072</i>

Medicaid Cluster:

93.775	State Medicaid Fraud Control Units.....	3,087,536
93.777	State Survey and Certification of Health Care Providers and Suppliers.....	25,219,123
93.778	Medical Assistance Program (Medicaid).....	8,944,644,223
93.778	ARRA - Medical Assistance Program (Medicaid).....	687,159,903
	<i>Total Medical Assistance Program (Medicaid).....</i>	<i>9,631,804,126</i>
	<i>Total Medicaid Cluster.....</i>	<i>9,660,110,785</i>

93	SEOW -- Subcontract.....	141,938
93.003	Public Health and Social Services Emergency Fund.....	497
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program.....	190,010
93.009	Compassion Capital Fund.....	153,101
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation.....	173,402
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals.....	850,516
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services.....	856,289
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects.....	618,582
93.051	Alzheimer's Disease Demonstration -- Grants to States.....	212,629
93.052	National Family Caregiver Support, Title III, Part E.....	6,172,710
93.069	Public Health Emergency Preparedness.....	24,344,557
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants.....	416,986
93.110	Maternal and Child Health Federal Consolidated Programs.....	197,088
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity.....	577,375
93.127	Emergency Medical Services for Children.....	372,484
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices.....	321,694
93.136	Injury Prevention and Control Research and State and Community Based Programs.....	619,525
93.138	Protection and Advocacy for Individuals with Mental Illness.....	976,766
93.150	Projects for Assistance in Transition from Homelessness (PATH).....	2,068,405
93.165	Grants to State for Loan Repayment Program.....	220,056
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children.....	1,741,625
93.217	Family Planning -- Services.....	3,914,630
93.234	Traumatic Brain Injury -- State Demonstration Grant Program.....	154,154
93.236	Grants for Dental Public Health Residency Training.....	44,000
93.240	State Capacity Building.....	469,191
93.241	State Rural Hospital Flexibility Program.....	835,120
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance.....	3,686,460

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.251	Universal Newborn Hearing Screening.....	149,920
93.262	* Occupational Safety and Health Program.....	10,972
93.267	State Grants for Protections and Advocacy Services.....	51,894
93.275	Substance Abuse and Mental Health Services -- Access to Recovery.....	5,481,595
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance.....	11,606,615
93.301	Small Rural Hospital Improvement Grant Program.....	555,059
93.448	Food Safety and Security Monitoring Project.....	135,806
93.556	Promoting Safe and Stable Families.....	14,903,322
93.563	Child Support Enforcement.....	155,230,251
93.563	ARRA -- Child Support Enforcement.....	1,318,762
	Total Child Support Enforcement.....	156,549,013
93.566	Refugee and Entrant Assistance -- State Administered Programs.....	4,818,835
93.568	Low-Income Home Energy Assistance.....	228,400,393
93.576	Refugee and Entrant Assistance -- Discretionary Grants.....	668,712
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants.....	1,182,816
93.586	State Court Improvement Program.....	612,094
93.590	Community-Based Child Abuse Prevention Grants.....	61,420
93.597	Grants to States for Access and Visitation Programs.....	298,104
93.599	Chafee Education and Training Vouchers Program (ETV).....	1,465,026
93.617	Voting Access for Individuals with Disabilities -- Grants to States.....	690,038
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems.....	102,398
93.630	Developmental Disabilities Basic Support and Advocacy Grants.....	4,026,588
93.643	Children's Justice Grants to States.....	1,244,847
93.645	Child Welfare Services -- State Grants.....	6,573,274
93.658	Foster Care -- Title IV-E.....	203,751,472
93.658	ARRA -- Foster Care -- Title IV-E.....	7,279,608
	Total Foster Care -- Title IV-E.....	211,031,080
93.659	Adoption Assistance.....	183,194,685
93.659	ARRA -- Adoption Assistance.....	3,002,317
	Total Adoption Assistance.....	186,197,002
93.667	Social Services Block Grant.....	137,389,636
93.669	Child Abuse and Neglect State Grants.....	155,904
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes.....	2,716,851
93.674	Chafee Foster Care Independence Program.....	3,617,404
93.767	Children's Health Insurance Program (CHIP).....	253,620,806
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities.....	309,230
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations.....	1,731,148
93.791	Money Follows the Person Rebalancing Demonstration.....	1,672,653
93.793	Medicaid Transformation Grants.....	441,766
93.888	* Specially Selected Health Projects.....	742,596
93.889	National Bioterrorism Hospital Preparedness Program.....	14,513,892
93.913	Grants to States for Operation of Offices of Rural Health.....	135,173
93.917	HIV Care Formula Grants.....	24,419,356
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems.....	457,214
93.940	HIV Prevention Activities -- Health Department Based.....	6,109,920

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance.....	626,385
93.945	Assistance Programs for Chronic Disease Prevention and Control.....	18,775
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiatives Programs.....	128,531
93.958	Block Grants for Community Mental Health Services.....	13,862,131
93.959	Block Grants for Prevention and Treatment of Substance Abuse.....	70,923,173
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services.....	539,482
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants.....	4,129,609
93.982	Mental Health Disaster Assistance and Emergency Mental Health.....	105,884
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems.....	568,340
93.991	Preventative Health and Health Services Block Grant.....	4,631,833
93.994	Maternal and Child Health Services Block Grant to the States.....	22,229,094
93.A-89-06-0321	Important Health Problems Children's Trust Fund.....	157,756
93.A-89-06-0378	Child Care Development.....	307,605
93.A-89-07-0289	Immunization Registry.....	562,899
93.A-89-07-0403	State Children's Insurance Program.....	81,483
93.A-89-17-0705	Refugee Health.....	152,824
93.HHSF223200640045C	Mammography Quality Standard Act Inspection.....	364,225
	Total U.S. Department of Health and Human Services.....	\$12,390,678,863

Corporation for National and Community Service

94.003	State Commissions.....	\$426,594
94.004	Learn and Serve America -- School and Community Based Programs.....	612,694
94.006	AmeriCorps.....	5,122,195
94.007	Program Development and Innovation Grants.....	39,665
94.009	Training and Technical Assistance.....	130,869
	Total Corporation for National and Community Service.....	\$6,332,017

Social Security Administration

Disability Insurance/SSI Cluster:

96.001	Social Security -- Disability Insurance.....	\$78,441,501
	<i>Total Disability Insurance/SSI Cluster.....</i>	<i>78,441,501</i>
96.000	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program.....	5,264,493
96.008	Social Security -- Work Incentives Planning and Assistance Program.....	268,365
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries.....	207,846
	Total Social Security Administration.....	\$84,182,205

U.S. Department of Homeland Security

Homeland Security Cluster:

97.004	State Domestic Preparedness Equipment Support Program.....	\$74,637
97.067	Homeland Security Grant Program.....	30,758,349
	<i>Total Homeland Security Cluster.....</i>	<i>30,832,986</i>
97.001	Pilot Demonstration or Earmarked Projects.....	8,444
97.008	Urban Areas Security Initiative.....	278,739
97.012	Boating Safety Financial Assistance.....	4,690,063
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants.....	417,253
97.023	Community Assistance Program -- State Support Services Element (CAP-SSSE).....	144,575
97.029	Flood Mitigation Assistance.....	1,574,940

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Homeland Security (Continued)

97.036	Disaster Grants -- Public Assistance (Presidentially Declared Disasters).....	56,425,782
97.039	Hazard Mitigation Grant.....	6,994,164
97.041	National Dam Safety Program.....	78,380
97.042	* Emergency Management Performance Grants.....	18,779
97.042	Emergency Management Performance Grants.....	6,455,454
97.047	Pre-Disaster Mitigation.....	1,921
97.053	Citizens Corp.....	12,289
97.056	Port Security Grant Program.....	210,000
97.070	Map Modernization Management Support.....	66,431
97.073	State Homeland Security Program (SHSP).....	132,118
97.075	Rail & Transit Security Grant Program.....	400,881
97.078	Buffer Zone Protection Plan (BZPP).....	1,406,750
97.091	Homeland Security Biowatch Program.....	669,737
97.092	Repetitive Flood Claims.....	358,801
97.110	Severe Loss Repetitive Program.....	2,319
	Total U.S. Department of Homeland Security.....	\$111,180,806
	TOTAL EXPENDITURES.....	\$22,520,442,055

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. See Note 4 to the Supplementary Schedule of Expenditures of Federal Awards.

** This cluster encompasses two different federal agency programs, the U.S. Department of Transportation's federal program CFDA# 20.205 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.

*** This includes donated food of \$27,322,380.



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009. 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
Columbus State Community College



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Community Colleges (Continued):

Edison State Community College
Northwest State Community College
Owens State Community College
Southern State Community College
Terra State Community College
Washington State Community College

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 and was applicable through December 31, 2008.

CFDA #10.551/10.561 – SNAP Cluster
CFDA # 93.558/93.714/
93.716 – TANF Cluster
CFDA # 93.563 – Child Support Enforcement
CFDA # 93.575/93.596/
93.713 – 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 – Children's Health Insurance
Program (CHIP)
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.

- *Supplemental Nutrition Assistance Program (SNAP) (CFDA# 10.551)*
Federal assistance for this program represents the value of SNAP benefits redeemed by eligible recipients during the fiscal year. Redemption occurs when beneficiaries use SNAP benefits from the State at approved vendor locations, via electronic benefits transfer (EBT).
- *National School Lunch Program (CFDA# 10.555)*
A portion of the federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

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 2009, 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, 2009, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately \$1.068 billion.

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

Capitalization Grant Loan Balance, as of 6/30/08.....	\$997,742,725
Loans without Compliance Requirements.....	(553,408,264)
Loans transferred without Compliance Requirements.....	<u>(113,610,948)</u>
Net Loan Balance (Loans with Compliance Requirements)	<u>330,723,513</u>
New Loans Disbursed	87,263,811
Net Principal Repayments Received	(17,511,067)
Capitalized Interest Earned.....	<u>838,822</u>
Current Loan Activity.....	70,591,566

Ending Loan Balance (Loans with Compliance Requirements).....	401,315,079
Administrative Costs	1,250,471
Small System Technical Assistant Costs.....	475,138
Wellhead Costs.....	1,152,633
Administrative Interest Earned.....	(775)
Loan Account Interest Earned	(1,878)
Small System Technical Assistant Interest Earned	(72)
Wellhead Interest Earned	<u>(208)</u>
Total Federal Assistance for FY 2009	<u><u>\$404,190,387</u></u>

The total federal assistance for fiscal year 2009, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were \$318,055,709 and \$86,134,679 respectively.



STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2009, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/09
10.555	National School Lunch Program	\$ 8,214,289
12.005	Donation of Federal Surplus Personal Property	10,798,587
39.003	Donation of Federal Surplus Personal Property	160,881
	Total	\$19,173,757

NOTE 4 RESEARCH AND DEVELOPMENT CLUSTER

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

CFDA#	Program	Amount
10.029	Avian Influenza Indemnity Program.....	\$ 60,571
16.550	State Justice Statistics Program for Statistical Analysis Centers.....	39,469
16.734	Special Data Collections and Statistical Studies	23,308
16.738	Edward Byrne Memorial Justice Assistance Grant Program	308,608
16.744	Anti-Gang Initiative	38,259
17.261	WIA Pilots, Demonstrations, and Research Projects.....	381,163
17.267	Incentive Grants – WIA Section 503.....	380,195
20.205	Highway Planning and Construction.....	3,619,021
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act.....	48,379
81.041	State Energy Program.....	107,115
81.087	Renewable Energy Research and Development.....	48,640
84.203	Star Schools.....	1,766,988
93.262	Occupational Safety and Health Program	10,972
93.558	Temporary Assistance for Needy Families	120,000
93.888	Specially Selected Health Projects.....	742,596
97.042	Emergency Management Performance Grants	18,779
	Total Research and Development Cluster	\$ 7,714,063



STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 5 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2009, the State made allowable transfers of approximately \$76.7 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 \$1.011 billion 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 2009 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	\$ 1,088,002,230
Social Services Block Grant	(76,729,973)
Total Temporary Assistance for Needy Families.	<u>\$ 1,011,272,257</u>

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

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

CFDA#	Program	Amount
10.551	ARRA – Supplemental Nutrition Assistance Program	\$ 1,417,462
10.561	ARRA – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	1,132,391
10.568	ARRA – Emergency Food Assistance Program (Administrative Costs)	362,461
12.401	ARRA – National Guard Military Operations and Maintenance (O&M) Projects	412,108
17.207	ARRA – Employment Service/Wagner-Peyser Funded Activities.....	291
17.225	ARRA – Unemployment Insurance.....	359,460,729
17.235	ARRA – Senior Community Service Employment Program.....	208,459
17.258	ARRA – WIA Adult Program.....	1,821,356
17.259	ARRA – WIA Youth Activities	5,705,524
17.260	ARRA – WIA Dislocated Workers.....	2,246,460
20.205	ARRA – Highway Planning and Construction	118,307
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	21,276
81.041	ARRA – State Energy Program	79,305
81.042	ARRA – Weatherization Assistance for Low-Income Persons.....	20,328,180
93.563	ARRA – Child Support Enforcement	1,318,762
93.658	ARRA – Faster Care – Title IV-E.....	7,279,608
93.659	ARRA – Adoption Assistance	3,002,317
93.710	ARRA – Community Services Block Grant.....	9,613,058
93.778	ARRA – Medical Assistance Program	687,159,903
Total ARRA Grants		<u>\$ 1,101,687,957</u>

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**INDEPENDENT ACCOUNTANTS'
REPORTS ON COMPLIANCE
AND INTERNAL CONTROLS**



Mary Taylor, CPA

Auditor of State

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

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

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements, and have issued our report thereon dated April 30, 2010. 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	94%	32%
Aggregate Discretely Presented Component Units	86%	97%
Aggregate Remaining Fund Information	92%	15%
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 192, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Commerce	2009-COM01-001
Ohio Department of Education	2009-EDU01-004 and 2009-EDU02-005
Ohio Department of Job & Family Services	2009-JFS13-022, 2009-JFS14-023, 2009-JFS24-033 and 2009-JFS25-034
Ohio Department of Transportation	2009-DOT03-040

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the State of Ohio's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We noted other matters that we have reported to the management of the State of Ohio in a separate management letter issued April 30, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the State of Ohio's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

The State of Ohio's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Ohio's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid, with the first letters of the first and last names being capitalized and prominent.

Mary Taylor, CPA
Auditor of State

April 30, 2010

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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, 2009. 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, 2009. 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, 2009. 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 191 and 192, and described in the accompanying schedule of findings and questioned costs.

State Agency	Noncompliance Finding Numbers
Ohio Department of Health	2009-DOH01-006
Ohio Department of Job & Family Services	2009-JFS01-010 through 2009-JFS12-021
Ohio Department of Mental Health	2009-DMH01-036
Ohio Rehabilitation Services Commission	2009-RSC01-037
Department of Transportation	2009-DOT01-038 and 2009-DOT02-039

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 191 and 192, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Education	2009-EDU01-004 and 2009-EDU02-005
Ohio Department of Health	2009-DOH02-007 through 2009-DOH04-009
Ohio Department of Job & Family Services	2009-JFS13 -022 through 2009-JFS26-035
Ohio Department of Mental Health	2009-DMH01-036
Ohio Rehabilitation Services Commission	2009-RSC01-037
Ohio Department of Transportation	2009-DOT01-038 through 2009-DOT03-040

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 191 and 192, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Health	2009-DOH02-007
Ohio Department of Job & Family Services	2009-JFS13-022 through 2009-JFS14-023

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, CPA
Auditor of State

June 29, 2010

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**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

OMB CIRCULAR A-133 § .505

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	See pages 187 through 190
(d)(1)(viii)	Dollar Threshold: Type A Risk Assessed Type B Programs	A: >\$33,174,346 B: >\$ 6,634,869
(d)(1)(ix)	Low Risk Auditee?	No

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

1. INFORMATION TECHNOLOGY – UNAUTHORIZED PROGRAM CHANGES

Finding Number	2009-COM01-001
State Agency	Ohio Department of Commerce

SIGNIFICANT DEFICIENCY

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

Ohio Department of Commerce uses the Point of Sale system to maintain inventory and pricing information and track and process liquor purchase and sales data received from interfacing systems at state licensed liquor agents. During fiscal year 2009, the Department processed over \$694 million in state liquor sales through the Point of Sale system. Two programmers and a supervisor in the Information Technology Group (ITG) at the Department are responsible for the process of making changes to the mainframe programs. However, controls were not in place to ensure changes were authorized, tracked, or tested prior to being moved into the live environment, as noted below:

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

1. INFORMATION TECHNOLOGY – UNAUTHORIZED PROGRAM CHANGES (Continued)

- Only one of the 25 tested changes from the 109 changes made during the audit period had a corresponding work request to document approval, prioritization, and tracking of the change. Testing documentation was not retained, and without the associated work request, there was no evidence of ITG or user testing prior to migration of the changes into production.
- To provide for some segregation of duties, the supervisor is responsible for moving changes into the production environment. However, one of the two programmers had a backup ID to perform this function in the absence of the supervisor and could move his own programs into production. The supervisor also had access to both make changes and move them into production. There were no additional controls in place to monitor use of this backup ID or changes made and moved by the supervisor.
- The former ITG supervisor made 584 changes to the production programs to remove his name from the header section in each of the 584 programs and replace it with his generic user ID. Senior management was not aware of these changes, work requests were not completed, and the changes were not documented within the program code.

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.

According to ITG management, the work request process was started in fiscal year 2009 and not required for every change tested during the audit period. Management also indicated the former employee was a supervisor; therefore, his access was correct for his job responsibilities. However, the change control procedures were not followed to make the changes performed. Additionally the 584 changes made were not authorized by senior management because they were unaware they had occurred.

We recommend the Department ensure all program changes are properly authorized, tested, reviewed, and approved by management, and documented approval is obtained before the change is transferred into the live environment. If possible, an individual without the access rights to make program changes should move the changes into the production environment. In the absence of this segregation of duties, control procedures should be developed to monitor migration activity to ensure all migrated changes were authorized.

Official's Response and Corrective Action Plan

While Commerce agrees that some IT controls in this particular area were not adhered to during the audit period; it disagrees that this significant deficiency rises to the financial statement level and that it should be included in the State's Report on Compliance at the General Purpose Financial Statement Level.

This disagreement is based on the fact that changes made in the Point of Sale system by Commerce IT personnel, whether made in test, directly into production, with or without prior senior management approval; have other non-IT checks that would expose errors or impropriety on the financial side. These checks include both internal checks such as those within Agency Operations & Fiscal and external checks such as those made by Manufacturers & State Agents on a daily basis. These non-IT checks would have caught any financial manipulations and the Auditor of State's personnel have not shown otherwise. The Auditor of State did not look into, nor test these other controls; but immediately went to the conclusion that this particular IT deficiency rose to the financial statement level.

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

1. INFORMATION TECHNOLOGY – UNAUTHORIZED PROGRAM CHANGES (Continued)

Commerce disagrees with the auditor's assumptions and conclusions made with the 109 program changes and those tested by the auditor. The work request (WRS) control was introduced at a point in 2009. As such, not all of the 109 changes would have been run through that control. Those changes not in the WRS would still have had various documentation associated with them; documentation ranging from system documentation such as the master history file (Histmast) to email. These other non-WRS controls and documentation were not reviewed, to our knowledge, by the auditor most likely because these controls have been in place since the system was created and were found to be more than adequate by the very same auditor and audit manager during the last audit in 2004. Therefore, Commerce disagrees with the auditor's statement that "controls were not in place to ensure changes were authorized, tracked, or tested prior to being moved into the live environment." The Department of Commerce requested, and has not received from the Auditor of State, sufficient documentation to support their claim that a significant deficiency occurred which potentially or actually impacted the financial statement. The Department believes that the materials provided by the Auditor of State do not meet the definition of "significant deficiency."

However, Commerce does agree that in one case those controls were violated. The supervisor, an original creator of the program code and a state employee with more than 30 years on the job, did have full system and program rights per his job duties. Just prior to his retirement he made changes to "commented" code lines (non-functional parts of the code used for documentation) in the programs that listed his name and changed it to his generic ID. While an unauthorized change (the supervisor did believe that he had the authority to make such a minor program documentation change) the effort was discovered by IT management while in progress and reviewed as to its impact on operations.

As a result, Commerce will initiate the following action plan.

- Commerce IT will review and tighten up control of the backup ID, the second programmer will have his ID removed from CONTROL.*
- Commerce IT will review on a monthly basis all incoming requests and ensure that they have been documented in the WRS along with the other non-WRS sources of documentation.*

Anticipated Completion Date for Corrective Action

5.17.2010

Contact Person Responsible for Corrective Action

David Hannan, Chief Financial Officer, Ohio Department of Commerce, 77 South High Street, 23rd floor, Columbus, Ohio 43215, Phone: (614) 995-5514, E-Mail: david.hannan@com.state.oh.us

Auditor of State's Conclusion

We are required by professional standards to categorize control deficiencies based on the potential impact of the weakness. We believe the control failures noted represent a significant deficiency in the design and operating effectiveness of the internal controls and the potential exists for unauthorized program changes that could compromise the integrity of the financial reporting process. Although certain compensating controls may be in place, some of which were tested during the audit, we do not believe these controls sufficiently mitigate all the potential risks given the large number of unknown variables involved. The Department did not present any documentation to substantiate that management reviewed and evaluated the 584 changes to production made by the former ITG supervisor. With regard to the 109 changes made, the Department did not provide any additional documentation to support the approval of the changes. In addition, based on our discussions with client personnel, the work request control form was required for all of fiscal year 2009; however, a new priority was placed on completing the form in the last quarter of the year. Of the 25 items tested, five were processed after this change; exceptions were noted for all five. Therefore, the finding will remain as stated above.

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

<i>Finding Number</i>	2009-EDU01-004
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-EDU01-004 on page 196; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2009-EDU02-005
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-EDU02-005 on page 197; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2009-JFS13 -022
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-JFS13-022 on page 240; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2009-JFS14-023
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-JFS14-023 on page 243; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2009-JFS24-033
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-JFS24-033 on page 265; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2009-JFS25-034
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-JFS25-034 on page 269; this finding is also required to be reported in accordance with GAGAS.

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

<i>Finding Number</i>	2009-DOT03-040
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SIGNIFICANT DEFICIENCY

See federal finding # 2009-DOT03-040 on page 283; this finding is also required to be reported in accordance with GAGAS.

In addition to the above findings required to be reported in accordance with GAGAS, we also identified the following:

1. FINDINGS FOR RECOVERY – DUPLICATE PAYROLL COSTS

<i>Finding Number</i>	2009-DAS01-002
<i>State Agency</i>	Department of Administrative Services on behalf of Various State Agencies

Ohio Rev. Code Section 125.21 allows the processing of payroll information for the purpose of payment for personal services of state officials and employees on the basis of rates of pay determined by pertinent law or other competent authority. Calculation of payroll disbursements is made for each pay period based upon the amount of time rendered or served and benefits earned and used, as certified by the appropriate appointing authority.

During state fiscal years 2008 and 2009, the state payroll system issued duplicate payroll payments via electronic fund transfer or state warrants to 14 different state employees in the gross amount of \$10,388. The Ohio Department of Administrative Services, the state agency that operates the state payroll system and processes payroll costs, confirmed that one of these duplicate payroll payments for each of these employees was issued in error. In addition, the Treasurer of State's Office confirmed that the second payment was redeemed. As a result, an overpayment of \$10,388 occurred. However, six of the employees who received a payroll overpayment have repaid \$3,168 of the overpayment (see comment #2009-DAS02-003), leaving a net unpaid overpayment amount of \$7,220. The table below lists the unpaid overpayment amounts, by employee.

Item	Employee Name	Warrant Number	Issued Date	Redeemed Date	Gross Pay Amount
Amounts Not Repaid					
1	John Mack	1049550	10/26/07	12/11/07	\$ 271
2	Steven Rogers	1080595	06/06/08	06/24/08	216
3	Phillip Stewart	1080607	06/06/08	07/18/08	2,191
4	Douglas Thacker	1049659	10/26/07	11/20/07	239
5	Robert Cowman	1114433	01/16/09	01/27/09	663
6	Johnny Fortson	1097681	09/12/08	10/28/08	1,992
7	Scott Price	1097938	09/12/08	10/28/08	775
8	Charles Saunders	1107729	11/07/08	11/12/08	873
Total Not Repaid					\$ 7,220

In accordance with the foregoing facts and pursuant to Ohio Rev. Code section 117.28, individual findings for recovery are hereby issued for public monies illegally expended against the employees listed in the table above for the separate amount shown for each employee. These findings for recovery are against the named individuals and in favor of the State of Ohio.

