



Dave Yost • Auditor of State

STATE OF OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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¹ Due to additional information being included in Note 6, page 172 is now numbered 172.1 through 172.7

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2010, has been issued in a separate report by the Ohio Office of Budget and Management. This report can be viewed at the following website: <http://obm.ohio.gov/>



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EXECUTIVE SUMMARY 2010 STATE OF OHIO SINGLE AUDIT

AUDIT OF BASIC FINANCIAL STATEMENTS

There are 13 separate opinion units included in the basic financial statements of the State of Ohio for the fiscal year ended June 30, 2010. Four of the 13 opinion units are audited entirely or in part by independent accounting firms under contract with the Auditor of State. The remaining nine 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, 2010, 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 13 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, 2010, included six material weaknesses and three significant deficiencies from three separate state agencies. These comments are summarized on page 195 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 151 through 172, the State administered 368 federal programs from 22 Federal agencies with total federal expenditures of \$27.9 billion in fiscal year 2010. Of the \$27.9 billion, the State disbursed \$6.2 billion in funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009. This compares to \$779 million of ARRA funds disbursed in FY 2009.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2010, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding \$41.9 million. There were 30 programs at or above this amount. Type B programs were those programs with annual federal expenditures exceeding \$8.4 million, but less than \$41.9 million. There were 31 programs meeting the criteria for Type B programs. The identification of Type A and B programs is utilized for determining which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. Low-risk Type A programs must be tested at least once every three years. One high-risk Type B program is then selected for testing to replace each low-risk Type A program not required to be tested. The State of Ohio Single Audit included the testing of 30 Type A programs and two high-risk Type B programs as major programs in fiscal year 2010.

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

The State's colleges and universities' federal financial assistance, which was approximately \$3.3 billion in fiscal year 2010, is excluded from the State's Schedule although their financial activities are included in the State's financial statements (Discretely Presented Component Units). The State's colleges and universities included in the State's reporting entity are subject to separate audits under OMB Circular A-133.

In accordance with A-133, we issued an Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. Our report on compliance includes our opinion on compliance with the 32 major federal financial assistance programs and describes instances of noncompliance with Federal requirements we detected that require reporting per Circular A-133. This report also describes any material weaknesses or significant deficiencies we identified related to controls used to administer Federal financial assistance programs. Due to the significant questioned costs described below, we qualified our opinion on compliance related to Period of Availability for three major programs; Child Support Enforcement, Foster Care, and Adoption Assistance.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2010 Schedule of Findings and Questioned Costs contains 44 findings of which 21 were repeated from the fiscal year 2009 State of Ohio Single Audit. Two of these findings, beginning on page 181, relate only to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. One of the two comments discusses a state agency's controls over change management for their information technology system. The other comment relates to the state computer system's security access controls.

The 42 A-133 findings, beginning on page 197, relate to the federal programs at seven state agencies. Of these federal findings, many of which were rated as more than one type, 10 resulted in questioned costs (some also included control deficiencies), 12 were noncompliance (some also included control

deficiencies), 23 were identified as material weaknesses, and 11 were significant deficiencies. The 10 findings with questioned costs totaled \$104,971,476. A significant portion of the total questioned costs amount related to the one comment below:

- The Ohio Department of Job & Family Services had questioned costs of \$103,029,968 relating to five federal programs for Period of Availability. For the Supplemental Nutrition Assistance Program, the Department disbursed (or liquidated) \$2,841,726 from the FFY 2009 grants after the stated obligation/liquidation date of the grant award; for the Child Support Enforcement program, the Department disbursed \$30,791,812 from the FFY 2009 grants after the stated obligation/liquidation date of the grant award; for the Adoption Assistance program, the Department disbursed \$50,369,315 from the FFY 2009 grant after the stated obligation/liquidation date of the grant award; for the Foster Care program, the Department disbursed \$18,943,542 from the FFY 2009 grant after the stated obligation/liquidation date of the grant award; and for the Social Services Block Grant, the Department disbursed \$83,573 from the FFY 2002 grant after the stated obligation/liquidation date of the grant award. The finding and the related client corrective action plan begin on page 226.
- We also had two findings with undetermined questioned costs. Both of these findings occurred with the Ohio Department of Job & Family Services. For one finding, the Department was unable to provide documentation to the auditors that they complied with applicable cash management provisions for the mandatory and matching portion for the Child Care Cluster program, CFDA #93.596. The second finding conveyed that system alerts on income reported by program recipients did not agree with information maintained by outside sources. These system alerts were not consistently maintained in order to determine whether they had been resolved. The findings and client corrective action plans begin on page 248.