Official's Response – see comment 2009-DAS02-003 starting on the following page.

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2. FINDINGS FOR RECOVERY REPAID UNDER AUDIT – DUPLICATE PAYROLL COSTS

<i>Finding Number</i>	2009-DAS02-003
<i>State Agency</i>	Department of Administrative Services on behalf of Various State Agencies

Ohio Rev. Code Section 125.21 allows the processing of payroll information for the purpose of payment for personal services of state officials and employees on the basis of rates of pay determined by pertinent law or other competent authority. Calculation of payroll disbursements is made for each pay period based upon the amount of time rendered or served and benefits earned and used, as certified by the appropriate appointing authority.

During state fiscal years 2008 and 2009, the state payroll system issued duplicate payroll payments via electronic fund transfer or state warrants to 14 different state employees in the gross amount of \$10,388. The Ohio Department of Administrative Services, the state agency that operates the state payroll system and processes payroll costs, confirmed that one of these duplicate payroll payments for each of these employees was issued in error. In addition, the Treasurer of State's Office confirmed that the second payment was redeemed. As a result, an overpayment of \$10,388 occurred. However, six of the employees who received a payroll overpayment have repaid \$3,168 of the overpayment, leaving a net unpaid overpayment amount of \$7,220 (see comment #2009-DAS01-002). The table below lists the repaid overpayment amounts, by employee.

Item	Employee Name	Warrant Number	Issued Date	Redeemed Date	Gross Pay Amount
Amounts Repaid					
1	Sandy Kady	1049602	10/26/07	10/30/07	\$ 332
2	Joseph Marshall	1078661	05/23/08	06/11/08	2,199
3	Thomas Miller	1080524	06/06/08	06/20/08	229
4	Shannon Rowe	1057159	12/07/07	12/20/07	128
5	Christopher Knoll	1106193	11/07/08	11/19/08	126
6	Michael Noel	1105464	10/24/08	11/14/08	151
Total Repaid					\$ 3,168

In accordance with the foregoing facts and pursuant to Ohio Rev. Code section 117.28, individual findings for recovery are hereby issued for public monies illegally expended against the employees listed in the table above for the separate amount shown for each employee. These findings for recovery have been repaid under audit.

Official's Response

Disagreement with AOS characterization of overpayments

Management strongly disagrees with the Auditor of State's (AOS) characterization of these erroneous overpayment as "illegally expended" which implies that those who processed state payroll were engaged in criminal activity or serious wrongdoing.

The AOS report does not mention any evidence indicating that there was an intent to defraud or that there was serious wrongdoing.

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**2. FINDINGS FOR RECOVERY REPAID UNDER AUDIT – DUPLICATE PAYROLL COSTS
(Continued)**

The fourteen erroneous overpayments resulted from human error:

- *Thirteen of the 14 erroneous overpayments occurred at the time of the employees' separations from state service. When an employee receives his / her final pay at separation, the payroll system holds amounts over \$ 150 to ensure that there are no child support arrearages prior to final payout. In these 13 instances, the held amounts were erroneously released to both the employee and the appropriate county child support agency.*
- *One of the 14 erroneous overpayments occurred because vacation pay was paid in a manual check and also paid in the subsequent pay period thru the automated payroll system. In this instance, payroll personnel in the employing agency did not record the needed adjustment to the payroll system to prevent the duplicate payment of these vacation hours.*

DAS Remediation

DAS immediately began remediation of the erroneous overpayment in March 2009. DAS analyzed the cause of these erroneous overpayments and initiated a three-step remediation process:

Step 1: DAS provided employee training on which dates to use when initiating off cycle checks on EFT reversals,

Step 2: DAS developed a query that identifies any overpayments before payroll is processed. After the query went into effect in March 2009, AOS found no evidence of payroll overpayment,

Step 3: DAS initiated the collection of the erroneous overpayments using a similar collection process followed by the Ohio Attorney General's Office (AGO). Please note that AOS' process of referring the same employees to the AGO again after issuing notices of findings for recovery is redundant to action DAS has already taken.

Effective March 2009 the DAS collection efforts included:

- *Sending a notification letter to each of the overpaid employees identifying the overpayment amount, the specific cause of the overpayment and requesting repayment to the State.*
- *Sending a second letter to the overpaid employees identifying a final repayment due date. If repayment was not received by the due date, DAS would certify the amount to the AGO for collection.*

Auditor of State's Conclusion

The Auditor did not intend to characterize these payments as criminal activity or serious wrongdoing with any intent to defraud the State. We simply identified these as overpayments and, by law, subject to recovery. This is consistent with the manner we have reported similar overpayments by Ohio governments for many years.

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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The findings and questioned costs are summarized by state agency and type on pages 191 and 192.

The questioned costs are summarized by federal agency, program, and amount on page 195.

The findings and questioned costs are detailed by state agency on pages 196 through 285.

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
<u>U.S. Department of Agriculture</u>			
<u>SNAP Cluster</u>			
10.551/10.561			
	Ohio Department of Job & Family Services	\$2,053,293,107	
	Other Agencies (Not Tested as a Major Program)	685,019	
	Total Food Stamp Cluster	\$2,053,978,126	9.12%
<u>Child Nutrition Cluster</u>			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	\$384,699,581	
	Other Agencies (Not Tested as a Major Program)	4,076,192	
	Total Child Nutrition Cluster	\$388,775,773	1.73%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	\$256,165,881	
	Total CFDA # 10.557	\$256,165,881	1.14%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	\$83,924,974	
	Total CFDA # 10.558	\$83,924,974	0.37%
<u>U.S. Department of Labor</u>			
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	\$3,527,135,317	
	Total CFDA # 17.225	\$3,527,135,317	15.66%
<u>Workforce Investment Act (WIA) Cluster</u>			
17.258/17.259/17.260			
	Ohio Department of Job & Family Services	\$176,917,716	
	Other Agencies (Not Tested as a Major Program)	7,872,498	
	Total WIA Cluster	\$184,790,214	0.82%
<u>U.S. Department of Transportation</u>			
<u>Highway Planning and Construction Cluster</u>			
20.205/20.219/23.003			
	Ohio Department of Transportation	\$1,156,729,999	
	Other Agencies (Not Tested as a Major Program)	1,203,445	
	Total Highway Planning and Construction Cluster	\$1,157,933,444	5.14%

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
<u>U.S. Environmental Protection Agency</u>			
66.458	CAP Grant – State Revolving Funds Environmental Protection Agency	\$318,076,985	
	Total CFDA # 66.458	\$318,076,985	1.41%
66.468	CAP Grant for Drinking Water Environmental Protection Agency	\$86,134,679	
	Total CFDA # 66.468	\$86,134,679	0.38%
<u>U.S. Department of Energy</u>			
81.042	Weatherization Assistance Ohio Department of Development	\$34,243,488	
	Total CFDA # 81.042	\$34,243,488	0.15%
<u>U.S. Department of Education</u>			
84.010	Title I Grants to Local Education Agencies Ohio Department of Education	\$499,453,152	
	Total CFDA # 84.010	\$499,453,152	2.22%
<u>Special Education Cluster</u>			
84.027/84.173	Ohio Department of Education	\$445,636,268	
	Other Agencies (Not Tested as a Major Program)	5,523,673	
	Total Special Education Cluster	\$451,159,941	2.00%
84.048	Vocation Education – States Ohio Department of Education	\$43,950,588	
	Total CFDA # 84.048	\$43,950,588	0.20%
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States Rehabilitation Services Commission	\$96,593,072	
	Total CFDA #84.126	\$96,593,072	0.43%
84.367	Improving Teacher Quality State Grants Ohio Department of Education Other Agencies (Not Tested as a Major Program)	\$103,077,833 2,595,068	
	Total CFDA # 84.367	\$105,672,901	0.47%

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
<u>U.S. Department of Health and Human Services</u>			
93.558	Temporary Assistance for Needy Families		
	Ohio Department of Job & Family Services	\$1,006,672,071	
	Other Agencies (Not Tested as a Major Program)	4,600,186	
	Total CFDA # 93.558	\$1,011,272,257	4.49%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	\$156,549,013	
	Total CFDA # 93.563	\$156,549,013	0.70%
93.568	Low-Income Home Energy Assistance		
	Ohio Department of Development	\$228,152,302	
	Other Agencies (Not Tested as a Major Program)	248,091	
	Total CFDA # 93.568	\$228,400,393	1.01%
93.569/93.710	Community Services Block Grant		
	Ohio Department of Development	\$32,218,113	
	Total CFDA # 93.569/93.710	\$32,218,113	0.14%
<u>Child Care Cluster</u>			
93.575/93.596			
	Ohio Department of Job & Family Services	\$183,016,521	
	Other Agencies (Not Tested as a Major Program)	7,960	
	Total Child Care Cluster	\$183,024,481	0.81%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	\$208,463,778	
	Other Agencies (Not Tested as a Major Program)	2,567,302	
	Total CFDA # 93.658	\$211,031,080	0.94%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	\$186,197,002	
	Total CFDA # 93.659	\$186,197,002	0.83%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	\$117,030,466	
	Ohio Department of Mental Health	10,619,693	
	Other Agencies (Not Tested as a Major Program)	9,739,477	
	Total CFDA # 93.667	\$137,389,636	0.61%

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.767	Children's Health Insurance Program		
	Ohio Department of Job & Family Services	\$219,605,067	
	Ohio Department of Mental Health	26,722,832	
	Other Agencies (Not Tested as a Major Program)	7,292,907	
	Total CFDA # 93.767	\$253,620,806	1.13%
<u>Medicaid Cluster</u>			
93.775/93.777/93.778			
	Ohio Department of Job & Family Services	\$8,220,553,133	
	Ohio Department of Developmental Disabilities	762,724,556	
	Ohio Department of Mental Health	313,427,471	
	Other Agencies (Not Tested as a Major Program)	363,405,625	
	Total Medicaid Cluster	\$9,660,110,785	42.89%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	\$24,419,356	
	Total CFDA # 93.917	\$24,419,356	0.11%
93.994	Maternal and Child Health Services Block Grant		
	Ohio Department of Health	\$22,229,094	
	Total CFDA # 93.994	\$22,229,094	0.10%
<u>Social Security Administration</u>			
<u>Disability Insurance/SSI Cluster</u>			
96.001	Social Security - Disability Insurance		
	Ohio Rehabilitation Services Commission	\$78,441,501	
	Total Disability Insurance/SSI Cluster	\$78,441,501	0.35%
<u>U.S. Department of Homeland Security</u>			
<u>Homeland Security Cluster</u>			
97.004/97.067			
	Homeland Security Grant Program		
	Ohio Department of Public Safety	\$30,522,672	
	Other Agencies (Not Tested as a Major Program)	\$310,314	
	Total Homeland Security Cluster	\$30,832,986	0.14%
97.036	Disaster Grants – Public Assistance		
	Ohio Department of Public Safety	\$56,425,782	
	Total CFDA # 97.036	\$56,425,782	0.25%
Total Major Federal Programs		\$21,560,150,820	95.74%
Other Federal Programs		960,291,235	4.26%
Total Federal Awards Expenditures		\$22,520,442,055	100.00%

STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below represent items which are being reported in the Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance In Accordance with OMB Circular A-133.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Education (EDU)			
1. IT - Application Development & Maintenance	2009-EDU01-004	Significant Deficiency	196
2. IT - Security Management	2009-EDU02-005	Significant Deficiency	197
Ohio Department of Health (DOH)			
1. Period of Availability	2009-DOH01-006	Questioned Costs	201
2. Cash Management	2009-DOH02-007	Material Weakness/ Significant Deficiency	203
3. Lack of Monitoring Controls – Matching, LOE, Earmarking	2009-DOH03-008	Significant Deficiency	205
4. IT - Program Change Controls	2009-DOH04-009	Significant Deficiency	207
Ohio Department of Job & Family Services (JFS)			
1. Various Programs - Period of Availability	2009-JFS01-010	Questioned Costs	210
2. MMIS - Claims Reimbursed in Excess of OAC Limits	2009-JFS02-011	Questioned Costs	212
3. Medicaid/CHIP- Subrecipient Agreements / Payments	2009-JFS03-012	Questioned Costs	215
4. Indirect Cost Allocation Variance	2009-JFS04-013	Questioned Costs	219
5. Medicaid/CHIP - Missing Case Files - Hamilton County	2009-JFS05-014	Questioned Costs	222
6. CHIP - Ineligible Recipient	2009-JFS06-015	Questioned Costs	223
7. TANF - ELI Missing Case File - Franklin County	2009-JFS07-016	Questioned Costs	226
8. Child Care Cluster - Cash Management	2009-JFS08-017	Questioned Costs	228
9. IEVS - Alert Resolution/Inadequate Documentation	2009-JFS09-018	Questioned Costs/ Significant Deficiency	231
10. Federal Financial Reports	2009-JFS10-019	Noncompliance	233
11. Various Programs - Cash Management	2009-JFS11-020	Noncompliance	236
12. IEVS - Due Dates	2009-JFS12-021	Noncompliance	238
13. All Applications-Lack of Internal Testing/Automated Controls	2009-JFS13-022	Material Weakness/ Significant Deficiency	240
14. IT - CSRs/Overrides of CRIS-E	2009-JFS14-023	Material Weakness/ Significant Deficiency	243
15. Various Programs - County Finance Doc. & Procedures	2009-JFS15-024	Significant Deficiency	245
16. Various Programs - Coding Errors	2009-JFS16-025	Significant Deficiency	248
17. Unemployment Insurance - ARRA Funds on the SEFA	2009-JFS17-026	Significant Deficiency	250
18. Unemployment Insurance - Reporting	2009-JFS18-027	Significant Deficiency	252
19. IT - MMIS - Recertification of Providers	2009-JFS19-028	Significant Deficiency	254
20. IT - Missing/Incomplete Program Change Request Forms	2009-JFS20-029	Significant Deficiency	256
21. IT - Unavailable Program Change Documentation	2009-JFS21-030	Significant Deficiency	259
22. IT - Missing Approval Documentation	2009-JFS22-031	Significant Deficiency	260
23. IT - MMIS Production Environment Security	2009-JFS23-032	Significant Deficiency	262
24. IT - WRS & UC Tax Production Environment Security	2009-JFS24-033	Significant Deficiency	265
25. IT - OJI Production Environment Security	2009-JFS25-034	Significant Deficiency	269
26. IT - SCOTI Production Environment Security	2009-JFS26-035	Significant Deficiency	272

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SUMMARY OF FINDINGS AND QUESTIONED COSTS**

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2009-DMH01-036	Noncompliance/ Significant Deficiency	275
Ohio Rehabilitation Services Commission (RSC)			
1. Voc. Rehab. & Social Security Disability Ins – Cash Mgmt	2009-RSC01-037	Noncompliance/ Significant Deficiency	278
Ohio Department of Transportation (DOT)			
1. Contract Advertisement	2009-DOT01-038	Noncompliance/ Significant Deficiency	280
2. Notification of ARRA Funding Amount to Subrecipients	2009-DOT02-039	Noncompliance/ Significant Deficiency	282
3. IT - Production Access to Programs and Data	2009-DOT03-040	Significant Deficiency	283

The findings listed below are also reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Education (EDU)			
1. IT - Application Development & Maintenance	2009-EDU01-004	Significant Deficiency	196
2. IT - Security Management	2009-EDU02-005	Significant Deficiency	197
Ohio Department of Job & Family Services (JFS)			
13. All Applications-Lack of Internal Testing/Automated Controls	2009-JFS13-022	Significant Deficiency	240
14. IT - CSRs/Overrides of CRIS-E	2009-JFS14-023	Significant Deficiency	243
24. IT - WRS & UC Tax Production Environment Security	2009-JFS24-033	Significant Deficiency	265
25. IT - OJI Production Environment Security	2009-JFS25-034	Significant Deficiency	269
Ohio Department of Transportation (DOT)			
3. IT - Production Access to Programs and Data	2009-DOT03-040	Significant Deficiency	283

The findings listed below are only reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Commerce (COM)			
1. IT - Unauthorized Program Changes	2009-COM01-001	Significant Deficiency	179

**STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SUMMARY OF FINDINGS AND QUESTIONED COSTS**

The issues listed below are only included in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Administrative Services (DAS)			
1. Findings for Recovery - Duplicate Payroll Costs	2009-DAS01-002	FFR	183
2. Findings for Recovery Repaid - Duplicate Payroll Costs	2009-DAS02-003	FFR Repaid	184

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STATE OF OHIO
JULY 1, 2008 THROUGH JUNE 30, 2009
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
10.551/10.561 – Food Stamp Cluster	231*	undetermined
10.557 – Special Supplemental Food Program for Women, Infants, and Children	201	\$16,207
Total U.S. Department of Agriculture		\$16,207
<u>U.S. DEPARTMENT OF LABOR</u>		
17.258/17.259/17.260 – WIA Cluster	210, 219	\$118,951
Total U.S. Department of Labor		\$118,951
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
93.558 – Temporary Assistance for Needy Families	226, 231*	\$7,623
93.563 – Child Support	210	733,114
93.575/93.596 – CCDF Cluster	219, 228*	31,448
93.659 – Adoption Assistance	219	8,913
93.767 – Children's Health Insurance Program	222, 223, 231*	42,403
93.775/93.777/93.778 – Medicaid Cluster	201, 212, 215, 222, 231*	3,445,762
Total U.S. Department of Health and Human Services		\$4,269,263
TOTAL QUESTIONED COSTS - STATE OF OHIO		\$4,404,421

Note: * Finding numbers 2009-JFS08-017 on page 228 and 2009-JFS09-018 on page 231 reported questioned costs for which the amounts could not be determined.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE

<i>Finding Number</i>	2009-EDU01-004
<i>CFDA Number and Title</i>	84.010 – Title I 84.027/84.173 – Special Education Cluster
<i>Federal Agency</i>	Department of Education
<i>Compliance Requirement</i>	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 legacy 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. The EMIS legacy system is being phased out and will be replaced by a newly designed EMIS application (expected in fiscal year 2011). Title I and Special Education expenditures in fiscal year 2009 totaled more than \$953 million. The School Foundation payments processed for fiscal year 2009 totaled approximately \$6.8 billion, bringing the total transactions processed based on EMIS information to approximately \$7.8 billion.

During the audit period, the Department's program change process for the EMIS application 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 the EMIS legacy system.

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 EMIS Legacy Support team is responsible for making changes to the EMIS legacy system and migrating code into production. However, this team is not currently practicing segregation of duties or using a formal change management process until the newly designed EMIS application is implemented. As the EMIS redesign project is completed, the majority of the work that they do will transition over to the EMIS Informatica Support team. This team uses a formal change process and practices segregation of duties. Once this transition occurs, changes to the EMIS application will follow the same procedures that the EMIS Informatica Support uses for change management and segregation of duties.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

We recommend the Department fully implement approved standards and controls for the entire life cycle of the program change request process for the EMIS application. 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 requested program changes should be remediated/re-coded, tested, migrated, documented, and appropriately approved according to departmental standards and guidelines, at appropriate intervals during the life cycle.

Official's Response and Corrective Action Plan

The EMIS legacy team has been utilizing TFS (Team Foundation Server) to track changes. We met with the EMIS program staff and directed them to attach their program change specifications for TFS requests. The change will then be tracked through the various life cycle changes utilizing TFS. As of March 2010, both EMIS legacy and EMIS ODS are utilizing the Department's change management process to ensure the approval of changes before they are implemented. This process forces the programmer to submit TFS tickets documenting the program changes. Attached to the TFS ticket will also be the program change specification. We do not have 3 formal separate environments and at this stage of the Virtual Memory System (VMS), it would not be feasible to create a specific QA (quality assurance) environment for a system that will not have any further development after this fiscal year. Once the EMIS-R project has been completed most of the EMIS processing will be handled via Informatica and will be maintained in three separate development, QA, and production environments.

Anticipated Completion Date for Corrective Action

As of April 2010, all changes are being tracked in TFS and the Information Technology Office Change Management application is used for approval of the implementation. The EMIS-R application is behind schedule but should be complete by September 30, 2010.

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Auditor Administrator, Ohio Department of Education, 25 S. Front St., Ground Floor, Columbus, OH 43215, Phone: (614) 644-7812, E-Mail: Donna.Jackson@ode.state.oh.us

2. INFORMATION TECHNOLOGY – SECURITY MANAGEMENT

<i>Finding Number</i>	2009-EDU02-005
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Education
<i>Compliance Requirement</i>	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 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

2. INFORMATION TECHNOLOGY – SECURITY MANAGEMENT (Continued)

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 2009. These applications and their respective state and/or federal amounts processed included over \$1.1 billion through Comprehensive Continuous Improvement Planning (CCIP), \$6.8 billion through School Foundation (SF), and \$432 million through Claims Reimbursement and Reporting System (CRRS). The Centralized Payment System (CPS) processes the majority of EDU's federal and state subsidy payments totaling \$9.3 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 84 active users had access to the EMIS and SF programs and data, 3,334 could access CRRS programs and data, and 335 users had access to CCIP programs and data. These user totals 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:

- The Department did not have a formally approved computer security policy or user acknowledgement procedures. Draft computer security policies were published in June 2008.
- EDU did not have a formal documentation process in place to record user authorization or logical access rights to these audit-significant systems. Although some e-mail documentation was maintained to support access requests, for a selection of new users, there was no documentation to support three of three CRRS users, four of 11 CCIP users, and two of two School Foundation users. In addition, complete documentation of user 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

2. INFORMATION TECHNOLOGY – SECURITY MANAGEMENT (Continued)

- Although Human Resources Exit Checklists and Contractor Logs were in place for state EDU employees and contractors, the checklists did not contain verification of notification to the Information Technology Office (ITO) to have the user's logical access removed. Additionally, Exit Interview Checklists were not available for 6 of 19 (32%) selected separated employees, and Contractor Logs for three of the six contractors tested did not indicate the contracted work was complete.

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 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 that several policies have been published to an internal SharePoint site which is available to all EDU employees, contractors, intermittent and temporary employees. Policy user acceptance will also be implemented, but the exact procedure for assurance has not yet been approved.

Early in 2009, the agency implemented a system and resource access procedure (SARF form) to document and authorize all new access to EDU applications. However, according to EDU management, oversight and lack of awareness did not allow the forms to be consistently used for application access. An access reconciliation process has not been designed and implemented due to lack of resources.

Termination checklists for employees were not designed to include notification acknowledgement of logical access removal. The missing or incomplete information on the checklists was due to oversight during the termination process. In addition, the contractor log was not designed to provide an effective termination notification tool for individual contractors. The missing or incomplete contractor log Information was due to oversight during the purchase order close process.

We recommend the Department:

- Continue their efforts to formalize, publish, and implement 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.
- Ensure all exit checklists and contractor logs are completed in their entirety and include evidence that ITO is notified to remove the access upon employee termination or contractor departure. Evidence that ITO effectively removed the access should be maintained by the Department.

Once EDU's current initiatives to complete these access authorization and reconciliation controls are accomplished, they should be incorporated into the computer security policy for the Department.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

2. INFORMATION TECHNOLOGY – SECURITY MANAGEMENT (Continued)

Official's Response and Corrective Action Plan

All of the Information Security policies were approved and in use before July 2009 but the education awareness program for existing employees has not been put into place. The finishing touches are being applied to the program and it is awaiting leadership approval. Once approved it will be rolled out to the agency and will require acknowledgement.

Education recognizes the weaknesses in the SRAF process and is focused on correcting the limitations in the system. The Information Security Officer position has been vacated since October 2009 creating a staffing shortage. The Information Security Officer position is in the process of being filled and should be staffed within the next 45 days. Once the position is filled it will be a high priority to either strengthen the SRAF system or to replace it with something that provides better support for the Department's operational needs including the issues with the Contractor Logs.

Anticipated Completion Date for Corrective Action

July 2010

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. PERIOD OF AVAILABILITY

<i>Finding Number</i>	2009-DOH01-006
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC)
<i>Federal Agency</i>	Department of Agriculture
<i>Compliance Requirement</i>	Period of Availability

QUESTIONED COSTS

\$16,207

7 CFR 3016.23 relates to the period of availability for federal funds provided by the U.S. Department of Agriculture (USDA), 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.