The schedule below identifies the number of reportable items included in the State of Ohio Single Audit from fiscal year 2005 through 2010. The schedule includes reportable items by state agency and findings which have been repeated over a number of years.

State Agency	2010	2009	2008	2007	2006	2005
Ohio Dept. of Job & Family Services	27	26	30	34	36	47
Ohio Department of Education	2	2	2	5	4	3
Ohio Department of Health	7	4	6	3	4	6
Ohio Dept. of Developmental Disabilities	1	0	0	0	0	3
Ohio Department of Development	1	0	1	2	1	1
Ohio Department of Mental Health	2	1	1	1	1	1
Ohio Department of Public Safety	N/A	0	4	3	0	1
Ohio Office of Budget and Management	0	0	4	1	0	0
Ohio Administrative Knowledge System	1	0	4	1	N/A	N/A
Ohio Dept. of Transportation	0	3	1	2	0	0
Other State Agencies	3	4	2	1	3	0
Total	44	40	55	53	49	62

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

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FINANCIAL SECTION



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable John Kasich, Governor
State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

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

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

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	93%	36%
Aggregate Discretely Presented Component Units	92%	97%
Aggregate Remaining Fund Information	94%	24%
Workers' Compensation	97%	100%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the

United States' Government Auditing Standards. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio, as of June 30, 2010, 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 are issuing our report dated January 21, 2011 under separate cover with the State of Ohio Single Audit report, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with Government Auditing Standards. You should read it in conjunction with this report in assessing the results of our audit.

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 aspects in relation to the basic financial statements taken as a whole.

The accompanying Federal Awards Expenditure Schedule replaces the Schedule for the State of Ohio's fiscal year ended June 30, 2010, previously issued with our report dated January 21, 2011. You should rely on this report rather than on our report dated January 21, 2011. The Schedule's Note 6 was revised to reflect borrowers that received American Reinvestment and Recovery Act Clean Water State Revolving Loan Fund (SRF) (CFDA #66.458) and Drinking Water SRF (CFDA #66.468) assistance.



Dave Yost
Auditor of State

January 21, 2011, except for our report on the Federal Awards Expenditure Schedule, for which the date is July 15, 2013.

State of Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

(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, 2010. 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 2010, net assets of the State's primary government decreased by \$264.2 million and ended fiscal year 2010 with a balance of \$20.2 billion. Net assets of the State's component units increased by \$568.2 million and ended fiscal year 2010 with a balance of \$12.44 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2010, can be found beginning on page 7.

Fund Financial Statements

Governmental funds reported combined ending fund balances of \$9.68 billion that was comprised of \$5.78 billion reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; \$7.83 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, loan commitments, and inventories; and a \$3.93 billion deficit. The balances and activities of the State's governmental funds are discussed further beginning on page 12.

As of June 30, 2010, the General Fund's fund balance was approximately \$493 million, including \$159 million reserved for "other" specific purposes, as detailed in NOTE 17; and \$475.3 million reserved for nonappropriable items. The General Fund's fund balance decreased by \$284.9 million (exclusive of a \$4.1 million increase in inventories) or 36.8 percent during fiscal year 2010. The balances and activities of the General Fund are discussed further beginning on page 12.

Proprietary funds reported net assets of \$2.10 billion, as of June 30, 2010, an increase of \$197.8 million since June 30, 2009. This increase is largely due to the net increase of \$1.31 billion in the Workers' Compensation Fund and the net increase of \$29.9 million in the Lottery Commission Fund which was offset by a \$1.14 billion decrease in the Unemployment Compensation Fund. 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 \$25.3 billion at June 30, 2010. The majority of the \$334.2 million increase during fiscal year 2010 was the acquisition of highway and bridge network infrastructure. Further discussion of the State's capital assets can be found beginning on page 16.