The Ohio Department of Health (DOH) received federal funds from the U.S. Department of Agriculture to administer the Special Supplemental Food Program for Women, Infants, and Children federal program. Per the grant award and 7 CFR 246.16 (b)(3), the period of availability (POA) for the WIC program is one year, beginning in October and continues until the following September, except for approved spend forward and back spend options.

During State Fiscal Year (SFY) 2009 DOH processed a total of 29,748 WIC vouchers, totaling \$253,770,207. Of those, 1,379 vouchers totaling \$14,195,824 were for grant DOHF86L8F1 and 10,242 vouchers totaling \$76,659,265 were for grant DOHF89L8F1. Both grants had an end date of 9/30/08, and no extensions were obtained. However, DOH processed the following 15 transactions totaling \$16,207 from the WIC program which were outside the period of availability, resulting in questioned costs:

- Nine transactions totaling \$4,557 for grant DOHF86L8F1 were obligated outside the grant's POA of 9/30/08. These obligations occurred between October, 2008 and February, 2009.
- Three transactions totaling \$538 for grant DOHF86L8F1 were liquidated after the grant's 2/28/09 close out date. All three were not liquidated until March, 2009.
- Three transactions totaling \$11,112 for grant DOHF89L8F1 were liquidated after the grant's 2/28/09 close out date. All three were not liquidated until June, 2009.

In addition another WIC transaction, totaling \$1,122, was found to have been incorrectly coded to grant DOHF86L8F1 after the grant's close out period. However, the transaction did contain the correct Reporting ID, which is the information utilized by the Department for close out reporting purposes. As a result, this transaction was properly reported to USDA during the grant close out process, and thus will not be a questioned cost.

If the Department does not obligate and liquidate its federal funds within the time limits established by federal regulations, the Department could be required to repay those funds to the federal government unless carryover of unobligated balances are permitted or an extension is obtained.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. PERIOD OF AVAILABILITY (Continued)

With regard to liquidation errors noted, Department management stated they attempted to make the payments on several occasions but could not complete them because the vendors' banking information on file within the OAKS system was not up to date. Furthermore, after the first transactions were unable to be completed, the Department attempted to make the payment via check, but the check was never cashed by the vendor and eventually was voided by OBM. Due to these delays the Department was forced to make the payments after the liquidation period had closed. Department management stated that errors related to late obligations were likely due to slow processing of invoices. Department management feels several of these transactions were likely charged to the proper grant; however they do not have the necessary documentation to support the obligation date.

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. Finally, we recommend the Department implement procedures to reconcile information from the Department's internal system to OAKS to ensure all payments are being processed. This reconciliation should be performed regularly and timely to ensure the Department has sufficient time to identify and address any payment issues. The Department should also seek to obtain an extension or blanket waiver for the appropriate grantor agency if there is the potential that all transactions will not be liquidated within the allowed time limits.

Official's Response and Corrective Action Plan

The nine administrative transactions totaling \$4,557 were obligated after the DOHF86L8F1 grant period, but were paid and reported against DOHF86L8F1. The majority of this total was for items that were just after the grant end date (travel, printing). These costs should have been encumbered and reported on the subsequent award (DOHF86L9F1).

The three administrative transactions totaling \$538 were coded to DOHF86L8F1 but paid after the valid liquidation period, and after the report was submitted. Therefore, these costs were not reported against DOHF86L8F1, nor were they reported on DOHF86L9F1 (where they truly should have been coded and reported based on service dates) since they had a DOHF86L8F1 code.

The Department attempted to make the payments for the three transactions totaling \$11,112 for grant DOHF89L8F1 on several occasions but could not complete them because the vendors' banking information on file within the OAKS system was not up to date. Furthermore, after the first transactions were unable to be completed, the Department attempted to make the payment via check, but the check was never cashed by the vendor and eventually was voided by OBM. Due to these delays the Department was forced to make the payments after the liquidation period had closed. The late obligations were likely due to slow processing of invoices.

Given the above total translates to a minimal percentage of the overall funding amount, the Department will await for guidance from the U.S. Department of Agriculture to see if they want us to revise the financial reports for DOHF86L8F1 and DOHF86L9F1. The Department will continue to review the current grant period and future grant periods to ensure costs are reported to the correct POA's. The Department will also continue to monitor grant activity to ensure that: vendor/subgrantee information is current; invoices are processed in a timely manner; and (when necessary) encumbering documentation is updated to reflect the proper payment on the invoices.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. PERIOD OF AVAILABILITY (Continued)

Anticipated Completion Date for Corrective Action

The above mentioned monitoring is immediate and on-going.

Upon receiving the final, published version of the State of Ohio Single Audit, the Department will notify USDA (within 30 days) regarding questioned costs. The Department will then await guidance from USDA.

Contact Person Responsible for Corrective Action

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2. CASH MANAGEMENT

<i>Finding Number</i>	2009-DOH02-007
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.917 – HIV Care Formula Grants (HIV) 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. CASH MANAGEMENT (Continued)

During the fiscal year, the Department drew down \$188,818,366, \$24,123,121, and \$22,466,424 in federal funds for the WIC, HIV, and MCH, federal programs, respectively. However, the Department had no procedures in place to identify the specific expenditures for which funds were being drawn for these programs. The Department was not able to provide support documentation to substantiate the expenditure amounts for each specific draw. Instead, the Department utilized information primarily from the Grants Management Information System 2.0 (GMIS) and the OAKS accounting system to determine the amount of cash to be drawn. This amount was based on a cumulative calculation of immediate cash needs, and the documentation maintained by the Department did not correlate draw amounts to specific transactions. The OAKS open vouchers information is utilized to determine the detail of all open vouchers for each subrecipient. However, during our audit period the Department was not printing or maintaining the documentation from OAKS to support the expenditures at the transaction level. As a result, the Department was unable to document the specific expenditures for which the money was being drawn, and the auditor could not determine when the expenditure was incurred. Therefore, it could not be determined whether the timing of the Federal cash draws was in compliance with applicable regulations. The Department did have procedures in place to support draws made for expenditures amounts from the Grants Management Information System 2.0 (GMIS).

If the Department does not maintain records which allow it to track and match receipts and disbursements at the program transaction level they could receive and deposit funds into a state account prior to the allowed period for making a disbursement or for an incorrect amount. 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.

The Cash Management Supervisor stated the Department did not feel it was cost effective to print the detailed information for each expenditure to be included with the draw down request documentation. The Cash Management Supervisor did state the Department is currently in the process of changing their procedures to attach a copy of the disbursements from the OAKS system with the draw down.

We recommend the Department develop an in-house system that allows the Department to obtain the necessary information to ensure immediate cash needs before making Federal cash draws. The Department should maintain documentation for the specific expenditures for which the money is being drawn and any other documentation deemed necessary to support all drawdown calculation amounts. This documentation could be maintained in electronic form to avoid the cost of printing and storing paper documents.

Official's Response and Corrective Action Plan

It is important to note that the Cash Management Section did have documentation to support the amounts requested for the following types of expenditures: GMIS (Sub-Grantee payments), WIC vouchers and Payroll. It did not have documentation to support the cumulative amount drawn for Accounts Payable vouchers. As of April 1, 2010, Accounts Payable staff are now making two copies of the invoice voucher screen for payments that will be made using federal coding. Both copies are included in the packet that is given to the Cash Management Coordinator. The second copy of the invoice voucher screen is kept and attached to the Federal Draw Worksheet as backup documentation to support Accounts Payable expenditures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. CASH MANAGEMENT (Continued)

Anticipated Completion Date for Corrective Action

Completed April 1, 2010

Contact Person Responsible for Corrective Action

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3. LACK OF MONITORING CONTROLS – MATCHING, LEVEL OF EFFORT, AND EARMARKING

<i>Finding Number</i>	2009-DOH03-008
<i>CFDA Number and Title</i>	93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	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 state funds identified to meet the matching, level of effort, and earmarking requirements in the grant application process, but has not established any formal monitoring procedures to determine whether it has met those requirements for the MCH program during the award. The Department has the capacity to verify if it meets these requirements through its Agency Reporting Database (ARDB) and Business Intelligence Connection (BIC) systems. Both systems are direct downloads of multiple-year data that allow users to view information from both the current and previous years. The ARDB system obtains historical data from the old state Central Accounting System (CAS) while the BIC system obtains data from the current Ohio Administrative Knowledge System (OAKS). However, during SFY 2009, the Department did not use the ARDB/BIC systems to determine if it has met these requirements unless a need arises, and even then it does not maintain any evidence to document doing so. Having the capacity to do something is not the same as actually implementing a control to be performed periodically and to document that the Department monitors compliance with these requirements. During the testing of Matching, Level of Effort, and Earmarking, no issues of non-compliance were noted.

Without appropriate internal controls in place and the effective and consistent application of the controls, management cannot reasonably be assured that matching, maintenance of effort, and earmarking requirements are being met. In addition, Program Management should review and utilize the information provided by the Fiscal Specialist in Budget.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

3. LACK OF MONITORING CONTROLS – MATCHING, LEVEL OF EFFORT, AND EARMARKING (Continued)

The Administrator of Operational Support stated that the Fiscal Specialist in Budget made proper adjustments to install controls over Earmarking by recording and monitoring how much MCH-BG funds are spent each quarter. This was noted and tested by the auditor during the fiscal year. However, the Administrator of Operational Support does not feel a need to utilize the report information for Earmarking since the information is readily obtainable at any given moment. The Administrator of Operational Support feels these procedures will not add value to Department management resources. During discussions with the Administrator of Operational Support and the Chief of Budgeting regarding matching, it was indicated that the Department does not document the monitoring of matching expenditures.

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, maintenance of effort, and earmarking requirements. One way to do so would be to track the MCH program disbursements and periodically compare them to the established requirements. 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.

Official's Response and Corrective Action Plan

ODH Budget Unit will continue to compile MCH Block Grant Quarterly Reports. The Budget Unit will email the quarterly report to the designated Program representative and receive confirmation from the program of receipt and validation of the report. The Budget Unit will save both the quarterly reports and Program confirmation for future requested access for documentation.

Anticipated Completion Date for Corrective Action

The above process will be effective for the MCH Block Grant 3rd Quarter report submission – July 1, 2010.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

4. INFORMATION TECHNOLOGY – LACK OF PROGRAM CHANGE CONTROLS

<i>Finding Number</i>	2009-DOH04-009
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.917 – HIV Care Formula Grants (HIV) 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	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. Such written procedures can help ensure that computer applications modified by the Department's programming staff perform accurately, efficiently, and meet management's requirements. The procedures typically cover such areas as request guidelines, programming standards, naming conventions, schedules and budgets, design standards, approval procedures for users, approval procedures for data processing management, testing standards, and documentation 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. Program changes must be tested and documentation maintained to provide management assurance that users' requirements are achieved prior to a program being transferred into the production environment.

During the fiscal year, the Department administered a number of federal programs, including the WIC, HIV, and MCH major federal programs. The Department disbursed \$256,165,881, \$24,419,355, and \$22,229,093 in federal funds from the WIC, HIV, and MCH federal programs, respectively. Many of the activities and data associated with these programs were automated within two audit-significant computer systems used by the Department; namely, the Grants Management Information System (GMIS) and the WIC program application. The WIC application operates in both PC and mainframe environments to track and process, certification, food issuance, and immunization assessments for the states supplemental nutrition program serving pregnant women, infants, and children up to age 5. The GMIS is used to handle management of grants, grant applications, notice of awards (NOA), encumbrances, payments, auditing and reconciliation; and interacts with the State of Ohio's Administrative Knowledge System (OAKS) on a daily basis to allot funds via purchase orders and submit payments to subgrantees using vouchers. However, the following weaknesses existed during fiscal year 2009 relating to program changes for the WIC and GMIS applications:

- The Department did not have formal written procedures to track, monitor, remediate, test, implement, and document all mainframe or server-based program changes.
- Programmers for the Women, Infants and Children (WIC) program had the access authorities to modify the application code, complete the testing of the changes, and also migrate the changed program(s) into the production environment.
- No testing documentation or evidence of end-user acceptance of testing performed was maintained for program changes made in GMIS.
- The source code comment section of the GMIS programs contained no reference to the related change request, nor was identification of the affected modules maintained in the change request documentation; providing no way to link the affected code to a particular change request.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

4. INFORMATION TECHNOLOGY – LACK OF PROGRAM CHANGE CONTROLS (Continued)

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous, incomplete, and unauthorized transaction processing. Lack of proper segregation of duties or controls that restrict access to key programs could result in those programs being changed without the knowledge and/or consent of management or the user community. Incomplete program comment headers and inadequate logical documentation of program code changes could result in an information systems professional, unfamiliar with the programs, not being able to understand the application changes without extreme difficulty, if at all; thereby increasing the risk of substantial time and financial burdens to the agency in the event of turnover in key Management Information Systems positions.

DOH has not made the development of formal program change procedures a priority based on their workload and other higher priority projects. DOH management indicated they have been working to revise/improve processes for change control, but do not have a final standard completed for the Department. Also, DOH management also indicated they have implemented change control procedures to address the WIC segregation of duties issue for programmers; however, the security architecture for the WIC production mainframe environment would have to be changed to “prove” migration access is denied for the programmers. Additionally, because a cookie cutter approach was not feasible for applications such as WIC and GMIS, DOH did not have a formal process for obtaining user acceptance testing sign-off prior to migrating GMIS code to production.

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process. These standards should include, but not be limited to, procedures for maintaining testing documentation to reasonably ensure all key documentation of the testing performed for all program changes is maintained and available. In addition, user acceptance should be obtained for all pertinent changes to help ensure the applications are operating as intended. 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 the Department implement a segregation of duties by upgrading the logical access controls of all the Department personnel who have access to the WIC program and data. Application programmers should have access only to the programs they are assigned for authorized project maintenance. The migration of the programs into the production environment should be performed by someone without program modification capabilities. If the segregation of duties must be temporarily compromised due to emergency changes or staffing shortages, an independent and timely review of the migration activity should occur to help ensure only authorized changes were migrated into production.

We further recommend the Department update comment header information, including logical documentation, linking a program code change to a specific change code request for all changes. In addition, a comprehensive evaluation of the current documentation for each application should be conducted to help ensure all program changes have been documented and cross-referenced effectively.

Official's Response and Corrective Action Plan

Change Control processes will continue to be refined over time to ensure full SDLC coverage.

Changes for WIC applications and data follow the Department standards for Program Change Control. Requests for changes are made via user e-mail to the WIC IT Application Development Manager and are initiated by a Data Service Request Form and Helpstar ticket. A WIC Bureau Liaison reviews and approves application changes prior to implementation to ensure customer needs are met.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

4. INFORMATION TECHNOLOGY – LACK OF PROGRAM CHANGE CONTROLS (Continued)

In June 2008, changes to mainframe programs were implemented by using one of two methods to segregate development duties from implementation duties. One process was managed by the ODH Change Control Unit and the second required Production changes to be implemented by the WIC IT Application Development Manager. Although these procedures remain in place, the comment continues to be reported as the security architecture for the WIC Production Mainframe environment has not been changed to prevent developer access to the ODH.WICPROD.SOURCE and ODH.WICPROD.OBJECT libraries on the mainframe. The current security architecture has been in effect since the system was implemented in the early 90's, and a change of this nature could affect production processes the Ohio WIC Program relies upon to serve participants and pay vendors for services.

To mitigate risk and further demonstrate staff follows the defined procedures, the Department is pursuing a solution that will document files stored in the ODH.WICPROD.OBJECT and ODH.WICPROD.SOURCE on a periodic basis. This periodic "snapshot" will show that all changes to the environment coincide with a change request and are implemented in production by the Development Manager/ODH Change Control Unit or, in exceptional situations, with prior authorization approval, the Application Programmer.

The Department's process for obtaining user acceptance testing sign-off prior to migrating GMIS code to production had been for the user to communicate (via e-mail) that the enhancements and/or fixes passed user acceptance testing. Efforts are currently underway to standardize the GMIS SDLC. A formal sign-off from the end-user is now required with all GMIS software migrations and a process diagram depicting user acceptance/sign-off is currently being developed.

GMIS change requests were not referenced within the source code comment section; instead, the comments were placed within each software module with the affected changes consistent with best practices of the past. Current best practices involve tracking changes with the source control tool upon the code "check-in" process. Along with commenting on each module when the code is ready to be migrated, a software label of all modules is created to cross-correlate a given release migrated to production. The Department has adopted current best practices and a process diagram for commenting and labeling is currently being developed.

Anticipated Completion Date for Corrective Action

ODH utilizes a continuous improvement process where documentation and processes are considered "living" and are periodically reviewed and refined. We believe the processes currently in place will resolve the deficiencies cited for the WIC and GMIS Programs. A baseline WIC "snapshot" will be taken by June 30, 2010 and followed up by a schedule of periodic "snapshots" to demonstrate compliance with staff separation of duty requirements. The GMIS process changes regarding user acceptance testing sign-off, source comments and labeling are currently in-place as of June 2010 and supporting documentation will follow by July 30, 2010.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY

<i>Finding Number</i>	2009-JFS01-010
<i>CFDA Number and Title</i>	17.258/17.259/17.260 – WIA Cluster 93.563 – Child Support Enforcement 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	Period of Availability

QUESTIONED COSTS

\$1,725,414

45 CFR 92.23 relates to the period of availability 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.

29 CFR 97.23 contains similar language for federal funds provided by the U.S. Department of Labor. 20 CFR 667.107(a) specifically relates to the period of availability (POA) requirements of the WIA Cluster program and states "Funds allotted to States under WIA sections 127(b) and 132(b) for any program year are available for expenditure by the State receiving the funds only during that program year and the two succeeding program years."

The Department received federal funds from the U.S. Department of Labor to administer the WIA Cluster federal program and federal funds from the U.S. Department of Health and Human Services (HHS) to administer the Child Support Enforcement and Medicaid Cluster federal programs. These federal programs award funds on a federal fiscal year (FFY), which begins October 1 and ends on the following September 30. The only program specific requirements, other than those stated above, related to the HHS programs which were required to submit claims to the federal grantor agencies within two years of the expenditure. However, since ODJFS draws down federal funds for these programs on a reimbursement basis rather than an advance basis, this was not a factor in evaluating these transactions. This funding process applied to all disbursements of the Department, including payments to the counties which were recognized as subrecipients effective January 1, 2009. Given this approach, the Department essentially liquidates its obligations within a few days of drawing the federal funds when disbursing the funds to the counties or other payees. ODJFS did not receive any approvals from the federal grantor agencies to extend the POA times.

ODJFS personnel identified the obligation and liquidation dates for each grant utilized in state fiscal year 2009. Using this information and an audit computer program, we analyzed all of the expenditure transactions listed in the OAKS (Ohio Administrative Knowledge System) system made by the Department during state fiscal year 2009. This analysis, a review of various documents, and discussions with Department personnel, identified several disbursements; totaling \$1,725,414 in state and federal funds, paid either before or after the POA, as detailed below, resulting in questioned costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

WIA Cluster:

- The Department made two disbursements totaling \$111,465 from the FFY 2009 WIA grant (AF09) during September 2008, which was before the grant award start date of October 2008;

Child Support Enforcement:

- The Department made 14 disbursements totaling \$733,114 from the FFY 2008 grant (CS08) during October 2008, January 2009, and June 2009, which was after the stated obligation/liquidation date of the grant award of September 2008;

Medicaid Cluster (CFDA #93.775/93.777/93.778):

- The Department made four disbursements totaling \$880,835 from the FFY 2008 grant (CS08) during October 2008, which was after the stated obligation/liquidation date of the grant award of September 2008.

If the Department does not obligate and liquidate its federal funds within the time limits established by federal regulations, the Department could be required to repay those funds to the federal government unless carryover of unobligated balances is permitted or an extension is obtained. Noncompliance of federal requirements could also subject the Department to fines and/or sanctions or a reduction in future federal funding.

Department personnel was not able to provide a specific reason for these exceptions, but indicated there was a lack of coordination between various bureaus within the Department regarding the appropriate federal programs associated with the various expenditures and related draws and when the disbursements were required to be made.

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

There is currently a process in place to question any costs processed outside the Period of Availability (POA). The Fiscal Specialist 2's that currently process the draws determine if an item is outside the POA and will produce a discrepancy report explaining the finding. This is forwarded to a Fiscal Officer 2 who forwards the report to managers in Bureau of Accounting and Bureau of County Finance and Technical Assistance. Staff in these bureaus should review and make the appropriate adjustment.

Anticipated Completion Date for Corrective Action

JFS established a procedure in SFY06. Staff will review the procedure to validate its effectiveness and make any necessary corrections.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

<i>Finding Number</i>	2009-JFS02-011
<i>CFDA Number and Title</i>	93.767 – Children's Health Insurance Program 93.775//93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs

QUESTIONED COSTS

\$1,508,407

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

MMIS edits to prevent Medicaid and Children's Health Insurance Program (CHIP) provider payments above the unit or price limits set in the OAC were either not designed or not functioning properly for 97 Medicaid procedure codes. As a result, Medicaid and CHIP providers were reimbursed in excess of the limits contained in the OAC in 9,419 instances. However, we were not able to separately determine the amounts that related to each program; therefore, the excess reimbursements for the 97 procedure codes totaling \$1,508,407 were questioned for the Medicaid Cluster.

The following table shows the procedure codes/descriptions related to the 10 highest dollar amounts of excess provider reimbursement:

	Procedure Code / Medical Supply	OAC Limit for Unit or Dollar Amount	FY09 Range of Reimbursement Over OAC Limit	Total Questioned Cost	Total Count
1.	A4353: Catheter	60 per month	61 - 360 per month	\$ 413,667	742
2.	E0439: Oxygen System	\$167 per month	\$178 – \$290 per month	\$ 201,386	1,022
3.	B4224: Parental Nutrition Administration Kit	1 per day	2 - 59 per day	\$ 143,523	1,073
4.	A4222: Infusion supplies	60 per month	61 - 108 per month	\$ 111,362	108
5.	A4305: Drug Delivery System	1 per day	2-44 per day	\$ 103,913	1186
6.	E0781: Ambulatory Infusion pump	\$8.73 per day	\$17 - \$375 per day	\$ 100,840	1081
7.	E0424: Stationary Compressed Gas System	\$167 per month	\$193.44 per month	\$ 70,605	365
8.	T4543: Incontinence Supplies	150 per month	152-304 per month	\$ 66,910	164
9.	E0791: Parenteral Infusion Pump	\$8.73 per day	\$17 - \$270 per day	\$ 44,339	463
10.	B4220: Parenteral Nutrition Supply Kit	1 per day	2 - 60 per day	\$ 43,267	1,062

For procedure codes with a one-per-day OAC limit, many of these claims were submitted on a weekly or monthly basis instead of daily, and the units submitted for the billing period were all listed under one date of service (such as seven units for one week, 30 units for one month). 3,332 instances (representing 2206 actual claims) in excess of the one-per-day limit were reimbursed for \$291,520, which was included in the questioned cost amount.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

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, continued to create, test, and implemented edits in production. However, edits have not been implemented for all scenarios and some edits were implemented later during the fiscal year 2009 audit period; therefore, excess reimbursements still occurred.

In addition, OHP management indicated that some Medicaid claims may be submitted for multiple units but without corresponding dates of service. For example, one claim containing seven units, which have a one-per-day OAC limit, may only have one date of service listed on the claim for all seven units. In these cases, OHP management indicated it is reasonable to assume each of the seven units is used once per day. OHP management stated the quantity allowed will be based on the reasonableness of the units submitted for the time period, and on medical necessity as determined by the department. However, without individual claim dates of service for each of the maximum-limit units submitted, we could not verify all units were used according to the OAC limits.

We recommend ODJFS complete the update of their utilization and review edits within MMIS to help prohibit further overpayment of Medicaid and/or CHIP claims. In addition, ODJFS should seek reimbursement for the claims that were paid in excess of the limits established in the OAC. Also, ODJFS should put control procedures in place to monitor the utilization and review edits within 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 \$1.5 million. After careful analysis, we agree to a questioned cost of \$471,731.

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 \$471,730. 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 2009 data that the AOS reviewed. SURS did not separate the 2009 data, and it would take extensive man-hours to go back and isolate just the 2009 recoveries.