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

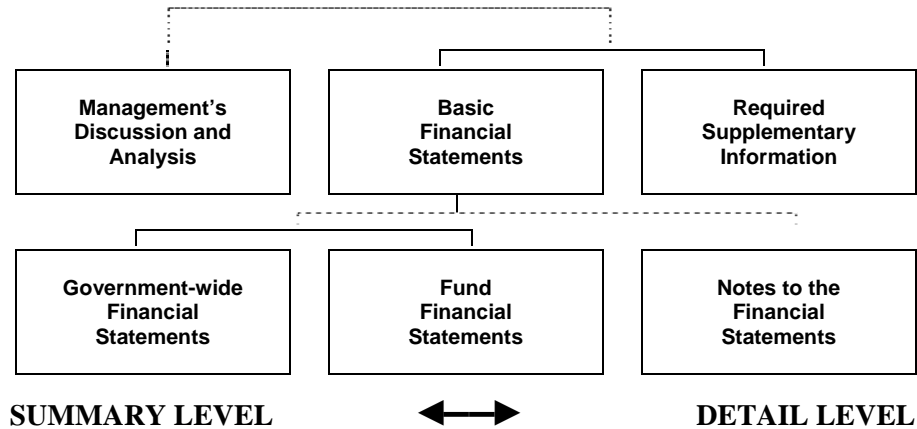
Overall, the carrying amount of total long-term debt for the State's primary government increased \$327.9 million or 1.99 percent during fiscal year 2010 and reported an ending balance of \$16.84 billion. During the year, the State issued, at par, \$1.48 billion in general obligation bonds, \$353 million in revenue bonds, and \$326.5 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, \$952.7 million and \$201.5 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

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program	Instances in which the State is the trustee or agent for someone else's resources
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund 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, 24 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 45 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 2010, as shown in the table below, the combined net assets of the State's primary government decreased \$264.2 million or 1.3 percent. Net assets reported for governmental activities decreased \$462 million or 2.5 percent and business-type activities increased \$197.8 million, or 10.4 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government
Statement of Net Assets
As of June 30, 2010
With Comparatives as of June 30, 2009
(dollars in thousands)

	As of June 30, 2010			As of June 30, 2009		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets and Deferred						
Outflows of Resources:						
Current Assets and Other						
Noncurrent Assets	\$ 17,955,313	\$ 25,718,770	\$ 43,674,083	\$ 19,435,873	\$ 23,544,273	\$ 42,980,146
Capital assets	25,148,054	182,446	25,330,500	24,879,536	116,742	24,996,278
Total Assets	<u>\$ 43,103,367</u>	<u>\$ 25,901,216</u>	<u>\$ 69,004,583</u>	<u>\$ 44,315,409</u>	<u>\$ 23,661,015</u>	<u>\$ 67,976,424</u>
Total Deferred Outflows of Resources	\$ 42,770	\$ -	\$ 42,770	\$ -	\$ -	\$ -
Liabilities						
Current and Other Liabilities...	\$ 7,550,457	\$ 89,187	\$ 7,639,644	\$ 8,707,862	\$ 67,592	\$ 8,775,454
Noncurrent Liabilities.....	17,499,511	23,707,252	41,206,763	17,049,410	21,686,444	38,735,854
Total Liabilities.....	<u>\$ 25,049,968</u>	<u>\$ 23,796,439</u>	<u>\$ 48,846,407</u>	<u>\$ 25,757,272</u>	<u>\$ 21,754,036</u>	<u>\$ 47,511,308</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 22,578,727	\$ 51,578	\$ 22,630,305	\$ 22,325,346	\$ 37,059	\$ 22,362,405
Restricted.....	2,902,122	86,616	2,988,738	2,343,646	80,131	2,423,777
Unrestricted.....	(7,384,680)	1,966,583	(5,418,097)	(6,110,855)	1,789,789	(4,321,066)
Total Net Assets.....	<u>\$ 18,096,169</u>	<u>\$ 2,104,777</u>	<u>\$ 20,200,946</u>	<u>\$ 18,558,137</u>	<u>\$ 1,906,979</u>	<u>\$ 20,465,116</u>

As of June 30, 2010, 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 \$22.63 billion. Restricted net assets were approximately \$2.99 billion, resulting in a \$5.42 billion deficit. Net assets are restricted when constraints on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide Statement of Net Assets reflects a \$7.38 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 \$9.68 billion of outstanding general obligation and special obligation debt at June 30, 2010, \$6.94 billion is attributable to debt issued for state assistance to component units (School Facilities Commission, Cultural Facilities Commission, and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Assets as restricted net assets. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

Additionally, as of June 30, 2010, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of \$444.8 million (see NOTE 14A.) and a \$694 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 2010 and 2009, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2010
With Comparatives for the Fiscal Year Ended June 30, 2009
(dollars in thousands)