To follow-up previous prepayment system edit enhancements, 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 worked 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 and ended effective October 31, 2009. Additionally, this CSR requested that six Type of Service 1 DME procedure codes that have functioning limit parameters be associated with specific procedure code lists in MIS. This CSR was completed and the edits went into production on November 24, 2009. This implementation 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. 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 45 DME procedure codes (both Medicaid and DMA) was completed and these limit parameters were implemented on November 24, 2009.

Contact Person Responsible for Corrective Action

Don Sabol, Medicaid Health System Administrator, 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

As part of our testing, the Department requested we evaluate their analysis in consideration of the questioned costs amount. We agreed, and made additional requests for supporting documentation which was not included in the electronic system used to make determinations about the allowability of the claims. However, after several months of delays, the Department elected not to incur the time and expense required to have the AOS staff evaluate this additional information. Therefore, we cannot draw any conclusions about the accuracy or reliability of the additional analysis performed by the Department.

Finally, OMB Circular A-133 § ____ 510(a)(3) requires us to report known or projected questioned costs exceeding \$10,000. Therefore, we must report this finding, regardless of whether the questioned amount is \$471,731 or \$1,508,407.

3. MEDICAID/CHIP – SUBRECIPIENT AGREEMENTS / PAYMENTS

<i>Finding Number</i>	2009-JFS03-012
<i>CFDA Number and Title</i>	93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Allowable Costs, Cash Management, Subrecipient Monitoring

QUESTIONED COSTS

\$1,052,623

The Department is responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them, and that subrecipients administer federal awards in compliance with those requirements. These regulations are contained in Office of Management and Budget's Circular A-133, which states, in part:

Subpart D--Federal Agencies and Pass-Through Entities **§ __.400 Responsibilities.**

...

(d) **Pass-through entity responsibilities.** A pass-through entity shall perform the following for the federal awards it makes:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. MEDICAID/CHIP – SUBRECIPIENT AGREEMENTS / PAYMENTS (Continued)

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

Furthermore, 31 CFR part 205.11 (b) states “A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State’s actual and immediate cash needs.” Appendix A, section C.3.c., of 2 CFR part 225 (former OBM Circular A–87) states: “Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.”

Related to the Temporary Assistance for Needy Families (TANF) program, the A-133 Compliance Supplement issued by the Office of Management and Budget (OMB) states:

As described in III.A.1.b, “Activities Allowed or Unallowed,” States (not Tribes) may transfer a limited amount of Federal TANF funds into the Social Services Block Grant (Title XX) (CFDA 93.667) and the Child Care and Development Block Grant (CFDA 93.575). These transfers are reflected in lines 2 and 3 of both the quarterly *TANF Financial Report* ACF-196, and the quarterly *Territorial Financial Report* ACF-196-TR. The amounts transferred out of TANF are subject to the requirements of the program into which they are transferred and should not be included in the audit universe and total expenditures of TANF when determining Type A programs. The amount transferred out should not be shown as TANF expenditures on the Schedule of Expenditures of Federal Awards, but should be shown as expenditures for the program into which they are transferred.

During state fiscal year 2009, the Department disbursed approximately \$153.8 million to 88 Ohio counties for administering the Medicaid Assistance Program and the Children’s Health Insurance Program (CHIP); and approximately \$106.1 for the Social Services Block Grant (SSBG). The counties were recognized/treated as subrecipients effective January 1, 2009, and the Department entered into a Subgrant Agreement with each of the counties. The agreements included an Addendum that listed the names and amounts for the state-funded allocations, award names, amounts and years, and the Catalog of Federal Domestic Assistance (CFDA) title and number for the federal grants the Department passed through to the counties; this information was provided on a summary state-level basis. The agreement also included various attachments that contained similar information as the Addendum, but on an individual county-level basis. Although separate coding was included within the County Finance Information System (CFIS - used by the counties to report expenditure activity to ODJFS) to identify CHIP and TANF to SSBG transfers, the official binding agreements did not properly identify the necessary information related to these two activities, as noted below:

- The Department did not identify the CHIP program as a separate pass-through federal program in any of the agreements or referenced addendums/attachments. The only mention of CHIP was in a note which identified programs related to the Medicaid program.
- The Department listed the county portion of the \$72.9 million SSBG transfer as “Title XX [SSBG] – Transfer Amount” in the related attachment to the Subgrant Agreement Addendum, but it identified it as TANF funds with the related CFDA # of 93.558 on all five of the counties tested. As such, the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. MEDICAID/CHIP – SUBRECIPIENT AGREEMENTS / PAYMENTS (Continued)

Department incorrectly identified the transferred funds with the wrong federal program and CFDA number. This issue did not impact the Department's Schedule of Federal Awards which appropriately excluded the amount transferred to the SSBG program from the expenditures of the TANF program and reported the transfer as expenditures for the SSBG program.

In addition, throughout the fiscal year, the Department disbursed to the counties money to be used for administrative costs related to either the Medicaid or CHIP programs. The Department drew down money from the federal agency for the federal portion of these disbursements and coded both the drawdown of federal funds and the related disbursement of the funds to the Medicaid program. As the counties spent these funds during the quarter, the costs were allocated to the Medicaid or CHIP program, as appropriate, using Random Moment Sampling and coding provided by the Department to the counties. The counties reported a total of \$1,052,623 in federal expenditures for the CHIP program during fiscal year 2009. After each quarter, the Department performed a reconciliation of the Medicaid funds drawn and disbursed to the counties with the actual expenditures for Medicaid and CHIP reported by the counties. The Department then either drew down money from the CHIP program or used cash already in the CHIP program to reimburse the Medicaid program for the county CHIP expenditures for the quarter. This reconciliation occurred via a Voucher Activity Report and covered both the state and federal portions of the programs. However, the adjustment for all of fiscal year 2009 did not occur until December, 2009, six months after fiscal year end. The adjustment affected only the funds and grant numbers and changed the cash balances and expenditures; it did not adjust the draws or revenues for the Medicaid and CHIP programs. The Department's draw process is supposed to reduce current draw requests based on cash balances on hand. However, because the adjustment was not made until December 2009, and total expenditures were approximately \$37.5 million less than total draws for the Medicaid Cluster at June 30, 2009, we could not verify the overdrawn amount was accounted for in subsequent draw requests, resulting in questioned cost for the Medicaid Cluster of \$1,052,623.

If the Department does not accurately identify or notify its county subrecipients of the federal funds by program name and CFDA number that it passes through to them, as well as the program requirements imposed by laws and regulations, the Department cannot be reasonably assured that subrecipients are aware of the different funds/programs they are receiving and the laws and regulations to which they are required to adhere. This increases the risk that subrecipients will not accurately report funding for all of their federal programs on their Schedule of Expenditures of Federal Awards, eliminating any possibility of having single audit procedures performed on the federal program. This also increases the risk that subrecipients may not expend federal funds for allowable activities or eligible recipients and that other compliance requirements are being met. Any noncompliance by the subrecipients or Department could subject the Department to repaying those funds to the federal government, to fines and/or sanctions, or a reduction in future federal funding. In addition, if revenue is not adjusted, the risk is increased the Department's federal schedule will be misstated since the federal schedule is based on funds received from the federal grantor agencies.

Not limiting draws to the Department's immediate cash needs and/or drawing funds from an inappropriate program could result in noncompliance with federal 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.

Department personnel felt the Subgrant Agreements and associated documents, together with the coding structure for the counties to charge the CHIP program, were sufficient to meet the federal program notification requirement. Department personnel felt making the quarter adjustment was sufficient to bring the drawdown of the CHIP and Medicaid programs back into balance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. MEDICAID/CHIP – SUBRECIPIENT AGREEMENTS / PAYMENTS (Continued)

We recommend the Department accurately inform its county subrecipients of all the federal funds which it passes through to the counties, including the CHIP and SSBG programs, , as well as the laws and regulations pertaining to OMB Circular A-133 and other federal requirements in advance of, or concurrent with, the disbursement of funds to the subrecipients. One way to do this under the current structure used by the Department would be to modify the Subgrant Agreement and/or related Addendum and attachments to list the CHIP program separately and list the TANF funds transferred to the SSBG program accurately. We also recommend the Department adjust the revenues and draws for the Medicaid and CHIP programs, when performing the end of quarter adjustment, and not just the expenditures. The County Finance section should communicate the adjustment to the Cash Management section so that it can make the proper adjustment or draw for the CHIP program. Furthermore, the Department should discontinue coding federal funds, disbursed to the county subrecipients and intended for the CHIP program, to the Medicaid program. Funds intended for the CHIP program should be drawn down and coded to the CHIP program; funds intended for the Medicaid program should be drawn down and coded to the Medicaid program.

Official's Response and Corrective Action Plan

The Department has already completed voucher adjustments for the CHIP federal draws and moved the money from CHIP back to Medicaid ODJFS had/has separate financial expenditure coding for CHIP. The counties reported expenditures to the Department with this separate financial coding and therefore, the Department reported these expenditures correctly to the federal government. Beginning with SFY11 Supplemental Addendums, ODJFS will issue the CHIP funding notification to the counties with the correct CFDA number. The Department will draw down CHIP cash from the federal government and disburse the CHIP cash to the counties.

ODJFS discovered the CFDA number problem with the Title XX Transfer funding during SFY10 and corrected the problem. Therefore the Department has the correct CFDA number in the chart of accounts in the OAKS/CFIS (state) system and the correct CFDA number in the QuIC+ (county) system for SSBG transfer. In addition, OAC rules were amended to correct the CFDA number and communicate that in accordance with CFDA number 93.558, section IV, expenditures for money transferred out of TANF and into Title XX shall be shown as expenditures for the Title XX program and reported under CDFA number 93.667 on the county's schedule of expenditures of federal awards.

ODJFS will issue the CFDA number for SSBG transfer as 93.667 instead of 93.558.

Anticipated Completion Date for Corrective Action

The corrective action will go into effect July 1, 2010.

Contact Person Responsible for Corrective Action

Thomas Goard, Fiscal Officer 3, Ohio Department of Job & Family Services, 30 E. Broad Street, Columbus Ohio 43215, Phone: (614) 466-5406, e-mail: Thomas.Goard@JFS.Ohio.GOV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. INDIRECT COST ALLOCATION VARIANCE

<i>Finding Number</i>	2009-JFS04-013
<i>CFDA Number and Title</i>	17.258/17.259/17.260 – WIA Cluster 93.575/93.596 – CCDF Cluster 93.659 – Adoption Assistance
<i>Federal Agency</i>	Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	Allowable Costs/Cost Principles

QUESTIONED COSTS

\$47,847

2 CFR 225 contains general principles for determining allowable costs (republished OBM Circular A-87). Subsection F of Appendix A of the document describes indirect costs and says, in part:

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.
2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part.

It is management's responsibility to design and implement control policies and procedures to reasonably ensure indirect costs are properly identified and allocated. In order to charge indirect costs to the related programs appropriately, it is essential that the proper base amounts be used and the allocation methods be applied in accordance with the approved plan.

During fiscal year 2009, the Department utilized a public assistance cost allocation plan (CAP) with 85 cost pools to allocate approximately \$401,226,088 in costs to various programs. The plan, as approved by the federal grantor agency, used various defined base costs and allocation methods which differed from cost pool to cost pool. However, for one of five tested costs pools, ODJFS used base amounts (payroll statistical data) that did not agree with the supporting documentation on the cost allocation schedule. The variances identified occurred for the quarter ending March 31, 2009, for cost pool 84 - MIS Enterprise Staff Cost Pool. To determine the quarterly distribution basis of this cost pool, a Fiscal Specialist extracts effort reporting data recorded by staff assigned to the cost pool from the Timekeep effort reporting system into an Excel spreadsheet. To this data in the spreadsheet, he adds columns to determine percentages for each program Reporting Chartfield within the cost pool by dividing the number of hours coded to each program Reporting Chartfield by the total hours coded to all Reporting Chartfields for the cost pool. These percentages are then used to distribute the total costs incurred by the cost pool to each program Reporting Chartfield. One or more Reporting Chartfields relate to a federal program. Management within the divisions charging to the cost pool revised the effort reporting statistics (base amounts) in the Timekeep system after the data should have been "closed" and the initial allocation was made. The revision was not communicated to the cost allocation unit. The table below shows the difference between what was charged initially and what should have been charged to the component

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. INDIRECT COST ALLOCATION VARIANCE (Continued)

programs in the cost pool, if the appropriate basis had been used in the allocation. In some cases, the allocated costs were more than what they should have been and, in other cases, the charges were less than what they could have been. Negative amounts consist of excessive costs charged and result in questioned costs for three of the major programs listed, for a total of \$47,847.

CFDA Number	Program	(Over)/ Under cost
10.551/10.561	SNAP Cluster	37,619
17.225	Unemployment Insurance	30,278
17.258/17.259/17.260	WIA cluster	(7,486)
93.558	Temporary Assistance for Needy Families	113,565
93.563	Child Support Enforcement	756,096
93.575/93.596	CCDF Cluster	(31,448)
93.658	Foster Care	508,865
93.659	Adoption Assistance	(8,913)
93.667	Social Services Block Grant	67,767
93.775/93.777/93.778	Medicaid Cluster	15,765
Various	Non-major programs	54,123
N/A	State programs	(1,563,230)

As a result, the Department did not allocate the proper costs to the federal and non-federal programs within cost pool 84. Incorrectly charging expenditures to federal programs could subject the Department to fines and/or penalties from the grantor agencies, especially for overages. Management stated the initial allocation was based on effort reporting statistics (base amounts) in the Timekeep system, which were later revised by the divisions charging to the cost pool after the data should have been "closed". The revision was not communicated to the cost allocation unit, which stated that it would make adjustments in a subsequent quarter, when it learned of the revisions.

We recommend the Department review the supporting documents related to all cost pool bases, before or after making the allocation, to help ensure the appropriate supporting amounts are used in the bases to allocate the indirect costs to the federal programs. All revisions to the supporting documents should be made before the designated "closing" period and, if not, then the person(s) making revisions should communicate the changes timely to the cost allocation unit. We also recommend the Department make adjustments to the federal programs to accurately report the true expenditures of the federal programs for the year. This step should be performed not only for the quarter noted above, but for all quarters affected by the allocation errors. In addition, we recommend the Department establish and/or strengthen policies and procedures to periodically monitor and determine that the correct base amounts are used in the allocation process in accord with the CAP. These procedures should include documentation and approval of the procedures performed by an appropriate supervisor.

Official's Response and Corrective Action Plan

We do not agree with this finding. Due to the time constraints involved with the production of cost data for federal reporting purposes, the administrative cost report must be produced within three weeks of the end of the calendar quarter. This requires the cost allocation unit to produce a version of the administrative cost report for immediate use for federal reporting purposes. It is ODJFS' practice to revise allocations to federal and non-federal programs when the data supporting the allocations has been revised. These revisions are made through forwarding the revised allocation amounts to federal reporting staff with a letter summarizing changes that need to be made. Generally, the final revision is sent to federal reporting staff after the CMS auditors have reviewed a given quarter (approximately six months after the original Administrative Cost Report (ACR) processing quarter being adjusted).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. INDIRECT COST ALLOCATION VARIANCE (Continued)

The audit suggests that ODJFS did not allocate the proper costs to federal and non-federal programs within cost pool JFS0018400 for the quarter ending March 31, 2009. However, an adjustment to the January-March 2009 Administrative Cost Report was submitted to the Bureau of Federal Financial Reporting on October 1, 2009 to revise allocated costs and/or statistics for several cost pools including JFS0018400. The revisions to cost pool JFS0018400's statistics were based on the same revised effort reporting statistics referred to in the audit letter. (Please note that the description of the JFS0018400 adjustment was omitted from the text of the letter, but the adjustment figures for cost pool JFS0018400 were contained in the data portion of the revised ACR.)

It is ODJFS' practice to actively monitor effort reporting statistics on a monthly basis to ensure that statistics being gathered to form allocation bases for effort reporting cost pools fall within an expected range. The fiscal specialists in the cost allocation unit contact Timekeep coordinators in program offices when unexpected values are found in order to determine the cause of any outlier results. The monitoring includes a review for any changes made by program staff to previously recorded Timekeep results, which are subsequently incorporated into a revised ACR for each quarter.

In addition to monitoring by cost allocation staff, actions taken by the agency to ensure proper time reporting practices are in place include providing instructions on proper time reporting practices to its managers and staff as well as continuing to emphasize their importance through regular employee meetings and training.

Anticipated Completion Date for Corrective Action

NA

Contact Person Responsible for Corrective Action

Mark Wilson, Section Chief, Cost Management Section, Ohio Department of Job & Family Services, 30 E Broad Street, 38th floor, Columbus, OH 43215, Phone: (614) 466-1641, E-Mail: Mark.Wilson@jfs.ohio.gov

Auditor of State's Conclusion

The adjustments noted by the Department did not occur until we identified this issue as part of our audit fieldwork which occurred substantially after the end of the audit period. However, the documentation to support the adjustment was not provided in a timely manner to allow the Auditor to evaluate it. Therefore, we cannot draw any conclusions about the accuracy or reliability of the adjustments made by the Department.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. MEDICAID/CHIP – MISSING CASE FILES – HAMILTON COUNTY

<i>Finding Number</i>	2009-JFS05-014
<i>CFDA Number and Title</i>	93.775/93.777/93.778 – Medicaid Cluster 93.767 – Children's Health Insurance Program
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Eligibility

QUESTIONED COSTS

\$36,620

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. . . .

As a subrecipient of ODJFS, the Hamilton County Department of Job & Family Services (HCDJFS) 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 Medicaid and Children's Health Insurance (CHIP) 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 HCDJFS for two of the 20 CHIP case files selected for testing and one of the 10 Medicaid case files selected for testing. HCDJFS 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 2009, or \$36,620 (two CHIP recipients, totaling \$32,723 and one Medicaid recipient, totaling \$3,897 - 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, HCDJFS 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 Hamilton 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.

We recommend ODJFS work with HCDJFS management to ensure they have current policies and procedures and/or implement new control procedures to reasonably ensure all case files have adequate supporting documentation to support the benefit payments made to eligible recipients. ODJFS should communicate to Hamilton County management and their staff the importance of these policies and procedures and ensure the procedures are carried out as intended. In addition, ODJFS management should perform periodic reviews of the case files to reasonably ensure established controls and record retention procedures are being followed by HCDJFS personnel.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. MEDICAID/CHIP – MISSING CASE FILES – HAMILTON COUNTY (Continued)

Official's Response and Corrective Action Plan

ODJFS/OHP County TA and Compliance staff will hold a conference call with Hamilton CDJFS administrators to discuss the findings. The call will be scheduled by June 11, 2010.

ODJFS/OHP County TA and Compliance staff will work with Hamilton CDJFS to develop a plan of corrective action, due by June 30, 2010. This plan will include written processes and procedures to assure case file documentation to support eligibility determinations is available for all auditing purposes.

ODJFS/OHP County TA and Compliance staff will monitor the plan of corrective action on a quarterly basis, making contact with the county, to assure progress of the plan is in adherence with the anticipated dates of completion.

ODJFS/OHP County TA and Compliance staff will provide quarterly updates on the status of Hamilton CDJFS' plan.

Anticipated Completion Date for Corrective Action

ODJFS/OHP County TA and Compliance staff will hold a conference call with Hamilton CDJFS administrators to discuss the findings. The call will be scheduled by June 11, 2010.

Hamilton CDJFS will complete a plan of corrective action, reviewed by ODJFS/OHP County TA and Compliance, by June 30, 2010.

ODJFS/OHP County TA and Compliance staff will review the progress of the corrective action plan quarterly. County TA and Compliance staff will document progress in the following months: October, 2010; January, 2011; April, 2011; July, 2011.

Contact Person Responsible for Corrective Action

Angie Simms, County TA and Compliance Manager, Ohio Department of Job & Family Services, 50 W. Town Street, 5th Floor, Suite 400, P.O. Box 182709, Columbus, Ohio, 43218-2709, Phone: (614) 752-3596, E-Mail: Angie.Simms@jfs.ohio.gov

6. CHIP – INELIGIBLE RECEIPT

Finding Number	2009-JFS06-015
CFDA Number and Title	93.767 – Children's Health Insurance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS

\$9,680

42 CFR 457.320 states, in part:

(a) *Eligibility Standards.* To the extent consistent with title XXI of the Act and except as provided in paragraph (b) of this section, the State plan may adopt eligibility standards for one or more groups of children related to –

...

(2) Age (up to, but not including, age 19).

...

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

6. CHIP – INELIGIBLE RECIPIENT (Continued)

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 CHIP, the individual must be less than 19 years old unless they meet specific exemption criteria. An CHIP recipient will remain eligible through the end of the month in which he or she turns 19. CRIS-E is designed to generate an alert notifying the county worker of an individual about to turn 19, at which time the worker is responsible to re-determine eligibility. However, there are no subsequent edits or monitoring procedures in place to verify the re-determination was performed timely. Three of 60 CHIP recipients tested were not eligible to receive CHIP benefits on the date of service. The recipients exceeded the maximum allowable age for the CHIP program and there was no evidence to indicate they met any of the exemption criteria for all or a portion of the period. Therefore, we will question all costs associated with the services provided for the individuals during the times they were ineligible, totaling \$9,680 (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 CHIP claims resulting in inaccurate payments to providers. Payments on behalf of ineligible recipients may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. ODJFS management agreed the recipients were not eligible for CHIP during the dates of service. Management indicated they relied on the county case worker responsible for the case to re-determine eligibility.

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 CHIP 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 CHIP 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.*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

6. CHIP – INELIGIBLE REECEIPT (Continued)

- *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 of this type are found throughout the year, OHP will work with the CDJFS to complete a plan of corrective action to address the findings. The corrective action plan will then be monitored for four calendar quarters.*
- *County Technical Assistance staff will compile, and post on the County Resource page, frequently asked questions and responses regarding children aging out of CHIP, completing a Pre-termination Review, and the importance of working alerts timely.*
- *All three recipients were eligible for Medicaid under a different category during the time frames that the AOS is saying they were ineligible. There was never a lapse in their eligibility. Supporting documentation is available at OHP upon request.*

Anticipated Completion Date for Corrective Action

- *Video conference training will be completed by June 30, 2011 with all CDJFS offices.*
- *Medicaid Matters Newsletter information will be available to all CDJFS offices by July 1, 2011.*
- *Case reviews will be completed quarterly through March 31, 2011. If further case errors of this type are found throughout the year, OHP will work with the CDJFS to complete a plan of corrective action to address the findings. The corrective action plan will then be monitored for four calendar quarters.*
- *Compilation of frequently asked questions will be completed by December 31, 2010.*

Contact Person Responsible for Corrective Action

Angie Simms, County TA and Compliance Manager, Ohio Department of Job & Family Services, 50 W. Town Street, 5th Floor, Suite 400, P.O. Box 182709, Columbus, Ohio, 43218-2709, Phone: (614) 752-3596, E-Mail: Angie.Simms@jfs.ohio.gov

Auditor of State's Conclusion

The Department indicates these individuals had continuing eligibility in Medicaid; however, the benefits were paid from CHIP. These individuals were not eligible for CHIP for the periods in question. While the benefit amounts may have been proper, the beneficiaries were paid from the wrong program, which violates Federal allowable cost principles. Therefore, the finding remains as stated above.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

7. TANF – EARLY LEARNING INITIATIVE MISSING CASE FILE - FRANKLIN COUNTY

<i>Finding Number</i>	2009-JFS07-016
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Eligibility

QUESTIONED COSTS

\$7,623

42 USC 602(a), states, in part:

- (a) General – As used in this part, the term “eligible State” means, with respect to a fiscal year, a State that, during the 27-month period ending with the close of the 1st quarter of the fiscal year, has submitted to the Secretary a plan that the Secretary has found includes the following:

- (1) Outline of family assistance program. —

- (A) General provisions. – A written document that outlines how the State intends to do the following:

- (i) Conduct a program, designed to serve all political subdivisions in the State (not necessarily in a uniform manner), that provides assistance to needy families with (or expecting) children and provides parents with job preparation, work and support services to enable them to leave the program and become self-sufficient.

...

The State Plan states, in part:

In Ohio, the Early Learning Initiative provides early care and education services to young children in order to prepare them for successful entry into school. Eligible participants are preschool children who are part of an Ohio Works First assistance group or preschool children whose parent(s) are employed with income at or below 200% of the 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

7. TANF – EARLY LEARNING INITIATIVE MISSING CASE FILE - FRANKLIN COUNTY (Continued)

(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, in part:

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 must be maintained by the County Department of Job and Family Services to provide evidence that controls performed by the County over the TANF program have been performed, to provide back-up documentation for the case activity input into the 3299 system, and to demonstrate the Department is complying with federal rules and regulations.

The TANF Early Learning Initiative (ELI) program provides children who are often at risk of school failure with educational experiences that will help them enter kindergarten ready for success and meets the child care needs of working families. Each county is responsible for determining eligibility, processing applications for the clients, entering the appropriate information onto the 3299 system, coordinating services to the clients, and maintaining appropriate documentation in each case file.

Testing of eligibility could not be performed at Franklin County Department of Job and Family Services (FCDJFS) for one of 11 (9%) case files selected for testing. FCDJFS was not able to provide the case file 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 \$7,623 (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 supporting documentation could and did result in questionable benefit payments and increase the risk that payments could be made to ineligible clients.

According to Franklin County management, the missing case file was attributed to a filing error. There was a relocation of files from the North Center (where the case originated) to the South Center, where Content Manager, an imaging system, was being implemented. The case may have been lost during this relocation.

We recommend ODJFS work with FCDJFS management in reviewing current policies and procedures and/or implementing new control procedures to reasonably ensure case files have adequate documentation to support benefit payments made to eligible recipients. ODJFS should communicate to Franklin County management and their staff the importance of these policies and procedures and ensure the procedures are carried out as intended. In addition, ODJFS management should perform periodic reviews of the case files to help ensure established controls and record retention procedures are being followed by FCDJFS personnel.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

7. TANF – EARLY LEARNING INITIATIVE MISSING CASE FILE - FRANKLIN COUNTY (Continued)

Official's Response and Corrective Action Plan

FCDJFS is open to working with ODJFS in establishing realistic controls and record retention procedures to further mitigate potential findings in this area.

The missing case file was attributed to a filing error. There was a relocation of files from the North Center (where the case originated) to the South Center, where Content Manager, an imaging system, was being implemented. The case may have been lost during this relocation.

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 actions outline the steps 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

Esther Adkins, Assistant Director, Franklin County Department of Job & Family Services, 80 E. Fulton St., Columbus, OH 43215, Phone: (614) 462-6066, E-Mail: eaadkins@fcdjfs.franklincountyohio.gov

8. CCDF CLUSTER – CASH MANAGEMENT

<i>Finding Number</i>	2009-JFS08- 017
<i>CFDA Number and Title</i>	93.575/93.596 – CCDF Cluster
<i>Federal Agency</i>	Department of Health & Human Services
<i>Compliance Requirement</i>	Cash Management

QUESTIONED COSTS

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 and Development Fund (CCDF) federal program (CFDA 93.596), by stating that "For the Matching Fund's (CFDA 93.596) [cash management] requirement, the drawdown of Federal cash should not exceed the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

8. CCDF CLUSTER – CASH MANAGEMENT (Continued)

federally funded portion of the State's Matching Funds, taking into account the State matching requirements. ..." Although both the Mandatory and Matching Funds are contained in the CFDA 93.596 portion of the CCDF cluster program, this cash management requirement applies to only the Matching Fund, similar to the matching requirement of the program.

During state fiscal year (SFY) 2009, the Ohio Department of Job and Family Services (ODJFS) received reimbursements of \$183,016,521 related to the CCDF Cluster, \$162,332,724 of which related to the Mandatory and Matching Funds portion for CFDA 93.596. However, ODJFS was not able to document their compliance with the applicable cash management provisions pertaining to the Matching Fund. Since the Child Care Matching Funds were accounted for in the Ohio Administrative Knowledge System (OAKS) using the same grant number as the Child Care Mandatory Funds (which were 100% Federal with no State match required), it was not possible when drawing down funds to make a distinction between which revenues were intended to cover Matching Fund expenditures and which were considered Mandatory. As such, federal funds were drawn down for the program, as a whole, without a distinction between the Matching and Mandatory funds. 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 2008 and 2009 grants exceeded corresponding expenditures for two of the four quarters during the SFY, as detailed in the table below. The table is based on an analysis prepared by ODJFS and assumed the draws equaled the expenditures for the Mandatory Fund for each quarter. The difference between that amount and the total draws per quarter was assumed to be attributable to the Matching Fund. The expenditure amounts include both direct and indirect (pooled) costs. When considering these assumptions, the Department was not in compliance with the specific cash management guidelines stated above for the quarters ended September 30, 2008, and March 31, 2009. However, based on the lack of support for these assumptions and distinct coding for each Fund, along with documentation issues identified, we were not able to determine the Department's compliance with the specific cash management guidelines for the remaining quarters; nor were we able to identify a specific amount by which draws exceeded federal expenditures for the Matching Fund alone throughout the year. Therefore, we will question costs of an undetermined amount for the Child Care Cluster.

FFY	OAKS Grant #	Quarter Ending	Federal Draws	Expenditures	Variance
		Mandatory Fund	\$17,531,164	\$17,531,164	
		Matching Fund	30,580,538	28,048,164	
2008	JFSFCM08	September 30, 2008	48,111,702	45,579,328	2,532,374
		Mandatory Fund	15,700,150	15,700,150	
		Matching Fund	29,788,961	30,424,329	
2009	JFSFCM09	December 31, 2008	45,489,111	46,124,479	(635,368)
		Mandatory Fund	19,362,178	19,362,178	
		Matching Fund	22,417,853	12,005,165	
2009	JFSFCM09	March 31, 2009	41,780,031	31,367,343	10,412,688
		Mandatory Fund	17,531,164	17,531,164	
		Matching Fund	5,275,557	18,237,461	
2009	JFSFCM09	June 30, 2009	22,806,721	35,768,625	(12,961,904)
Totals			\$158,187,565	\$158,839,775	(652,210)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

8. CCDF CLUSTER – CASH MANAGEMENT (Continued)

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 and Mandatory Funds revenues and expenditures to help ensure compliance with applicable regulations. 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. We believe the matching funds should be looked at on an annual basis rather than quarterly. If you use this theory, we were under drawn for matching funds for SFY09 by \$652,210 as represented on the worksheet included in your finding.

Anticipated Completion Date for Corrective Action

Based on the fact that we disagree with the finding, no corrective action plan is being submitted. However, we will contact the cognizant agency to get a ruling on whether the matching funds should be compared on a quarterly or annual basis. Additionally, a new system is being development for payment of child care expenditures. We will look into the possibility of building various payment types into this report for tracking. Completion of this report and contact with the cognizant agency will be completed during SFY11.

Contact Person Responsible for Corrective Action

Jim Holmes, Fiscal Officer 2, Ohio Department of Job & Family Services, 38 E Broad St, 38th Floor, Phone: (614) 466-8473, E-mail: james.holmes@jfs.ohio.gov

Auditor of State's Conclusion

As noted above, during fiscal year 2009, the coding used by the Department did not distinguish between the two programs of the Cluster. As a result, we could not substantiate the information related specifically to CFDA #93.596, regardless of whether we used a quarterly or annual basis for the analysis. Although the Department may have met the matching requirement, as they state above, since they comingled their Federal cash draws for both programs in this cluster, they were drawing Federal cash when State matching funds should have been used. This violates the cash management requirement. Therefore, the finding remains as stated above.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

9. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION

<i>Finding Number</i>	2009-JFS09-018
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – Children’s Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

QUESTIONED COST AND SIGNIFICANT DEFICIENCY

Undetermined Amount

7 CFR 272.8(e) states:

Documentation. The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

7 CFR 273.2(f)(6) states:

Documentation. Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

45 CFR 205.56(a)(1)(iv) states, in part:

For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

The Income and Eligibility Verification System (IEVS) compares income, as reported by the recipients, to information maintained by outside sources. Information which does not appear to agree is communicated in the form of a CRIS-E alert forwarded to the appropriate county for investigation; the results of the investigation are to be documented in CRIS-E. This documentation includes running record comments, resolution codes, and other supporting screens such as budget and employment history screens used in the determination of benefits. Through the resolution of IEVS alerts, budget and employment information may be updated, resulting in the recipient’s eligibility determination being re-performed. An adjustment of eligibility for all program benefits could occur. However, the IEVS documentation was not consistently maintained in CRIS-E. Of the 60 matches tested for the six selected counties (Cuyahoga, Franklin, Hamilton, Lucas, Ashland, and Greene):

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

9. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

- 48 impacted multiple programs. Eight of these 48 applicable matches (16%) had not been resolved properly for all programs. Five of the eight matches did not have an impact on eligibility or the benefit amounts. Three of the eight matches (all at Hamilton County) potentially affected the TANF, Medicaid, CHIP, and/or SNAP eligibility of the associated recipients. As of 5/26/10, ODJFS had initiated the process to research and identify any eligibility impact, but had not yet come to a determination of the total dollar impact. Therefore, an undetermined amount is questioned for the TANF, Medicaid, CHIP, and SNAP programs.
- 15 contained result codes which required supporting documentation to be retained in the CLRC running comments screen. Documentation for nine of these 15 matches (60%) did not appear to be properly documented within the CLRC screen. These exceptions did not have an impact on eligibility or the benefit amounts.
- 10 of 60 matches (16%) did not have proper result codes. Eight of the 10 had no result code at all, and the remaining two had a result code of “Q” (“no effect – information already know”). The two with result code of “Q” were Bendex matches and should have had a code of “P” (“no effect – client not on assistance”). These exceptions did not have an impact on eligibility or the benefit amounts.

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved in accordance with standards, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts.

ODJFS management indicated the noncompliance 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. These documentation requirements should be explicitly identified in the sub-grant agreements with the counties and include appropriate ramifications for noncompliance with the stated requirements. We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the requirements.

Official's Response and Corrective Action Plan

During the last fiscal year, the Department provided three (3) IEVS video conference training session. The first session, IEVS Basic Training was held on November 23, 2009; the second session, Intermediate IEVS Training, was held January 26, 2010; and the third session, IEVS Supervisor Training, was held March 30, 2010. These training sessions provided detailed information on processing IEVS alerts,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

9. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

documentation requirements, and how to manage the process. In addition, the Fraud Control staff has been working with the counties on an individual basis, offering technical assistance and individualized training as needed.

The Department is monitoring the IEVS processing timeliness rates through the GDE090RA reports and contacting counties when the delinquency rate is above the acceptable limit. All counties receive an on-site review of the IEVS processing and case reviews triennially. The Department will continue to monitor the counties and provide technical assistance and guidance as necessary. Counties found consistently out of compliance with the timeliness of processing guidelines will be required to complete a continuous improvement plan.

Anticipated Completion Date for Corrective Action

The monitoring and technical assistance activities will be on-going.

Contact Person Responsible for Corrective Action

Diana Skinner, Administrative Officer 3, Ohio Department of Job & Family Services, 4020 E. Fifth Ave. Columbus, OH 43216-1618, Phone: (614)466-8009, E-Mail: Diana.skinner@jfs.ohio.gov

10. FEDERAL FINANCIAL REPORTS

<i>Finding Number</i>	2009-JFS10-019
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558 – Temporary Assistance to Needy Families 93.563 – Child Care Enforcement 93.575/93.596 – Child Care Cluster 93.658 – Foster Care – Title IV-E 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.767 – Children’s Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	Reporting

NONCOMPLIANCE

45 CFR 92 contains the Department of Health and Human Services uniform administrative requirements for grants to state and local governments. The Department of Agriculture prepared similar uniform administrative requirements in 7 CFR 3016. 45 CFR 92.20 relates to financial administration and contains standards for financial management systems. Specifically, section 92.20 states, in part:

- (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—
 - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. FEDERAL FINANCIAL REPORTS (Continued)

Per the associated grant awards, federal regulations, and other guidance for the federal programs that it administers, ODJFS is required to prepare and submit various financial reports to the awarding federal agencies. Most of these reports contain specific instructions on how to prepare the related report which the federal program requires and what must be reported as expenditures for the program. It is management's responsibility to design and implement control policies and procedures to reasonably ensure that required reports are completed accurately, in accord with the specific instructions, and submitted when due.

ODJFS has employed a state-supervised, county-administered approach for each of the nine major federal programs listed above. Under this approach, historically these programs were considered to be an extension of ODJFS and included within the State of Ohio's reporting entity and related single audit report, even though county financial information was not otherwise incorporated into the State's financial statements. As a result, ODJFS included the actual expenditures of the counties in the federal financial reports which it submitted to the federal grantor agencies. However, effective January 1, 2009, the Department changed the recognition of the county level operations to be that of a subrecipient. This change required the counties report the operations and financial activities of these nine federal programs within their individual county's single audit.

Although the change in recognition was effective January 1, 2009, ODJFS continued to prepare the federal financial reports after that date using the same universal methodology for all programs by incorporating the actual expenditures from the counties in the Department's federal reports. This is contrary to the instructions for the SF-269 report, applicable to the SNAP Cluster, which states "Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to subrecipients and contractors." In addition, it is not clear if this method is in accordance with the instructions for other required financial reports which are less explicit. For example, the instructions for the ACF-696 report, applicable to the Child Care Cluster, states reported expenditures "... must be actual obligations or expenditures made under the State's plan and in accordance with all applicable statutes and regulations." Therefore, it is not clear if ODJFS complied with the reporting requirements for the other programs.

Incorrectly reporting expenditures on the federal reports could subject the Department to fines and/or penalties from the grantor agencies. In addition, noncompliance could subject the Department to the repayment of current awards or the loss of future awards. Management indicated they didn't think a change in their reporting practice was necessary as of January 1, 2009, because they had not changed any of their other procedures related to how these activities were processed. They also indicated they believed there would not be a material difference between the amounts disbursed at the counties and the amounts disbursed by the Department to these subrecipients; however, no documentation was readily available to support this position.

We recommend the Department review the instructions for preparing each required federal financial report and follow the directions therein for completing the federal reports that it submits to the federal agencies. If there are no instructions to the reports or the reports don't address this issue concerning federal funds disbursed to subrecipients, we recommend ODJFS contact the awarding federal agency and obtain written guidance from it about what should be included in the reports.

Official's Response and Corrective Action Plan

ODJFS gives a high priority to the department's compliance with applicable federal reporting requirements. However, the lack of specificity in the text of the audit finding, make it difficult to identify possible corrective action. The only specific instance cited in the text references the instruction sheet provided with the SF-269 for the Food Stamp Cluster, which is under the aegis of the United States

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. FEDERAL FINANCIAL REPORTS (Continued)

Department of Agriculture (USDA). However, the language of that document contains language inconsistent with prior communications to ODJFS by representatives of the USDA. It has been our experience that changes in printed materials issued by the federal government may trail operational changes.

While necessary adjustments have been made to provide for the audit of county family services agencies' administration of federal programs at the local level, the Auditor of State's report does not identify a logical nexus between this change in the audit approach and a need for a change in the department's federal reporting. While the Auditor of State chooses to characterize the resulting situation as a lack of clarity as to whether ODJFS is in compliance with federal reporting requirements, it appears equally valid to conclude that no evidence has been adduced to support a conclusion that the department is not compliant with federal reporting requirements. When this issue was raised during the course of audit fieldwork, the department contacted our major federal awarding agencies and was advised that the reporting methodology used by the department was correct.

In light of the uncertainty resulting from the audit finding, ODJFS will once again contact our federal awarding agencies to determine whether they consider a change in established reporting procedures to be necessary or desirable. If their position has changed, ODJFS will make the necessary adjustments to conform to the new requirements.

Anticipated Completion Date for Corrective Action

Due to the nature of the audit finding and the lack of specificity as to whether any non-compliance does, in fact, exist, it is not possible to provide a meaningful date for corrective action. The department will act expeditiously to review the applicable requirements and consult with our federal awarding agencies. Completion of this process is dependent, to a significant extent, upon the timing and nature of the responses from multiple federal awarding agencies, matters beyond the control of ODJFS. However, subject to these uncertainties, we consider it reasonable to assume that the process, including corrective action, if any is necessary, will be completed within six months of the issuance of the audit report.

Contact Person Responsible for Corrective Action

Penni Jones, Acting Bureau Chief, Grants Management and Federal Reporting, Ohio Department of Job & Family Services, 30 East Broad Street, 38th Floor, Columbus, OH 43215, Phone: (614) 466-4928, E-Mail: Penni.Jones@jfs.ohio.gov

Auditor of State's Conclusion

The Department indicates there is not enough specific information in the comment to identify required corrective action. However, the instructions for each individual report are included with the report and available to the Department (these were too voluminous to include here). As stated in the comment, these instructions were not explicit with regard to the reporting of subrecipient activities and no clarification was provided to the AOS by HHS; therefore, we could not determine if the Department complied with reporting requirements for the HHS programs.

Since the Department's recognition of the relationships with the counties did change as of January 1, 2009, the Department must re-evaluate the method they use to compile these reports. As stated above, noncompliance was evident for the SNAP (Food Stamp) Cluster. Although the Department did contact the federal grantor agencies, the question posed related to the Schedule of Federal Awards Expenditures and not the federal financial reports referenced in this finding. However, we do appreciate the Department's willingness to obtain further clarification on this issue. The finding remains as stated above.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

11. VARIOUS PROGRAMS – CASH MANAGEMENT

<i>Finding Number</i>	2009-JFS11-020
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance 93.575/93.596 – Child Care Cluster 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	Cash Management

NONCOMPLIANCE

31 CFR part 205.11 (b) states that:

A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs."

In addition, U.S. Treasury regulations, 31 CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), requires state recipients to enter into agreements which prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The Unemployment Insurance (UI), Child Care Cluster (CCDF), Adoption Assistance (AA), Social Services Block Grant (SSBG), and Medicaid Cluster (MED) programs are covered by such an agreement. The fiscal year 2009 CMIA Agreement between the State of Ohio and the United States Department of the Treasury specifically requires the State to use the Pre-Issuance technique of drawing federal funds for certain types of draws related to these programs. Other federal programs and other types of draws for the federal programs listed above employ various other funding techniques described in the CMIA agreement. Paragraph 6.2.1 of the CMIA agreement requires the following for the Pre-Issuance funding technique:

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.

During the fiscal year, ODJFS drew down \$118,583,572, \$184,458,425, \$186,197,002, \$112,955,763, and \$9,614,186,653, for the UI, CCDF, AA, SSBG, and MED federal programs, respectively. The Department applied the same draw down process to all of its federal programs. Generally, a Fiscal Specialist in the Federal Cash Draw Unit of the Bureau of Cash and Cost Reporting Services calculated the amount of funds to be drawn based on the Department's cash needs (payroll, administrative costs, county advances, etc.) and the current availability of funds. The Department did not limit the drawdown of funds to its actual and immediate cash needs for one of the 51 items tested. This item, which was not a part of the six exceptions mentioned below, was related to the Adoption Assistance program. Supporting documentation for this draw showed the draw was \$341,162 more than the request or need. The Department didn't provide evidence of making an adjustment for this specific overdrawn amount; however, total expenditures were approximately \$4.5 million more than total draws for the award at June 30, 2009, suggesting the overdrawn amount was accounted for in subsequent draw requests.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

11. VARIOUS PROGRAMS – CASH MANAGEMENT (Continued)

In addition, 34 of the 51 draw down transactions selected for testing were required to use the Pre-Issuance method. However, six draws related to the programs listed above did not disburse the federal funds received within three days of the receipt of the funds, as required for by the Pre-Issuance method for these six transactions. ODJFS disbursed the funds four to six days after receiving them, with the average disbursement occurring five days later.

Not limiting draws to the Department's immediate cash needs and the untimely expenditure of funds 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. Department management could not identify any specific reason for the late disbursements other than a longer time to process the disbursement and stated the overdrawn amount was due to human oversight and a mathematical error.

We recommend the Department evaluate its current cash management control procedures and update them as necessary to reasonably ensure all federal draw requests are disbursed timely and are drawn only for immediate cash needs, based on the funding technique established for each program in the CMIA Agreement or appropriate federal regulation. We also recommend the Department establish procedures to periodically monitor its compliance with the cash management requirements and initiate necessary actions to resolve any noncompliance that results.

Official's Response and Corrective Action Plan

Draws must be completed the day the transaction hits the system. If there is an agency or allotment control issue after the transaction went into the system this could cause the cash to be held until the issue is resolved. Staff will be re-trained on current CMIA requirements.

Anticipated Completion Date for Corrective Action

This training will take place within the next quarter of 2010.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

12. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

<i>Finding Number</i>	2009-JFS12-021
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

NONCOMPLIANCE

7 CFR 272.8(c)(2) states the following regarding SNAP (formerly Food Stamps) IEVS alerts:

State agencies must initiate and pursue the actions on recipient households specified in paragraph (c)(1) of this section so that the actions are completed within 45 days of receipt of the information items. Actions may be completed later than 45 days from the receipt of information if:

- (i) The only reason that the actions cannot be completed is the nonreceipt of verification requested from collateral contacts; and
- (ii) The actions are completed as specified in § 273.12 of this chapter when verification from a collateral contact is received or in conjunction with the next case action when such verification is not received, whichever is earlier.

In addition, OAC 5101:4-7-09 (Q)(4) outlines the following guidelines for SNAP IEVS alerts:

County agencies shall initiate and pursue the actions specified in this paragraph of this rule so that the actions are completed within 90 days from receipt of the information.

45 CFR 205.56(a)(1)(iv) states the following regarding TANF 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.

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). 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. ODJFS established their own targeting system to prioritize and process IEVS matches and is responsible for accurately setting the case

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

12. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

action due dates for high priority IEVS alerts in CRIS-E in accordance with the Ohio Administrative Code. For SNAP high priority alerts, the due date should be set to 90 days after the match date; 45 days for TANF and Medicaid. During fiscal year 2009, 414,284 high priority alerts were processed, 182,085 of which related to SNAP. However, CRIS-E showed the due date was not set to the mandated timeframe for two of the 30 SNAP high alerts tested. One alert had the due date set to 45 days while another alert had the timeframe set to 179 days.

In addition, during the fiscal year 2009 audit, six 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, Ashland, and Greene counties represented approximately 37% of the nearly three million annual IEVS high priority alerts issued in state fiscal year 2009. From a sample of 60 IEVS high priority alerts tested, 13 (22%) 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 Franklin and Ashland. Of the 13 delinquent high priority alerts:

- Two were resolved one - 50 days beyond the due date.
- Four were resolved 51 - 500 days beyond the due date.
- Seven contained no evidence to indicate the alert had been addressed.

Note: No additional recipient benefits appeared to be issued as a result of these errors.

By incorrectly recording due dates beyond the state-mandated timeframe for IEVS high priority alerts, counties run the risk of failing to report uncompleted alerts as delinquent and incorrectly determining benefits based on out-of-date information. By incorrectly reporting due dates before the state-mandated timeframe for IEVS high priority alerts, counties run the risk of incorrectly reporting alerts as delinquent. This could cause unnecessary and costly delinquency remediation efforts.

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.

The Beneficiary and Earnings Data Exchange, BENDEX, is one of several outside data sources used by ODJFS to provide income information for federal program applicants. According to ODJFS management, when a CRIS-E database checkpoint restart occurred, the required information for BENDEX alerts was not saved. Thus, if an alert was being created during a checkpoint, it saved the wrong dates. The responsible database program was changed to save all three levels of the database segment and implemented into production March 2009. Both alert due date errors selected occurred before this date.

ODJFS management also indicated the alert resolution delinquencies were caused by:

- A lack of cooperation and timely response from employers which delays the receipt of information necessary to complete the alerts timely and accurately.
- An increase in the county case load size which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.
- The Department's limited ability to enforce control policies and procedures at the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

12. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

We recommend all IEVS alerts' due dates be set in accordance with Ohio Administrative Code, and 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. Such requirements should be explicitly identified in the sub-grant agreements with the counties and include appropriate ramifications for noncompliance with the stated requirements. We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the due date requirements.