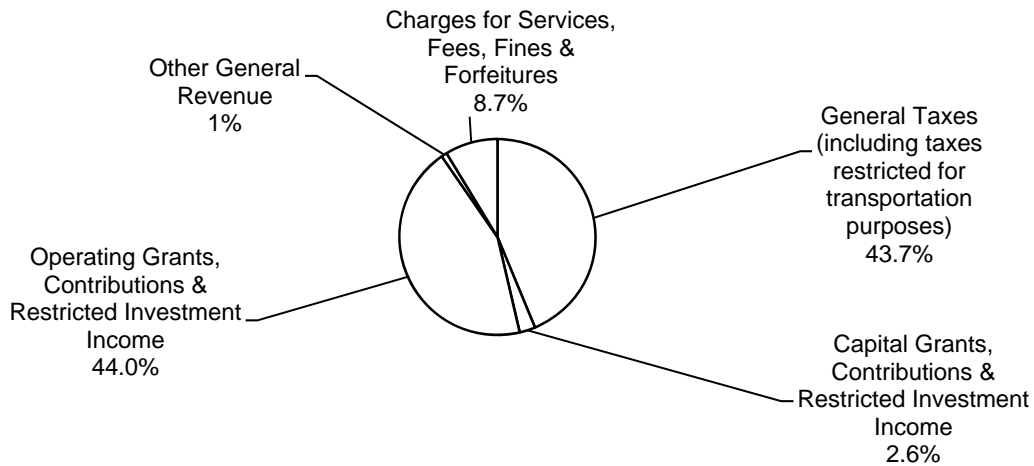
	Fiscal Year 2010			Fiscal Year 2009		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees,						
Fines and Forfeitures	\$ 4,114,638	\$ 6,722,648	\$ 10,837,286	\$ 3,648,227	\$ 6,750,214	\$ 10,398,441
Operating Grants, Contributions and						
Restricted Investment Income/ (loss)	20,839,250	5,403,784	26,243,034	18,225,832	1,028,756	19,254,588
Capital Grants, Contributions and						
Restricted Investment Income/ (loss)	1,241,422	-	1,241,422	1,198,200	-	1,198,200
Total Program Revenues	<u>26,195,310</u>	<u>12,126,432</u>	<u>38,321,742</u>	<u>23,072,259</u>	<u>7,778,970</u>	<u>30,851,229</u>
General Revenues:						
General Taxes	18,941,470	-	18,941,470	19,520,744	-	19,520,744
Taxes Restricted for Transportation	1,766,204	-	1,766,204	1,743,151	-	1,743,151
Tobacco Settlement	336,259	-	336,259	366,197	-	366,197
Escheat Property	160,755	-	160,755	117,172	-	117,172
Unrestricted Investment Income	(52,677)	-	(52,677)	(8,765)	-	(8,765)
Other	592	48	640	134	321	455
Total General Revenues	<u>21,152,603</u>	<u>48</u>	<u>21,152,651</u>	<u>21,738,633</u>	<u>321</u>	<u>21,738,954</u>
Total Revenue	<u>47,347,913</u>	<u>12,126,480</u>	<u>59,474,393</u>	<u>44,810,892</u>	<u>7,779,291</u>	<u>52,590,183</u>
Expenses:						
Primary, Secondary and Other Education	12,259,233	-	12,259,233	11,888,145	-	11,888,145
Higher Education Support	2,771,611	-	2,771,611	2,967,485	-	2,967,485
Public Assistance and Medicaid	18,828,082	-	18,828,082	17,903,102	-	17,903,102
Health and Human Services	4,003,033	-	4,003,033	4,061,765	-	4,061,765
Justice and Public Protection	3,077,704	-	3,077,704	3,251,316	-	3,251,316
Environmental Protection and						
Natural Resources	416,071	-	416,071	413,398	-	413,398
Transportation	2,187,406	-	2,187,406	2,171,475	-	2,171,475
General Government	620,090	-	620,090	642,467	-	642,467
Community and Economic Development	4,491,643	-	4,491,643	4,265,827	-	4,265,827
Interest on Long term Debt						
(excludes interest charged as						
program expense)	133,335	-	133,335	165,908	-	165,908
Workers' Compensation	-	2,861,222	2,861,222	-	2,158,753	2,158,753
Lottery Commission	-	1,816,213	1,816,213	-	1,774,308	1,774,308
Unemployment Compensation	-	5,605,830	5,605,830	-	3,485,942	3,485,942
Ohio Building Authority	-	22,492	22,492	-	26,837	26,837
Tuition Trust Authority	-	81,119	81,119	-	94,888	94,888
Liquor Control	-	489,087	489,087	-	479,919	479,919
Underground Parking Garage	-	3,755	3,755	-	2,804	2,804
Office of Auditor of State	-	70,637	70,637	-	85,575	85,575
Total Expenses	<u>48,788,208</u>	<u>10,950,355</u>	<u>59,738,563</u>	<u>47,730,888</u>	<u>8,109,026</u>	<u>55,839,914</u>
Surplus/ (Deficiency) Before Transfers	(1,440,295)	1,176,125	(264,170)	(2,919,996)	(329,735)	(3,249,731)
Transfers - Internal Activities	978,327	(978,327)	-	899,385	(899,385)	-
Change In Net Assets	(461,968)	197,798	(264,170)	(2,020,611)	(1,229,120)	(3,249,731)
Net Assets, July 1	18,558,137	1,906,979	20,465,116	20,578,748	3,136,099	23,714,847
Net Assets, June 30	<u>\$ 18,096,169</u>	<u>\$ 2,104,777</u>	<u>\$ 20,200,946</u>	<u>\$ 18,558,137</u>	<u>\$ 1,906,979</u>	<u>\$ 20,465,116</u>