Official's Response and Corrective Action Plan

- *County Technical Assistance and Compliance staff will review alert due dates per Medicaid policy and ensure they are correct.*
- *County Technical Assistance and Compliance staff will facilitate quarterly meetings with the CDJFS agencies to implement procedures to ensure timely IEVS alert processing.*
- *OHP will request submission of information to verify CDJFS agency administrators are monitoring the completion of IEVS alerts.*

Anticipated Completion Date for Corrective Action

- *Staff will review alert due dates to ensure they are correct by December 31, 2010.*
- *Staff will facilitate quarterly meeting with the CDJFS agencies. This will be completed by June 30, 2011.*
- *OHP will request submission of information to verify CDJFS agency administrators are monitoring the completion of IEVS alerts. Submission will be semi-annually and completed by June 30, 2011.*

Contact Person Responsible for Corrective Action

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13. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

<i>Finding Number</i>	2009-JFS13-022
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services Department of Labor
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

Federal regulations allow, and in some cases require, states to utilize computer systems for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and separate from the agency's regular financial system. Typical functions of complex computer systems

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

13. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

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, CFIS, 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 Office of Information Services (OIS) personnel who were directly responsible for the maintenance, security, and support of the ADP environment and on external auditors to review, monitor, and troubleshoot problems as they arose. However, the OIS individuals may not have the necessary knowledge of the federal program requirements, and may lack the necessary objectivity and independence because they are responsible for programming, operating, and/or securing these critical systems. In addition, 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. Furthermore, auditing standards preclude external auditors from considering their own audit procedures as part of the Department's internal controls.

Without sufficient, experienced, internal personnel possessing the appropriate technical skills to independently analyze, evaluate, and test their complex information systems, ODJFS management may not be reasonably assured these systems are processing transactions accurately, completely, and in accordance with federal compliance requirements. This increases the risk of noncompliance with federal regulations and of material errors or misstatements within the data processed, resulting in inappropriate determinations regarding eligibility, allowability, and/or benefit amounts.

OIS 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 a system development life cycle (SDLC) protocol. OIS 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, OIS 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

13. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

We recommend ODJFS management implement a process for conducting internal, independent evaluations of the Department's significant computer systems (CRIS-E, MMIS, SETS, SACWIS, 3299, CFIS, OFIS, 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. In addition to the SDLC protocol and general controls reviews, periodic assessments and reviews of the automated application controls of these systems, including transaction testing of critical operations and functions, should be performed to help provide assurance all components of the systems are operating as designed, payments and eligibility determinations are accurate, and, all financial and other reports are produced with integrity.

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 ODJFS Director, other appropriate upper management of the Department, and the Office of Internal Audit (OIA) Director. 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

In November 2007, House Bill 166 (127th Ohio General Assembly) was passed to create the Office of Internal Audit within the Office of Budget and Management. The bill required that the Office of Internal Audit conduct the internal audits of state agencies according to an annual plan, and report the findings and recommendations of the audit to an independent state audit committee.

The OIA provides these services to ODJFS and provides recommended corrective action for any noted concerns. OIA will continue to follow up with ODJFS until the recommendations are completed to a satisfactory risk level. ODJFS therefore disagrees with this finding, and believes that the systems received independent evaluation of automated systems.

Anticipated Completion Date for Corrective Action

OBM-OIA has statutory authority to audit ODJFS automated systems. ODJFS will continue to work with OIA to ensure there are independent audit of systems that meet federal and state requirements.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

The Department indicates they are relying on OIA to perform independent audits of their significant automated systems; however, OIA did not conduct any such reviews during the audit period. In addition, OIA may not have the same level of experience with the federal programs as ODJFS employees would have in order to fully assess if these automated systems are processing transactions accurately and completely.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

14. INFORMATION TECHNOLOGY – CSRs/OVERRIDES IN CRIS-E

<i>Finding Number</i>	2009-JFS14-023
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Eligibility

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

When utilizing and relying upon a complex data processing system with many users, it is vital to address the users' needs and minimize the manual and human input necessary to complete a transaction.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately \$1.9 billion for SNAP, \$505 million for Temporary Assistance for Needy Families (TANF), \$315 million for Children's Health Insurance Program (CHIP), and \$12 billion for Medicaid in fiscal year 2009. ODJFS places a high level of reliance on this automated system to determine eligibility and benefit amounts.

When county caseworkers process public assistance cases for recipients, situations may arise requiring a change of the eligibility or benefit information in CRIS-E. Once a county caseworker identifies this type of issue, they determine if a Customer Service Request (CSR) has already been prepared by the ODJFS CRIS-E Help Desk detailing the issue identified; if not, the caseworker submits the information to the Help Desk to prepare a CSR. Many times these CSRs cannot be addressed immediately; until the necessary program updates are made, county caseworkers must initiate changes to override the programmed controls in the CRIS-E system to properly assign eligibility and benefit amounts; this process is known as a FIAT. Other FIATS are also used to make modifications to existing CRIS-E data, such as address changes. To facilitate these FIAT changes to the programmed criteria in CRIS-E, the Department has implemented a management control process where county management must approve any FIATS prior to them being run. However, the department relies on the skill, experience, and awareness of county caseworkers to identify all situations requiring FIAT intervention.

At the end of fiscal year 2009, there were 132 open CSRs requested through the CRIS-E Help Desk that related to a corresponding FIAT procedure. Of these 132 CSRs, 131 relate to system issues affecting eligibility status or benefit determinations and 118 of the CSRs date back to the 2004 – 2005 period. In addition, CRIS-E maintains monthly reports of FIAT processing and statistics. However, the number of required FIATS that relate to open CSRs could not be readily determined from the information provided.

FIAT identification and processing involves awareness, experience, and judgment on the part of the caseworkers and their supervisors. FIAT code reference materials and call center assistance were also available to the county caseworkers; however, the initial FIAT situations may be missed or erroneously processed by allowing default benefit information to be approved. Under these conditions, it would be difficult to determine and quantify the extent of additional public assistance benefits that were actually allowed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

14. INFORMATION TECHNOLOGY – CSRs/OVERRIDES IN CRIS-E (Continued)

Until the program modifications initiated by these FIAT-related CSRs are finally completed by ODJFS, the risk increases that these override situations may not be detected or processed properly by the caseworker and inappropriate public assistance benefits could be issued. Eligibility errors could result 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 the Department analyze, prioritize, and complete the open CSRs related to the FIATS that require a program change in CRIS-E. To help administer the timely resolution of these CSRs, ODJFS could establish completion requirements and deadlines to ultimately reduce the required number of FIAT situations related to pending/open CSRs.

Official's Response and Corrective Action Plan

The comment indicates that a FIAT is a system override to the eligibility determination system (CRIS-E) which in fact is not the case. A system override is a situation where a control exists and management has the ability to override this control and weaken the internal control environment. A FIAT is actually a management control tool put in place several years ago to prevent case workers from changing client information in CRIS-E without supervisor approval.

A FIAT is system mechanism that allow authorized case workers to introduce corrective changes to a client's case. Each FIAT requires supervisor approval at the county level and is monitored by ODJFS remotely through CRIS-E.

OIS created a FIAT report which categorizes by count and percentage the number of FIATs. The results are summarized below:

Fiat Codes	Description	Summary Count	Percentage
011 and 101	Any dates, status, or policy changes that are different from original CRIS-E selected values.	62,328	63.00%
031 and 110	Any changes that do not match a specific fiat scenario; typically temporary law changes	20,446	20.67%
010	Income reduction or job loss that will affect family health coverage.	6,786	6.86%
038	New family member joining an existing and covered member.	3,868	3.91%
All others	Various	5,507	5.56%
Total		98,935	100.00%

County case workers are trained on the proper use of FIAT codes and supervisors are limited to 24 hours to approve pending fiat situations. The number of FIATs reported by the auditor is higher due to duplicate entries from the report used to extract this information. It is important to note that the number of FIATs is not the key issue since it is not our intention to reduce the number of controls in place.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

14. INFORMATION TECHNOLOGY – CSRs/OVERRIDES IN CRIS-E (Continued)

The audit comment also suggests that FIATs are awaiting a program change. There is not a direct relationship between FIATs and the CSRs. The majority of FIAT codes utilized and identified above are not awaiting a program change. ODJFS management established a FIAT control process and would not want to remove this control environment. Additionally, it is important from a perspective standpoint to recognize that there are 15,409,809 eligibility determinations in the CRIS-E system for the 2009 fiscal year and FIATs represent less than 1% of this activity.

Anticipated Completion Date for Corrective Action

ODJFS disagrees with this comment. An elimination of FIATs would result in incorrect determination of eligibility with a negative impact to benefit recipients.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

The Auditor does not suggest that FIATS, if used properly and consistently, are an issue. As stated above, however, we do believe there is an immeasurable amount of risk associated with situations where FIATS are not utilized as intended. The number of long-standing open CSRs, 99% of which were linked directly to a required FIAT based on documentation provided by the Department, contributes significantly to this risk. As a result, the finding remains as stated.

15. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES

<i>Finding Number</i>	2009-JFS15-024
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 17.258/17.259/17.260 – WIA Cluster 93.558 – Temporary Assistance to Needy Families 93.563 – Child Care Enforcement 93.575/93.596 – Child Care Cluster 93.658 – Foster Care – Title IV-E 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	Allowable Costs, Reporting

SIGNIFICANT DEFICIENCY

45 CFR 92 contains the Department of Health and Human Services uniform administrative requirements for grants to state governments. The Department of Agriculture and Department of Labor prepared similar uniform administrative requirements in 7 CFR 3016 and 29 CFR 7, respectively. 45 CFR 92.42 contains standards for the retention and access to records and "applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

15. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

are: (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.” Section 92.42(b)(1) states: “Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.”

In addition, Office of Management and Budget Circular A-133, § 300 requires recipients of federal awards “[m]aintain internal controls over Federal programs that provide reasonable assurance they are managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.” It is management’s responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. These controls must include maintaining appropriate supporting documentation for all transactions and performing timely reconciliation procedures to help ensure the transactions processed are accurate and complete.

The Ohio Department of Job and Family Services (ODJFS) distributed approximately \$1.8 billion during fiscal year 2009 from the major programs listed above to county agencies/WIA local areas in the form of reimbursements, advance-funded draws, and/or earned incentives. The Department used the County Finance Information System (CFIS) to assist in providing grant management controls and oversight in this disbursement process. The receiving county agency/area was required to submit monthly 02750, 02827, 02820, and/or 01992 reports showing the beginning cash balance, receipts, disbursements, and the ending cash balance; along with a report cover sheet signed by the County Auditor and County Director/Local Area Director certifying the accuracy of the data. One of the Departmental control procedures required that ODJFS Bureau of County Finance employees review and initial the cover sheet of the reports received from the counties/local areas to indicate the documents were mathematically accurate. However, for 12 of 90 tested reports (six monthly reports for ten of the 88 counties and six monthly reports for five of the 20 local areas), the Department could not provide evidence the ODJFS employee had initialed the cover letter. One of the tested reports wasn’t initialed; for the other 11, ODJFS could not provide a copy of the report related to four counties and one local area. Also, without the reports from the counties/local areas, we couldn’t agree and verify the accuracy of the monthly ODJFS-generated reconciliation schedule used by ODJFS to compare the data on the county/local area reports to the related CFIS (1.A or 1.F) report.

In addition, based on information provided by ODJFS staff, the Department required the county/local area to complete a quarterly “close-out” process. This process involved the county/local area reconciling its draws (disbursements from ODJFS) to the entity’s actual expenditures for the quarter using a preliminary package of various CFIS-produced reports which ODJFS sent to the entity. This package included an over/under report which compared the entity’s draws to its expenditures. Based on the listed results on the over/under report, ODJFS and the county/local area were supposed to initiate whatever action was required to come back into balance by adjusting future disbursements. However, the Department could not identify any controls (written or otherwise) used by the Department to ensure this close-out process was completed accurately and timely, and that all required adjustments were made. Also, the Department stated this close-out process was to occur quarterly but the process only occurred semi-annually in fiscal year 2009.

Without consistent performance and documentation of internal controls, the maintenance of required records to support the disbursement and expenditure of federal funds, and the ability to obtain the report data from the county level, the risk exists that disbursements or expenditures for the federal programs may be processed inaccurately or for unallowable activities. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate. This also increases the risk that internal controls may not be established or working in a manner intended by management.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

15. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

Management of the Department indicated the cover letter of the one report that wasn't initialed was due to oversight and could not explain why the remaining report documents were missing. In addition, ODJFS management indicated they did not have any identifiable controls related to the closeout process since all documentation is submitted electronically and there were no physical sign-offs for a review of the overall process and accuracy of the data.

We recommend ODJFS management evaluate their current processes and procedures related to disbursements to counties/WIA local areas and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis which reasonably ensure payments to the counties are accurate, complete, and representative of actual program activity. The Department should develop written policies and procedures which pertain to all significant aspects in the disbursement process, including the close-out process. These policies and procedures should include, but not be limited to:

- Requiring evidence be maintained to document the occurrence of the established controls, such as document reviews and sign-offs.
- Implementing control procedures related to the "close-out" process to ensure they are completed accurately and timely, and that all required adjustments were made.
- Requiring records, such as the monthly 02750, 02827, 02820, and/or 01992 reports, be maintained in accord with an approved records retention policy and file the records in a manner so that they can be readily retrieved. The records should be maintained at least three years per the federal requirement and until the year to which they relate has been audited.

These written policies and procedures should be formally approved and communicated to all affected employees in the disbursement process. In addition, management should periodically monitor the established control procedures to help ensure they are performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

ODJFS will implement a process where the clerical staff receiving the reports will maintain a Bureau spreadsheet on a shared network drive showing the received and missing financial forms for all agency types. Operations staff will then review each monthly report and enter into their own individual agency-type spreadsheet and initial the forms, as accurate. The first working day after the reports are due, the Operations staff will compare their individual spreadsheet to the Bureau spreadsheet and address any discrepancies. Clerical staff will confirm that reports have been initialed by the Operations staff before filing the reports in the county folder. The first working day after the report is due; the Operations staff will notify the ODJFS fiscal supervisors of the counties that have not submitted the reports. The ODJFS fiscal supervisors will contact their assigned counties/areas that have missing reports. The ODJFS fiscal supervisor will review the Bureau Spreadsheet three days after the original due date and if these reports have not been received, the Section Chief of Technical Assistance will notify the county/area that their pending or submitted draw request will not be processed until the report is received. The Operations staff will hold draws until the report has been received.

ODJFS implemented a new financial computer system in fiscal year 2009. Also, in fiscal 2009, ODJFS underwent two budget reductions both at the state level and the county level. With this new system, new operating procedures, and budget reductions, ODJFS was not able to complete all the quarterly reconciliations as planned. However, ODJFS did complete two reconciliations (July – December period; and January through June period) in SFY2009. In 2009, ODJFS was able to work out issues with the new system and in SFY 2010, ODJFS reconciled each quarter. ODJFS will continue to complete quarterly close-outs, maintain reports showing reconciling, and provide a voucher activity report showing the process was complete and timely.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

15. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

Anticipated Completion Date for Corrective Action

The first process of tracking and enforcing the receipt of financial reports will be implemented July 1, 2010. The quarterly reconciliation (close-out) process was implemented July 1, 2009.

Contact Person Responsible for Corrective Action

Thomas Goard, Fiscal Officer 3, Ohio Department of Job & Family Services, 30 E. Broad Street, Columbus, OH 43215, Phone: (614) 466-5406, E-Mail: Thomas.Goard@JFS.Ohio.GOV

16. VARIOUS PROGRAMS – CODING ERRORS

<i>Finding Number</i>	2009-JFS16-025
<i>CFDA Number and Title</i>	17.258/17.259/17.260 – WIA Cluster 93.659 – Adoption Assistance 93.563 – Child Support Enforcement 93.658 – Foster Care – Title IV-E 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	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.

The Department uses a detailed coding structure within OAKS (Ohio Administrative Knowledge System) to identify and account for the activities associated with their various programs and activities. However, the following errors/inconsistencies in revenue and expenditure coding existed for state fiscal year (SFY) 2009. 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:

WIA Cluster (CFDA #17.258):

- \$146,832 of SFY 2009 expenditures were recorded as disbursements from the federal fiscal year (FFY) 2009 WIA grant (AF09) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2008 grant (AF08);

Adoption Assistance (CFDA #93.659):

- \$391 of SFY 2009 expenditures were recorded as disbursements from the FFY 2008 Adoption Assistance grant (AA08) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2009 grant (AA09);

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

16. VARIOUS PROGRAMS – CODING ERRORS (Continued)

Child Support Enforcement (CFDA #93.565):

- \$34,729 of SFY 2009 expenditures were recorded as disbursements from the FFY 2008 CSEA grant (CS08) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2009 grant (CS09);

Foster Care (CFDA #93.658):

- \$5,207,516 of SFY 2009 expenditures were recorded as disbursements from the FFY 2008 Foster Care grant (FC08) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2009 grant (FC09);

Medicaid Cluster (CFDA #93.775/93.777/93.778):

- \$757 of SFY 2009 expenditures were recorded as disbursements from the FFY 2008 Medicaid grant (M970) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2009 grant (MP08).

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 Expenditures of Federal Awards.

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 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.

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

The Bureau of Grants Management and Federal Reporting notifies the Bureau of Accounting (BOA) when coding changes are necessary i.e., grant numbers. The Accounting Information Section (AIS), within the BOA, will run a report identifying purchase orders that need coding changes. As a result of the report, AIS will develop a spreadsheet (with the revised coding) and it is forwarded to the Accounts Payable Section. The Accounts Payable Section will flag the purchase orders that have coding changes and will manually code the voucher with the revised coding.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

16. VARIOUS PROGRAMS – CODING ERRORS (Continued)

Anticipated Completion Date for Corrective Action

Correction action plan was implemented in State Fiscal Year 2010 (7-1-2009).

Contact Person Responsible for Corrective Action

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17. UNEMPLOYMENT INSURANCE – ARRA FUNDS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<i>Finding Number</i>	2009-JFS17-026
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	Special Tests and Provisions

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

2 CFR § 176.210, states in part:

...

(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. ... This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

It is management's responsibility to implement control policies and procedures to reasonably ensure the Department's portion of the Schedule of Expenditures of Federal Awards submitted to the Ohio Office of Budget and Management (OBM) is in compliance with the above requirements. Sound internal controls would require a review of the Federal Schedule be performed and documented in some manner, prior to submission, to verify the information the Department reported is accurate and complete. A strong internal control system helps ensure compliance requirements are properly addressed and provides for evidence and documentation of how compliance requirements are being addressed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

17. UNEMPLOYMENT INSURANCE – ARRA FUNDS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

The Ohio Department of Job and Family Services (ODJFS or the Department) did not accurately identify the expenditure of federal Unemployment Insurance (UI) awards (CFDA # 17.225) made under the American Reinvestment and Recovery Act (ARRA) on their initial Schedule of Expenditures of Federal Awards. The Department expended almost \$360 million in ARRA funds for UI benefit payments and administrative purposes during state fiscal year 2009. However, on the original SEFA submitted to OBM, the Department only showed a total of just over \$37 million in UI ARRA expenditures, with a majority of the ARRA-funded benefit payments incorrectly combined with the Department's non-ARRA benefit payments. As a result, the initial Schedule of Expenditures of Federal Awards underreported ARRA expenditures and over-reported non-ARRA expenditures by approximately \$323 million (initially reported in an interim communication to management as \$313 million).

This error on the Department's Schedule of Expenditures of Federal awards occurred because the Department had not implemented controls over the SEFA-reporting of UI ARRA expenditures. The amounts reported on the SEFA for all UI benefits expenditures are derived from reports submitted by the Office of Unemployment Compensation to the Office of Fiscal and Monitoring Services (OFMS). These reports had not yet been adjusted to account for ARRA vs. non-ARRA benefits payments. Furthermore, the Office of Fiscal and Monitoring Services did not verify the amounts shown as UI ARRA funding on the SEFA with the Office of Unemployment Services prior to submitting the schedule to OBM.

Without established controls designed to help ensure all expenditures are reported accurately and completely on the SEFA, the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated is significantly increased. This, in turn, may result in a reduction in program funds and/or fines and penalties from the federal grantor agency. While OFMS was able to identify and did segregate ARRA vs. non-ARRA UI on its accounting records, based on discussions with ODJFS management, applicable controls for reporting ARRA expenditures on the SEFA had not been implemented due to the newness of the ARRA legislation.

We recommend management implement control procedures to provide reasonable assurance that ARRA information reported on the Schedule of Expenditures of Federal Awards is accurate, complete, and properly separated. The controls identified should be adequately documented to provide management assurance they are performed timely and consistently. These controls should also require proper communication between individuals completing the Schedule and the program areas familiar with the expenditure activity.

Official's Response and Corrective Action Plan

ODJFS does acknowledge that there was a segregation issue surrounding the UI awards provided on the 2009 Schedule of Expenditures of Federal Awards to OBM. However, ODJFS has separate account codes in our OAKS system to identify ARRA funding, and the total CFDA funds reported in the draft document to OBM by ODJFS were correct. OFMS/UI has taken the following steps to insure that UI ARRA funds will be reported correctly through the duration of the ARRA program:

(1) OFMS has corrected the 2009 Schedule of Expenditures of Federal Awards to accurately reflect the segregation between regular UI, and ARRA UI.

(2) OFMS has requested ARRA benefits data from UI to include sufficient backup documentation to support the amounts provided.

(3) OFMS in the future will review the UI benefits data received from the UI program area for reasonableness and ARRA segregation before preparing the Schedule of Expenditures of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

17. UNEMPLOYMENT INSURANCE – ARRA FUNDS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

(4) In the future, OFMS will allow adequate time for the UI Deputy Director or their designee to review the UI benefits data reflected on the Schedule of Expenditures of Federal Awards prepared by OFMS before it is submitted to OBM. The UI Deputy Director or their designee will provide an acknowledgment that they have reviewed the OFMS prepared reports.

Please also note the CFDA reporting number for all UI funds ARRA or Regular is the same.

Anticipated Completion Date for Corrective Action

Correction of the 2009 Schedule of Expenditures of Federal Awards was submitted to OBM on 01/11/10. Steps 2 through 4 above will commence with the preparation of the 2010 Schedule of Expenditures of Federal Awards during state fiscal year 2011.

Contact Person Responsible for Corrective Action

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18. UNEMPLOYMENT INSURANCE – REPORTING

<i>Finding Number</i>	2009- JFS18-027
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	Reporting

SIGNIFICANT DEFICIENCY

UI Reports Handbooks No. 336 and No. 401 contain instructions for completing and submitting various reports for the Unemployment Insurance (UI) program. Included in the handbook is the ETA 227 report, described in section IV-3 of the Handbook, which states:

The ETA 227 report provides information on overpayments of intrastate and interstate claims under the state unemployment compensation (UI), and under federal UI programs; i.e., programs providing unemployment compensation for federal employees (UCFE) and ex-service members (UCX), established under Chapter 85, Title 5, U.S. Code. This report will include claims for regular, state additional, and federal-state extended benefits (EB). ... The ETA 227 report is due quarterly on the first day of the second month after the quarter of reference.

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, and in compliance with program requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

The Department had established a control whereby it would take a "snapshot" of the OJI (Ohio Job Insurance) computer system and Benefit Payment Control management staff would reconcile the snapshot to the ETA 227 report before submitting the report. However, the Department could not provide documentation that it reconciled the reports to supporting documentation before it submitted the reports.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

18. UNEMPLOYMENT INSURANCE – REPORTING (Continued)

Management also stated that it did not perform any related reconciliations during FY 2009. Amounts were pulled from the OJI computer system and sent to the U.S. Department of Labor without any verification of the accuracy of the amounts.

In addition, the ETA 227 report for the 4th quarter did not trace and agree to supporting documentation. Section A did not trace and agree for the UI columns for either the Fraud or Non-fraud rows. UI Fraud was off by (\$46,846) and UI Non-fraud was off by \$40,125. Section B did not trace and agree for the Fraud and Nonfraud columns for either the controllable or noncontrollable rows. Fraud controllable was off by (\$48,489) and Fraud noncontrollable was off by (\$28,800). Non-fraud controllable was off by (\$72,063) and Nonfraud noncontrollable was off by (\$69,005).

If the underlying data for the submitted reports cannot be readily verified, the Department and the federal government may not be reasonably assured the information is accurate and complete. Reporting inaccurate or incomplete information and submitting the reports late could subject the Department to federal sanctions, limiting the amount of funding for program activities.

ODJFS management indicated that a new process in the way information is submitted from MIS to Benefit Payment Control (BPC) has contributed to errors in supporting documentation. BPC is aware of the problem and is currently making efforts to correct and refine the process. They also indicated they are working on implementing improved reconciliation controls for the ETA 227 reports.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the Department should perform the established controls consistently which include a review of the ETA 227 reports and verifying the amounts agree to the OJI “snapshot” and/or other appropriate support before the reports are submitted. Any identified variance should be investigated and resolved prior to submission. In addition, the Department should maintain appropriate supporting documentation for the reports. We also recommend management periodically monitor the preparation and accuracy of these reports, and formally document their reviews.

Official’s Response and Corrective Action Plan

We agree with the finding. Currently, support data for the ETA 227 is provided from OJI System Support in one large Excel format. This data extraction was not built to categorize cell content into easily verifiable figures. Often, one cell of data may need to be used in more than one population of the ETA 227 report. This can lead to validation issues.

Benefit Payment Control is working with OJI System Support to improve the delivery of support data. Formatting changes will create consistent control for BPC management in verifying ETA 227 report amounts with supporting figures. Additionally, should there be variances, they can quickly be identified and resolved prior to being submitted timely.

Anticipated Completion Date for Corrective Action

We are working with OJI System Support, programmers, and scarce resources to establish a timeframe for this delivery improvement; however multiple federal benefit extensions and associated system program requirements take precedence. We anticipate completing this remedy implementation by June 30, 2011.

Contact Person Responsible for Corrective Action

Mickey Ford, Interim Chief, Benefit Payment Control, Ohio Department of Job & Family Services, 4020 E. Fifth Avenue, Columbus, OH 43219, Phone: (614) 466-0153, E-Mail: Mickey.Ford@jfs.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

19. INFORMATION TECHNOLOGY – MMIS - RECERTIFICATION OF PROVIDERS

<i>Finding Number</i>	2009-JFS19-028
<i>CFDA Number and Title</i>	93.767 – Children’s Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Special Tests and Provisions

SIGNIFICANT DEFICIENCY

The Ohio Administrative Code 5101:3-1-17 states:

An “eligible provider” is any individual, group, corporation, or institution licensed or approved by a standard-setting or regulatory agency, and approved for participation in the Medicaid program by the Ohio Department of Job & 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. However, the Department’s Office of Ohio Health Plans (OHP) did not research or resolve any providers with expired recertification dates and no evidence of reports designed to identify lapsed provider recertifications was provided. In March 2009, there were a series of application modifications implemented in MMIS associated with provider recertification designed to automatically revoke any provider that had not recertified before their certification date. However, as of July 2009, 23,331 (23%) of the 101,098 active medical providers on the MMIS provider master file reported an expired recertification date. An aging of the expired certification dates for these providers is detailed below.

# OF DAYS PAST THE CERTIFICATION EXPIRATION DATE	NUMBER OF PROVIDERS WITH EXPIRED RECERTIFICATION DATES	PERCENTAGE OF TOTAL PROVIDERS WITH EXPIRED RECERTIFICATION DATES
0 – 89	671	2.88%
90 – 119	73	0.31%
120 – 364	2,783	11.93%
365 – 1824	10,130	43.42%
1,825 – 3,649	4,813	20.63%
3,650 – 10,000	4,859	20.83%
More than 10,000	2	0.01%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

19. INFORMATION TECHNOLOGY – MMIS - RECERTIFICATION OF PROVIDERS (Continued)

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 CHIP programs. Inappropriate reimbursement of federal claims could subject the Department to possible federal sanctions.

ODJFS continues to have a vision of working with all of the provider boards. For example, according to OHP management, the Provider Compliance manager attends the Board of Nursing public meetings and accesses the Board's minutes in order to terminate providers when and if appropriate. However, this review only addresses a small number of the providers with expired recertification dates. ODJFS has not committed the human capital resources necessary to follow up with all expired provider recertification dates.

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. Recently implemented edit checks should be re-evaluated and updated as necessary to ensure they are effective. 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

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' MMIS 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. MMIS performs an automated purge of these providers, and subsequently produces 13 supplemental reports that track inconsistencies between the state board information and the provider master file. As soon as the file becomes available in Control D, two staff persons begin to research the supplemental reports 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 Lapsed Certification reports produced by ODJFS' MMIS listing certification lapses on all active licensed providers in the PMF, other than the providers addressed above in the State Medical Board file. The Lapsed certification 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 Lapsed Certification 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 license certification has been updated, this process 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. Up until this time the department would have to offer a hearing to each provider whose certification was lapsed, making it a very expensive and labor intensive process. Now the lapsed provider's identification number is terminated and a notice is sent to the provider that we have taken the action.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

19. INFORMATION TECHNOLOGY – MMIS - RECERTIFICATION OF PROVIDERS (Continued)

Anticipated Completion Date for Corrective Action

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. The Bureau is committed to the process of appropriately deactivating providers whose license has lapsed or otherwise made inactive and current staff assigned to these tasks are working on this as a major priority.

From the inception of work on the Lapsed Certification reports OHP has reduced the numbers of outdated certifications in the PMF by 9%, from 32% in 2008 to 23% in 2009. As stated above, staff are dedicated to working the lapse licensure reports and are committed to reducing the number of outdated certifications in the PMF. In addition, the implementation of the new Medicaid Information Technology System (MITS) will provide methods for expedited communication with the licensing agencies. The goal of establishing an automated interface with the licensing agencies is expected to improve the timeliness and efficiency of the process to identify and terminate ineligible providers. We will continue to update progress towards making this important change in managing the integrity of the provider master file.

Contact Person Responsible for Corrective Action

Peggy Smith, Chief, Provider Network Management, Ohio Department of Job and Family Services, 50 W. Town St., 4th floor Columbus, Oh 43215, Phone: (614) 752-3745, E-Mail: Smithp@jfs.ohio.gov

20. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS

<i>Finding Number</i>	2009-JFS20-029
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 17.225 – Unemployment Insurance 93.558 – Temporary Assistance for Needy Families 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services Department of Labor
<i>Compliance Requirement</i>	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:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

20. 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
MMIS	25	12 (48%)	0
CRIS-E	25	2 (8%)	10 (40%)
OJI (Front-End)	35	0	2 (5.7%)
OJI (ARRA Specific)	3	0	1 (33%)
SACWIS	40	0	30 (75%)

(CRIS-E – Client Registry Information System Enhanced, MMIS – Medicaid Management Information System, OJI – Ohio Job Insurance, SACWIS – Statewide Automated Child Welfare Information System.)

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 OIS management, the incomplete program change documentation occurred as a result of time constraints. According to SACWIS management, the changes were documented properly, however during the audit period, the Test Director software system crashed, and that as a result of this crash, there was data loss. Test Director is the automated tool used to track and monitor all SACWIS program changes in accordance with the ODJFS change control policy. Additionally, they were unable to restore backups of the information because no back up was being performed of Test Director at the time of the crash. As a result of this incident, management indicated they are now backing up Test Director.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

20. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

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. In addition, appropriate back-up procedures should be implemented to ensure all electronic change documentation and tracking information is secure and readily available for review. Management should periodically verify that these controls are functioning as intended.

Official's Response and Corrective Action Plan

This finding is associated to a review of the Dimensions product to ensure that application changes had associated CSRs or WRs and that Dimensions objects were set to the appropriate status before being migrated through various stages of the development process.

We agree that the use of CSRs and WRs are important tools to assign and track system changes. Additionally, we agree that correct reporting of the status of these objects are an indicator of the preparedness of the migration of software releases.

Development will modify the software Migration Checklist to include a task item that force the validation of all CSRs and WRs related to the release prior to migration.

Anticipated Completion Date for Corrective Action

Development will modify the software migration Checklist by December, 2010.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

21. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION

<i>Finding Number</i>	2009-JFS21-030
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 17.225 – Unemployment Insurance 17.207/17.801/17.804 – Employment Services Cluster 17.258/17.259/17.260 – WIA Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – Children’s Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

SIGNIFICANT DEFICIENCY

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 2009 audit, ODJFS had a policy in place guiding the program change process for their significant applications, including MMIS, CRIS-E, OJI, and SCOTI. 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:

Application	Number of Changes Tested	Number of Changes Without Test Documentation or Test Results
MMIS	25	24 (96%)
CRIS-E	25	19 (76%)
OJI Front-End	35	14 (40%)
SCOTI	9	1 (11%)

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. 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.

OIS management indicated that their bureaus and sections did not consistently follow the established standards for maintaining testing documentation across the Department due to time and resource constraints.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

21. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

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

This audit finding references the need to have testing documentation available to verify that testing scripts and scenarios were executed, validating the performance of system changes against change requirements. Development agrees that this documentation is a valuable necessary artifact.

However, there are time limits on the retention of this documentation and without specifics, it cannot be determined if these findings are related to missing documentation or can be addressed by a longer retention period on the testing documentation.

OIS Release Management will be charged to perform the validation of software releases to ensure that Development, System Testing and User Acceptance Testing artifacts exist to provide evidence of the exercised testing procedures and approvals.

Anticipated Completion Date for Corrective Action

The Release Management roles and processes are being developed and will be implemented by December 2010.

Contact Person Responsible for Corrective Action

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22. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION

<i>Finding Number</i>	2009-JFS22-031
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

SIGNIFICANT DEFICIENCY

Information technology departments establish and follow change control procedures in order to reasonably ensure only properly tested, reviewed, and approved changes are transferred into the live environment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

22. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION

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	12 (48%)
CRIS-E	25	2 (8%)

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.

OIS 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.

We recommend ODJFS ensure all program changes are properly tested, reviewed, and approved by management, and documented approval is obtained 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 migrated into production.

Official's Response and Corrective Action Plan

Release Management is the governance that will establish the responsibility and expectation of ensuring that all Development artifacts are ready for movement between the Development, System Testing, User Acceptance Testing and Production Implementation stages of System Development Life Cycle. OIS is in the midst of refining the Release Management roles, procedures, requirements and stop-gates to confirm that all development objects have the prerequisite characteristics to be migrated. This will include ensuring CSRs and WRs have been actioned to the proper state.

Anticipated Completion Date for Corrective Action

Release Management procedures will be developed, documented, approved by December 2010.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY

<i>Finding Number</i>	2009-JFS23-032
<i>CFDA Number and Title</i>	93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	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, 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.

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 five before action is taken to inactivate the account until it is reset by the system administrator or by the system after 36 hours.

Also, the ODJFS Information Security Policy section 3.1.3 requires the departmental unit-appointed security designees to 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 2009, MMIS processed over 88 million claims from providers resulting in over \$12.5 billion in Medicaid and CHIP reimbursements to these providers. As described in detail below, multiple computer security issues existed during fiscal year 2009 for the MMIS system.

- MMIS was protected at the system level by the Resource Access Control Facility (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 10 years.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

- Based on the MMIS access listing and discussions with certain ODJFS personnel, the following individuals had inappropriate access for their job duties:
 - One of 16 users with UPDATE access to the MMIS Text and Exception Code subsystem.
 - One of 53 users with UPDATE access to the Claims Exam Entry subsystem.
 - Three of 57 users with UPDATE access to the Suspended Claims Correction subsystem.
 - One of the 81 user IDs in the TELEPROC group who had the capability of modifying MMIS production programs and data files did not need it for their job function.
- The Department attempted to complete the annual access reconciliation for MMIS in fiscal year 2009, 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, one of the 25 departments, counties, and agencies that were reviewed during our audit (Ohio Health Plans Deputy Director's Office) requested three access changes that were not made in production. In addition, one of the 25 departments, counties, and agencies reviewed during our audit (U.S. Health and Human Services) requested two deletions of access that were not made in production.
- 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. This Activity report contained RACF security violations, unauthorized attempts to access datasets, and password resets. Although system-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 ODJFS Access Control Unit, they received the OHP Deputy Director's Office and U.S. Health and Human Services access review spreadsheet, however, the Access Control Unit overlooked updating the three OHP requests to change user's access and deleting the U.S. Health and Human Services users from the MMIS application.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

OIS management indicated 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 was taken. 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 five unsuccessful attempts to comply with the Security Policy and to adequately reduce the chance of unauthorized access to programs and data.

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 OIS 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

MMIS does not have application level violation reporting. The pending implementation of MITS negates the expense or effort in developing this process within MMIS.

Access to mainframe based applications such as MMIS is granted and monitored by RACF. RACF is the source of system access control, monitoring and unauthorized detection reporting. Some of the features of RACF include automatic thirty day password change, user ID inactivation after periods of inactivity or invalid logon attempts.

Some systems, which have a large online footprint, use internal application restrictive services to control access to system functionality. The application restrictive services will prevent an RACF authorized user from accessing specific online screens or, in some cases, prevent updates to specific fields. This process is available to each program area to facilitate work-flow, segregate duties and control work scope.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

Application restrictive services were not designed as a supplement to or to compete with RACF but only as an administrative tool for the program areas to set system usage at a level they deem necessary.

Access Control has implemented a "Periodic Access Review Process" effective January 2009. OIS will continue to work with programs to ensure the completion of system access reviews.

Anticipated Completion Date for Corrective Action

For the one of the 25 departments, counties, and agencies that were reviewed during our audit requested three access changes that were not made in production. These three changes (specifics were provided but not included in the report for privacy purposes) were corrected as of July 2009, on 5/20/10, and 10/7/2009, respectively.

For one of the 25 departments, counties, and agencies reviewed during our audit requested two deletions of access that were not made in production. These two changes (specifics were provided but not included in the report for privacy purposes) were corrected on 5/19/10.

For one of 16 users with UPDATE access to the MMIS Text and Exception Code subsystem, Access Control received the request to modify the names (specifics were provided but not included in the report for privacy purposes) on 2/26/09. Access Control modified the access on 3/6/09.

For one of 53 users with UPDATE access to the Claims Exam Entry subsystem and the same users with UPDATE access to the Suspended Claims Correction subsystem, Access Control received the request to modify names the names (specifics were provided but not included in the report for privacy purposes) on 8/11/09. Access Control modified the access on 8/13/09.

The identified individual (specifics were provided but not included in the report for privacy purposes) has been removed from TELEPROC group by OIT and is scheduled for deletion on or before 9/30/10.

Contact Person Responsible for Corrective Action

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24. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY

<i>Finding Number</i>	2009-JFS24-033
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

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 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 to 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 collect and process Ohio unemployment taxes and store and report wage information for Ohio employers. The TIP (Transaction Interface Processing) interface portion of UC and WRS is used by the state level end users to access and process tax payment and employee wage data submitted by employers. As explained below, multiple weaknesses existed during fiscal year 2009 regarding the computer security for these systems.

- 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.
- There are no security violation reports generated from the TIP interface for review. TIP users with the authority to update data can potentially alter wage and employer tax data.
- 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:
 - 38 accounts had the maximum failed logon attempt threshold set at zero, which meant the accounts would never lockout (13 were user accounts and 25 were system accounts). One user account had administrator privileges.
 - Six accounts had a maximum threshold of 999,999 failed logon attempts before the account was disabled (three were user accounts and three were system accounts). The three user accounts had administrator privileges.
 - 32 accounts had a 7,300 day (20 year) password lifetime (eight were user accounts and 24 were system accounts).
 - 13 accounts had a 9,999 day (27 year) or greater password lifetime (eight were user accounts and five were system accounts). Eight of these 13 accounts (four user accounts and four system accounts) had administrator privileges.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

- 47 accounts (16 were user accounts and 31 were system accounts) had no disabling parameter set, i.e. the accounts would never be disabled due to terminal inactivity. Eight of these accounts (four user accounts and four system accounts) had administrator privileges.
- Security policy did not address password and login guidelines for Demand system accounts even though these system accounts may present different risks from user accounts and may require alternate settings.
- 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, 77.3% (208 of 269) were disabled.

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.

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.

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 user accounts should be set to automatically lock the account after five unsuccessful attempts to adequately reduce the chance of unauthorized access to programs and data, and user accounts should have a parameter that disables the account after a period of inactivity. Finally, IT policy should be enhanced to address password and login parameters for system accounts.

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 and monitoring by the Information Security unit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

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 as much as possible. 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. There are no security violation reports generated from the TIP system.*

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 currently tracking to a September 7, 2010 implementation. The user-ID is not displayed on the SSON screen; it is masked by asterisks, as well as other key fields.

The SSN is displayed for internal control 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. No security reports are generated when an unsuccessful login occurs for the TIP environment. The environment requires knowledge of a unique user-ID, password (changed on a weekly basis) and a personal ID, set by the individual user and required to be changed every 30 days.

- (B) *Accounts on the Demand system are never deleted, just disabled; therefore, there is no way to distinguish between an account that was disabled due to termination or an account that was disabled due to inactivity.*

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 no longer authorized 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.

- (C) *The Demand operating system was set to a maximum of five failed sign-on attempts before the account was disabled. Seventeen 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 six 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 32 accounts had a 7,300 day (20 year) password lifetime. Forty-seven 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

Anticipated Completion Date for Corrective Action

- (A) No action anticipated – ERIC will replace.
(B) No action anticipated – UNISYS operational procedure
(C) No action anticipated – Required Internal Operational System Id's.

Contact Person Responsible for Corrective Action

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25. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY

<i>Finding Number</i>	2009-JFS25-034
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	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 to be 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

25. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

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. As described in detail below, multiple security issues existed during fiscal year 2009 for the OJI system.

- Certain users no longer required access to OJI. Specifically:
 - Three of the 25 (12%) unique accounts on the OJI SOCCL025 UNIX server no longer required access to the frontend production OJI UNIX servers and should be removed.
 - One of the nine (11%) user accounts with access to the tgstadmg group, which has full access to the OJI frontend UNIX production servers, no longer required access to the group and should be removed.
- As described below, password parameters were not consistently set for system accounts or administrator user accounts. (Note: Users do not directly login to these accounts, but instead log in to their own account with associated password controls, and then use the switch user command to access these UNIX system accounts.)
 - 24 system accounts did not have a 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.)
 - 31 accounts had a maximum password lifetime of 0 weeks or no setting in place, signifying the password lifetime was unlimited.
 - Eight system and 18 administrator accounts had a password length of six characters instead of the DAS Office of Information Technology (OIT) standard of eight.
- Although computer security violations of the ODJFS mainframe and the AIX UNIX production 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.
- UC Technical Services completed a reconciliation of user access for the OJI application in fiscal year 2009; however, evidence of a response was not available from the AG Office, BAN, Collections, Employer Charging, and Labor Dispute Unit for the 3rd quarter of 2008 or from Special Claims, Workforce Development, or the Benefits Finance Section for the 2nd quarter of 2009.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

25. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

The weaknesses described all increase the risk of unauthorized access to OJI resources. 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 a complete 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 department, beginning in calendar year 2009, the Office of Information Technology Infrastructure Service Division Operating Systems Services and Support (OIT ISD OSSS) strengthened their UNIX server password length parameter. However, the script OIT ISD OSSS uses to create new UNIX server accounts was not updated properly to assign the correct value for the password length parameter. The other discrepancies noted relating to password parameters were an oversight. The department was not aware that these discrepancies existed until brought to its attention by the auditor. Application level security violations are generated at the time a violation occurs, however; these violations are not maintained in a centralized log and maintained for review because this reporting functionality is not built into the OJI application. At the time of the access reconciliations, the client was unaware of the need to keep all of the documentation pertaining to the quarterly OJI access reconciliation for the ODJFS State Single audit.

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 once it is no longer needed.

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. Follow up procedures should be performed to ensure all departments provide a response. The Department should maintain evidence of the access reconciliation until the next annual reconciliation or the performance of the subsequent audit, whichever is longer.

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

OIT ISD OSSS has updated their password parameters standards for the UNIX Accounts (configuration settings).

A new policy- IPP 3930 Periodic Access Reconciliation Process was signed on May 5, 2010 to establish the process for all areas to conduct an annual reconciliation of systems.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

25. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

Anticipated Completion Date for Corrective Action

All password parameter issues were corrected for the specified accounts by OIT ISD OSSS. The changes were completed on 12/21/09.

Contact Person Responsible for Corrective Action

Anna Kraner and Tomara Watkins, Access Control Supervisor and Infrastructure Administrator, Ohio Department of Job & Family Services, 4200 East Fifth Avenue, Columbus, OH 43219, Phone: (614) 387-8671, E-Mail: Anna.Kraner@jfs.ohio.gov and Tomara.Watkins@jfs.ohio.gov

26. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY

<i>Finding Number</i>	2009-JFS26-035
<i>CFDA Number and Title</i>	17.207/17.801/17.804 – Employment Services Cluster 17.258/17.259/17.260 – WIA Cluster
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	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 to be 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

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 2009 regarding the IT security controls tested for the SCOTI application:

- Three of the 29 (10.3%) unique user accounts on the backend SCOTI UNIX production servers no longer required access to the servers and should be removed.
- Five accounts on the backend SCOTI UNIX production servers had a minimum password length of six instead of the required length of eight.
- One user no longer required access to the SCOTI Security Manager role and should be removed.
- Three of the 10 user accounts that belong to the scotnfsg group no longer require access and should be removed from the group.
- Computer security violations for SCOTI on the ODJFS production servers were captured daily and available for review by the InfoSec Unit. 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 user accounts.

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 Department and did not have their access appropriately severed. Without adequate security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected.

Beginning in calendar year 2009, Office of Information Technology Infrastructure Service Division Operating Systems Services and Support (OIT ISD OSSS) strengthened their UNIX server password length parameter. However, the script OIT ISD OSSS uses to create new UNIX server accounts was not updated properly to assign the correct value for the password length parameter. The other discrepancies noted relating to password parameters were an over-site. The department was not aware that these discrepancies existed until brought to its attention by the auditor.

Application level security violations are generated at the time a violation occurs; however, these violations are not maintained in a centralized log and maintained for review due to this reporting functionality not being built into the OJI application. No periodic access reconciliations of SCOTI user access was completed during FY09 due to a lack of time and resources.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

All three configuration and change management user accounts at one time did require access to the UNIX servers and the scotnfsg group. However, due to the implementation of new change management software, these users no longer needed access to the UNIX servers to promote program changes and management did not notify OIT ISD OSSS in a timely manner to remove the users' access.

The user that should be removed from the Security Manager Role required access at one time and now no longer needed the access to perform their job duties. Management did not notify the Bureau of Workforce Services in a timely manner to have the users' access removed.

We recommend the SCOTI password parameters comply with ODJFS security standards. We also recommend ODJFS OIS 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

A new policy- IPP 3930 Periodic Access Reconciliation Process was signed on May 5, 2010 to establish the process for all areas to conduct an annual reconciliation of systems. OIS will continue to work with program areas to assist the completion of system access reviews. SCOTI/OMJ is in the process of re-writing both Staff Assisted and Self Service applications. In order to do this, OIS will need to re-write the login/security process for both applications. OIS and OWD will reconcile the users that will be in the OMJ and LE applications. (LE is a break out application of Staff Assisted.) This is currently planned for deployment in January 2011.

Information Services will create password parameters standards for the UNIX Accounts (configuration settings). OIT ISD OSSS has created additional checks and balances that include auditing the scripts they use to create users and have begun performing periodic reviews of all accounts December 2009.

Access control received the request to remove access the identified individuals (specifics were provided but not included in the report for privacy purposes) on 1/29/10. Access Control forwarded the request to OIT to remove access on 1/29/10. The SCOTI Account (specifics were provided but not included in the report for privacy purposes) was disabled on 8/1/2009. The roles with the account do not get altered on termination.

Anticipated Completion Date for Corrective Action

Corrective action dates as listed in the Description of Corrective Action

Contact Person Responsible for Corrective Action

Sylvan Wilson, Assistant Deputy Director, Ohio Department of Job & Family Services, 4200 E. Fifth Ave., Columbus, OH 43219, Phone: (614) 387-8441, E-Mail: sylvan.wilson@jfs.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING

<i>Finding Number</i>	2009-DMH01-036
<i>CFDA Number and Title</i>	93.667 – Social Services Block Grant 93.767 – Children’s Health Insurance Program 93.778 – Medical Assistance Program
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	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 or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for the fiscal year.
- (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 2009, the Department received and disbursed approximately \$298.9 million in federal funding for the Medicaid Assistance Program, \$26.7 million for the Children’s Health Insurance Program (CHIP), and \$10.6 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

The Community Audit Program Manager reviews these audit reports and enters the information from each report, including whether a Corrective Action Plan (CAP) will be required, in an access 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:

- Even though there has historically been a limited amount of coverage for the CHIP and SSBG programs from the A-133 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.
- Six CMH boards requested additional Medicaid funding during fiscal year 2009. As a result, the Department indicated they performed on-site reviews at these boards. 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 Medicaid and CHIP programs.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or that the CMH boards have met the requirements of the Medicaid, CHIP, and SSBG programs. If the Department does not perform appropriate monitoring procedures, including on-site reviews, 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. In addition, the percentage of coverage obtained from the A-133 audits was not tracked since Medicaid is the program that is most often tested within these audits and therefore, the tracking of this coverage would not provide them with any additional information when performing risk analysis of boards.

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.
- Requiring documentation be maintained for all aspects of the monitoring procedures performed, including documentation of on-site review procedures and results.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

- 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

Based on the Department's 2008 Corrective Action Plan, we indicated that we would develop a series of warning/risk indicators that will identify which Subrecipients and which Federal Awards are at most risk. The anticipated completion date was June 15, 2009. The Department did accomplish this task in SFY 2009 with the development of our Risk Model. We tested our Risk Model during 2009 to assist us in identifying and addressing areas that posed the most risk to the Department for funds passed down to Boards.

The Department did visit six Boards in 2009 due to the risk of these Boards not being able to meet their Medicaid matching obligations. Each review was done and reports were written to inform the Director and Deputy Directors of ODMH of the situation at these Boards. A "checklist" of the work performed was not created to include with the rest of our work papers gathered during these reviews. For future reviews, we will create a "checklist" to serve as a recap/reference page to the work papers gathered.

Effective immediately, the Department will begin adding the name of the Federal awarding agency for Medicaid and CHIP programs to the CMH award letters.

Anticipated Completion Date for Corrective Action

06/30/10

Contact Person Responsible for Corrective Action

Jill Stotridge, Manager, Fiscal Operations and Community Funding Services, Ohio Department of Mental Health, 30 E. Broad St., 11th Floor, Columbus, OH 43215, Phone: (614) 466-9958, E-Mail: Jill.Stotridge@mh.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO REHABILITATION SERVICES COMMISSION

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT

<i>Finding Number</i>	2009-RSC01-037
<i>CFDA Number and Title</i>	84.126 – Vocational Rehabilitation 96.001 – Social Security Disability Insurance
<i>Federal Agency</i>	Department of Education Social Security Administration
<i>Compliance Requirement</i>	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 2009, the Ohio Rehabilitation Services Commission utilized the pre-issuance funding technique to draw down approximately \$86.3 million in federal funding for the Vocational Rehabilitation program and approximately \$74.9 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 needed. 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 since OAKS only maintains reports for a maximum of 99 days.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO REHABILITATION SERVICES COMMISSION

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT (Continued)

Without timely disbursement of funds, interest penalties may be incurred by the State of Ohio for the funds drawn and not disbursed in accordance with federal requirements and the State-Treasury Agreement. According to the Commission's Finance Manager, due to the timing of last year's audit, the Commission was unable to implement the necessary changes to their cash management documentation during fiscal year 2009. The Finance Manager indicated during state fiscal year 2010, the Commission began documenting the beginning cash balance in OAKS, the amount processed in OAKS, the actual draw needed for the above items, any miscellaneous administrative items, and the amount of each draw.

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/dispensed 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

ORSC draws federal funds under the Vocational Rehabilitation program an average of two to three times per week and under the Social Security Disability Insurance program on average of twice a 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 been 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 does not believe that excess federal funds are being drawn.

To address concerns raised by the AOS in the prior year audit, ORSC adjusted 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. ORSC is now processing its BDD Case Service file transfer only once per week. A report is available in CATS the morning the transfer takes place that gives the total of the transfer. A specific draw for that expenditure is made and the CATS report is attached to the draw request as support. This satisfies both the need for documentation of the amount drawn as well as the reconciliation of expenditure to draw requirement. A similar process is used to draw specific cash for Vocational Rehabilitation Case Service file transfer expenditures which are done two to three times weekly. In addition, special draws are 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 leaves only "routine" administrative payments to be drawn from estimates, and greatly reduces the amount of federal funds sitting in the state treasury based on expenditure estimates. The OAKS daily cash balance report is being printed daily and maintained to provide support documentation for the process.

Anticipated Completion Date for Corrective Action

Action has been completed; process was implemented September, 2009.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

1. CONTRACT ADVERTISEMENT

<i>Finding Number</i>	2009-DOT01-038
<i>CFDA Number and Title</i>	20.205/20.219/23.003 – Highway Planning and Construction Cluster
<i>Federal Agency</i>	Department of Transportation Appalachian Regional Commission
<i>Compliance Requirement</i>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Procurement, Suspension and Debarment

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

23 CFR 635.112 (b) states:

The advertisement and approved plans and specifications shall be available to bidders a minimum of 3 weeks prior to opening of bids except that shorter periods may be approved by the Division Administrator in special cases when justified.

Ohio Revised Code (ORC) § 5525.01 states, in part:

Before entering into a contract the director of transportation shall advertise for bids for two consecutive weeks in one newspaper of general circulation published in the county in which the improvement or part thereof is located, but if there is no such newspaper then in one newspaper having general circulation in an adjacent county...

It is management's responsibility to implement policies and procedures to reasonably ensure all contracts are free and open to competition, in accordance with these requirements.

During fiscal year 2009, the policies in place required Department personnel to send the advertisement for a project to a local paper by regular mail or email three weeks prior to the scheduled sale date and to advertise projects on the Department's website three weeks prior to the scheduled sale date. However, 15 of the 57 contracts (26.32%) tested from those awarded by the Department during the fiscal year were not advertised in accordance with the applicable laws and regulations or the Department's policies. In these 15 instances, there was no evidence maintained to support that the Department advertised the projects in a newspaper of general circulation. In addition, for five of these 15 instances, there was no evidence maintained to support that the bid pamphlets for the projects were advertised on the Department's website. However, in all of the above instances, the project was competitively bid.

Without appropriate advertisement in a newspaper of general circulation, a project is not available to ensure free and open competition for all parties interested. All potential bidders may not have an opportunity to bid on these projects. As a result, the Department could be passing up the lowest qualified bidder. In addition, if the Department does not comply with all federal grant requirements, there is a risk of penalties or reduced federal funding in the future.

The Office of Contracts Administrator indicated the errors occurred because of a change in the process as well as an inexperienced staff member in charge of communicating these projects for competitive bid to newspaper editors.

We recommend the Department implement and/or strengthen policies and procedures related to the advertisement for bids to reasonably ensure all potential bidders have the opportunity to bid on the project if desired. These policies and procedures should also include monitoring by an appropriate level of management to reasonably ensure the process is working as intended. Appropriate training should be provided to all staff members and supervisors involved in the process to ensure they are aware of the policies and legal requirements related to bid advertisements. The Department should ensure documentation is maintained to evidence the policies and procedures have been followed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

1. CONTRACT ADVERTISEMENT (Continued)

Official's Response and Corrective Action Plan

The Department demonstrated to the Auditors that all projects were properly published on the Department's website for at least 3 weeks prior to the bid opening, that all prequalified bidders were notified by separate email of the opportunity to bid, that potential bidders purchased plans from the Department for each bid, and that the Department received between 2-6 bids on each project. Therefore, the Department demonstrated that while the projects may not have been properly advertised in a newspaper of general circulation for two weeks, the integrity of the Department's competitive bidding process was maintained.

*The Department further must formally disagree with the **Audit Finding**. The Department's bidding statutes found under ORC 5525 et seq. require that only "prequalified bidders" may bid on the Department's projects. All these bidders must bid through the Department's on-line bidding system "Bid Express." That system and the Department's own website, provide notification to bidders of upcoming projects on which they may bid, and the Department posts the bid index for each letting approximately five weeks prior to the project sale date. This is relevant for two reasons. First, we have spoken with some of our prequalified bidders who have indicated that they do not review or rely on the newspapers for information on upcoming bid opportunities, therefore, it is our opinion that the legal advertising in a newspaper does not materially affect free and open competition nor limit the number of bidders for the bidding process. Second, all those who could compete on the Department's projects and submit bids (i.e., ODOT prequalified contractors) receive notices through Bid Express and the Department's electronic email notification system. Thus, in fact, no other bidders could bid on the projects and the Department did not in any way pass up a lowest qualified bidder.*

Finally, as was demonstrated to the Auditor's Staff, all projects were advertised on the Department's website. We have confirmed that this method is acceptable to our federal partner, the Federal Highway Administration, Ohio Division, and is in compliance with federal law and guidance.

Anticipated Completion Date for Corrective Action

The Department was made aware of the deficiencies in placing legal advertisements in local newspapers by the auditor's office in early 2010. The Department investigated the issue, corrected the deficiencies, drafted and clarified its policy and procedure, and is training new staff to ensure advertisements are being published in a timely manner. The corrective action will be fully implemented by July 1, 2010.

Contact Person Responsible for Corrective Action

Thomas P. Pannett, Administrator, ODOT Office of Contracts, Ohio Department of Transportation, 1980 West Broad Street, Columbus, Ohio 43223, Phone: (614) 728-2071, E-Mail: tpannett@dot.state.oh.us

Auditor of State's Conclusion

As indicated in the comment, we are not citing the Department for noncompliance with bidding requirements. However, based on discussions with ODOT personnel during the course of the audit, the Department posts a bid pamphlet to their website three weeks prior to the opening of the bid to meet the requirements as specified in 23 CFR 635.112(b). The information posted to "Bid Express" and the web site consisted of the Request for Proposal and other related documents on a project by project basis. Interested bidders would need to know the project number in order to access this information. Although the Department indicated select prequalified bidders are notified of these postings, it is not clear how these bidders are identified and no documentation of the timing of the notices was provided. The Department also states the Federal Highway Administration accepted this notification method; however, no evidence was presented to support this statement. Given the lack of documentation and written policies and procedures to address how the federal CFR requirement should be satisfied, and the specific requirements of ORC 5525.01 to advertise for bids within a newspaper of general circulation for two consecutive weeks, the finding will remain as stated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

2. NOTIFICATION OF ARRA FUNDING AMOUNT TO SUBRECIPIENTS

<i>Finding Number</i>	2009-DOT02-039
<i>CFDA Number and Title</i>	20.205/20.219/23.003 – Highway Planning and Construction Cluster
<i>Federal Agency</i>	Department of Transportation Appalachian Regional Commission
<i>Compliance Requirement</i>	Special Tests and Provisions

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

2 CFR Section 176.210, Award term – Recovery Act Transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for informing Subrecipients, states, in part:

....

(c) Recipients agree to separately identify to each subrecipient and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

....

It is management's responsibility to design, document and implement policies and procedures to reasonably ensure the amount of American Reinvestment and Recovery Act (ARRA) funding is communicated to subrecipients at the time of award and disbursement, and the Department is in compliance with laws and regulations pertaining to ARRA.

During state fiscal year 2009, the Ohio Department of Transportation (DOT or the Department) reported approximately \$1.158 billion in expenditures for the Highway Planning and Construction Cluster, \$118,307 of which related to ARRA funding. However, the U.S. Department of Transportation – Federal Highway Administration (FHWA) is expected to pass-through approximately \$935.7 million in Highway Planning and Construction program ARRA funding to the Department for the purpose of building, maintaining, and preserving bridges, roadways, and other infrastructure subsequent to June 30, 2009. DOT historically disburses about 10% of total expenditures to Local Participating Agencies (LPA), subrecipients who administer these projects. In these instances, DOT enters into an agreement with the LPA to administer the project. DOT has amended their LPA agreement shell to make LPAs aware of projects funded through ARRA and the ARRA regulations. However, during the fiscal year, DOT did not have procedures in place to identify to the LPAs the amount of ARRA funding included in each disbursement at the time of disbursement of funds.

Without policies and procedures in place to identify the amount of ARRA funding to the LPA, the Department increases the risk of non compliance with applicable laws and regulations. In addition, if ARRA funding information is not communicated to the subrecipient at the time of disbursement, there is an increased risk of improper use and improper coding of the disbursement at the LPA level. Ultimately, this could affect the amount of ARRA funding included on Federal reports required to be submitted at the subrecipient level. The Department indicated that compliance with ARRA regulations is extremely important to them and that steps have already been taken to correct this issue.

We recommend the Department continue to develop policies and procedures to specifically address new regulations required by the Recovery Act. Specifically, the Department should implement a procedure to identify ARRA funding at the time of disbursement to subrecipients. We also recommend management monitor the process to ensure policies and procedures are being consistently followed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

2. NOTIFICATION OF ARRA FUNDING AMOUNT TO SUBRECIPIENTS (Continued)

Official's Response and Corrective Action Plan

ODOT will enhance the department's Construction Management System (CMS) Web Portal to provide the identification of ARRA funds, CFDA number, and Federal Agreement Number for each disbursement of ARRA funds. Each LPA will be notified of the CMS Web Portal and provided with directions on how to access the applicable data and the importance and requirements to do so.

Each LPA will be responsible for checking the CMS Web Portal to obtain expenditure data for each project under its control.

Anticipated Completion Date for Corrective Action

February 1, 2010

Contact Person Responsible for Corrective Action

Julie A. Ray, Deputy Director, Division of Finance, Ohio Department of Transportation, 1980 West Broad Street, Columbus, Ohio 43223, Phone: (614) 644-2687, E-Mail: julie.ray@dot.stateoh.us

3. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO PROGRAMS AND DATA

<i>Finding Number</i>	2009-DOT03-040
<i>CFDA Number and Title</i>	20.205/20.219/23.003 – Highway Planning and Construction Cluster
<i>Federal Agency</i>	Department of Transportation Appalachian Regional Commission
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, Allowable Costs, Reporting

SIGNIFICANT DEFICIENCY

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 \$2.67 billion in state and federal funds during state fiscal year 2009. 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 an authorization process in place during fiscal year 2009 for requesting, documenting, and approving initial access to these ODOT mainframe computer applications for external contractors. A similar authorization process was implemented in January 2009 for internal ODOT employees. However, the procedures were not performed consistently during the audit period for documenting contractor access. For nine of the 30 (30%) new users tested from the 262 added during this period, approval documentation was not available

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

3. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO PROGRAMS AND DATA (Continued)

for granted access to the mainframe applications; all nine related to contractors. The process also did not include centrally monitoring the termination of access granted to the many contractors used by the Department; therefore, it was not possible to effectively review contractor terminations for timely access removals.

In addition, the Department uses the OnTime Payroll System to capture time and labor transactions for submission to OAKS for payment of employee wages and benefits, and to the mainframe applications listed above. This system processed approximately \$425 million in payroll and related costs during fiscal year 2009. However, there was no formalized process in place for requesting, documenting, and approving initial access to this system.

Personnel having undocumented, unauthorized, or inappropriate access to the ODOT applications increases the likelihood of incorrect processing of accounting, construction, and inventory data. 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.

According to ODOT management, access is granted and modified by ODOT's individual business units. Because access is decentralized for contractors, there is not a central point of control for accounts, modifications, and termination of their access. The Division of Information Technology (DoIT) will continue to monitor the business units and educate the administrators and process owners on the importance of strong account access controls. Management also continues to enhance the process, 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. In addition, there were no access authorization forms for the OnTime Payroll system due to the lack of policies and procedures in the previous administration.

We recommend the Department continue their efforts to help ensure all computer users, including OnTime Payroll users and 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 all contractor access to both logical and physical resources can be effectively reviewed, and removed or suspended within a few days of a contractor's separation from ODOT employment.

Official's Response and Corrective Action Plan

The ODOT has reviewed the finding, specifically the users lacking access request documentation. ODOT found that all of the requests were completed while our old paper format process was in place. Since the last audit we implemented a new electronic access request form. No findings were discovered after our electronic implementation of the electronic access request form. At this time ODOT feels our new process is working well and we will continue to monitor the process and make any necessary adjustments.

While the OnTime application was built during the previous administration they did not follow the policies or procedures related to this application. This is a new finding for the OnTime Application, and we will work aggressively to modify the application. The application is currently being modified to use Active Directory for both authorization and authentication of ODOT employees – no contractors will have access to OnTime.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

3. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO PROGRAMS AND DATA (Continued)

ODOT will review our current policies and procedures, make any necessary changes to the existing documents or create new documents which will be communicated and published immediately

Anticipated Completion Date for Corrective Action

8/15/2010

Contact Person Responsible for Corrective Action

Mike Orndorf, Administrator, Ohio Department of Transportation, 1980 West Broad Street, Columbus, Ohio 43223, Phone: (614) 644.0662, E-Mail: Michael.Orndorf@dot.state.oh.us

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SUPPLEMENTAL INFORMATION

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Administrative Knowledge System	2007-DAS01-001 2008-OAKS01-004 IT - OAKS Security	No	Partially corrected; related recommend- ations for improvement have been included in the SAS 70 Manage- ment Letter for the Ohio Administrative Know- ledge System.
	2008-OAKS02-005 IT - OAKS Reconciliations	Yes	
	2008-OAKS03-006 IT – Lack of Program Change Controls in OAKS	No	Partially corrected; a related recommendation for improvement has been included in the SAS 70 Management Letter for the Ohio Administrative Knowledge System.
	2008-OAKS04-007 IT - OAKS Requisition and Chartfield Maintenance Controls	No	Partially corrected; a related recommendation for improvement has been included in the SAS 70 Management Letter for the Ohio Administrative Knowledge System.
Ohio Office of Budget and Management	2008-OBM01-001 Inconsistency in Financial Reporting	Yes	
	2008-OBM02-002 Timeliness of Financial Reporting	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Office of Budget and Management.
	2008-OBM03-003 Internal Controls Over Vendor Account Changes in OAKS	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Office of Budget and Management (Continued)	2008-OBM01-008 Cash Management - Interest Distributions	Yes	
Ohio Department of Development	2006-DEV01-001 2007-DEV02-004 2008-DEV01-009 HEAP/TANF – Tracking and Documentation	No	This finding is no longer considered a reportable item under the provisions of OMB Circular A-133.
Ohio Department of Education	2004-EDU05-009 2005-EDU03-004 2006-EDU04-005 2007-EDU05-009 2008-EDU01-010 IT — Application Development and Maintenance	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- EDU01-004.
	2008-EDU02-011 IT — Computer Security	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- EDU02-005.
Ohio Department of Health	2008-DOH01-012 Period of Availability	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- DOH01-006.
	2004-DOH02-012 2005-DOH02-006 2006-DOH01-006 2007-DOH01-010 2008-DOH02-013 Subrecipient Monitoring	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Health.
	2005-DOH05-009 2006-DOH03-008 2007-DOH02-011 2008-DOH03-014 2008-DOH05-016 MCH Grant – Matching, Level of Effort, and Earmarking	No	These findings have been partially corrected in the FY 2009 Single Audit. See 2009- DOH03-008.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Health (Continued)	2008-DOH04-015 Cash Management	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- DOH02-007.
	2004-DOH06-016 2005-DOH06-010 2006-DOH04-009 2007-DOH03-012 2008-DOH06-017 IT – Program Change Controls	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- DOH04-009.
Ohio Department of Job and Family Services	2006-JFS01-010 2007-JFS01-013 2008-JFS01-018 MMIS – Claims Reimb in Excess of OAC Limits	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS02-011.
	2008-JFS02-019 Medicaid/FS/TANF- Alien/Refugee Missing Documentation – Franklin County	Yes	
	2006-JFS07-016 2007-JFS03-015 2008-JFS03-020 Medicaid/TANF – Missing Case Files – Franklin County	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS05-014.
	2008-JFS04-021 Medicaid/FS- Alien/Refugee Undocumented Eligibility – Cuyahoga County	Yes	
	2007-JFS06-018 2008-JFS05-022 CHIP - Ineligible Recipient	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS06-015.
	2008-JFS06-023 TANF – Refusal to Work – Various Counties	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2008-JFS07-024 Medicaid – Prior Authorization	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2006-JFS10-019 2007-JFS07-019 2008-JFS08-025 TANF ELI Missing Case Files – Franklin County	No	The finding has been re- peated in the FY2009 Single Audit. See 2009- JFS07-016.
	2007-JFS12-024 2008-JFS09-026 Medicaid/CHIP - Third Party Liability	Yes	
	2008-JFS10-027 Child Care Cluster – Improper Payment – Lucas County	Yes	
	2007-JFS02-014 2008-JFS11-028 Medicaid - Voided Warrants	Yes	
	2008-JFS12-029 Child Care Cluster – Cash Management	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS08-017.
	2004-JFS13-029 2005-JFS20-030 2006-JFS13-022 2007-JFS16-028 2008-JFS13-030 IEVS – Due Dates	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS12-021.
	2005-JFS21-031 2006-JFS14-023 2007-JFS17-029 2008-JFS14-031 IEVS/CRIS-E – Alert Resolution/ Inadequate Documentation	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS09-018.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS23-039 2005-JFS26-036 2006-JFS16-025 2007-JFS19-031 2008-JFS15-032 IT – Lack of Internal Testing of Automated Controls	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS13-022.
	2004-JFS22-038 2005-JFS28-038 2006-JFS17-026 2007-JFS20-032 2008-JFS16-033 IT – Manual Overrides of CRIS-E	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS14-023.
	2008-JFS17-034 IT – Access to CRIS-E BI Warrant Files	Yes	
	2008-JFS18-035 Various Programs – Coding Errors	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS16-025.
	2004-JFS32-048 2005-JFS39-049 2006-JFS22-031 2007-JFS22-034 2008-JFS19-036 Medicaid/CHIP – Recertification of Providers	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS19-028.
	2007-JFS25-037 2008-JFS20-037 Unemployment Insurance Benefits Paid After Benefit Year End	Yes	
	2008-JFS21-038 Oversight of County Operations – Various Programs	No	This finding is no longer considered a reportable item under the provisions of OMB Circular A-133.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

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 2008-JFS22-039 IT –Missing/ Incomplete Program Change Forms	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS20-029.
	2004-JFS44-060 2005-JFS41-051 2006-JFS30-039 2007-JFS28-040 2008-JFS23-040 IT – Unavailable Program Change Documentation	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS21-030.
	2005-JFS46-056 2006-JFS31-040 2007-JFS29-041 2008-JFS24-041 IT – Missing Approval Documentation	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS22-031.
	2004-JFS34-050 2005-JFS47-057 2006-JFS32-041 2006-JFS33-042 2007-JFS30-042 2007-JFS31-043 2008-JFS25-042 2008-JFS26-043 IT – MMIS/ CRIS-E Edit Changes	No	These findings have been partially corrected in the FY 2009 Single Audit. A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services. Also see 2009-JFS23-032.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS52-068	No	These findings have been partially corrected in the FY 2009 Single Audit. A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services. Also see 2009-JFS23-032 thru 2009-JFS26-035.
	2005-JFS43-053		
	2006-JFS32-041 thru 2006-JFS36-045 2007-JFS30-042 thru 2007-JFS34-046 2008-JFS25-042 thru 2008-JFS29-046 IT – Level of Access to Production Environment		
	2004-JFS54-070	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- JFS25-034 and 2009- JFS26-035.
	2005-JFS44-054		
	2006-JFS35-044 2006-JFS36-045 2007-JFS33-045 2007-JFS34-046 2008-JFS28-045 2008-JFS29-046 IT – Unauthorized Access to SCOTI & OJI Profiles		
	2008-JFS30-047 IT – Novell Password Parameters	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
Ohio Department of Mental Health	2004-DMH01-074	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- DMH01-036.
	2005-DMH01-058		
	2006-DMH01-046 2007-DMH01-047 2008-DMH01-048 Medicaid/CHIP/SS BG – Subrecipient Monitoring		
Ohio Department of Public Safety	2008-DPS01-049 Homeland Security Cluster – Cash Management	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2008 THROUGH JUNE 30, 2009

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Public Safety (Continued)	2007-DHS02-049 2008-DPS02-050 Homeland Security Cluster – Inaccurate Federal Reports	Yes	
	2008-DPS03-051 Homeland Security Cluster – Federal Schedule	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Public Safety.
	2007-DHS03-050 2008-DPS04-052 Homeland Security Cluster - Equipment Management	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Public Safety.
Ohio Rehabilitation Services Commission	2008-RSC01-053 Vocational Rehabilitation and Social Security Disability Insurance – Cash Management	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- RSC01-037.
	2008-RSC02-054 Social Security Disability Insurance – Documentation of Internal Controls	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Rehabilitation Services Commission.
Ohio Department of Transportation	2007-DOT02-053 2008-DOT01-055 IT – Production Access to Mainframe Programs and Data	No	The finding has been re- peated in the FY 2009 Single Audit. See 2009- DOT03-040.



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
JUNE 29, 2010**