Governmental Activities

Expenses exceeded revenues during fiscal year 2010 for governmental activities. When combined with transfers from the State’s business-type activities, net assets for governmental activities decreased from \$18.56 billion, at July 1, 2009, to \$18.10 billion, at June 30, 2010, or \$462 million. Revenues for fiscal year 2010 in the amount of \$47.35 billion were 5.7 percent higher than those reported for fiscal year 2009. General taxes (including taxes restricted for transportation purposes) comprised 43.7 percent of fiscal year 2010 total revenues and decreased by a modest 2.6 percent compared to fiscal year 2009. Operating grants, contributions and restricted investment income, making up 44 percent of total revenue, rose a significant 14.3 percent over the prior year. This increase is primarily due to the increased federal assistance resulting from the American Recovery and Reinvestment Act of 2009 (ARRA) for Medicaid and public assistance, education, and highway operations. Fiscal year 2010 net transfers of \$978.3 million, increased by 8.8 percent over fiscal year 2009. Reported expenses of \$48.79 billion represented a slight increase of 2.2 percent compared to fiscal year 2009.

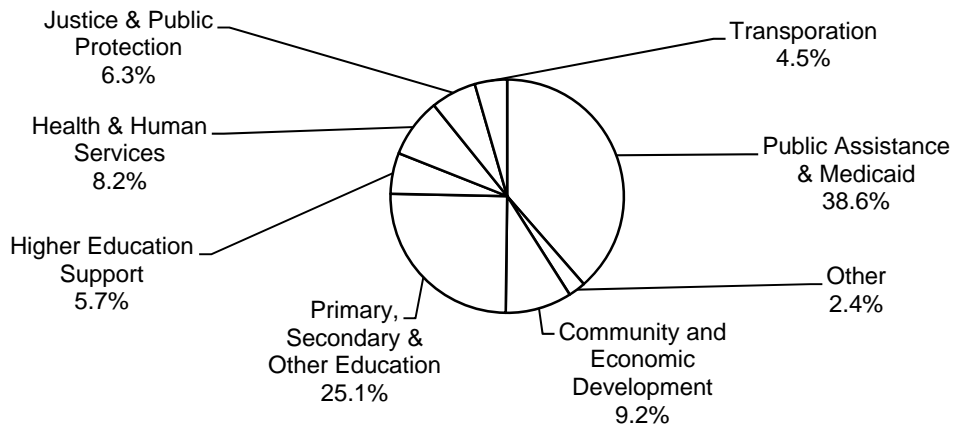
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2010.

**Governmental Activities – Sources of Revenue
Fiscal Year 2010**



Total FY 10 Revenue for Governmental Activities = \$47.35 Billion

**Governmental Activities – Expenses by Program
Fiscal Year 2010**



Total FY 10 Program Expenses for Governmental Activities = \$48.79 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, 2010 and 2009. 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, 2010
With Comparatives for the Fiscal Year Ended June 30, 2009
(dollars in thousands)

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

For the Fiscal Year Ended June 30, 2009				
Program	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses—All Programs
Primary, Secondary and Other Education.....	\$ 11,888,145	\$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.....	\$ 47,730,888	\$24,658,629	51.7%	51.7%

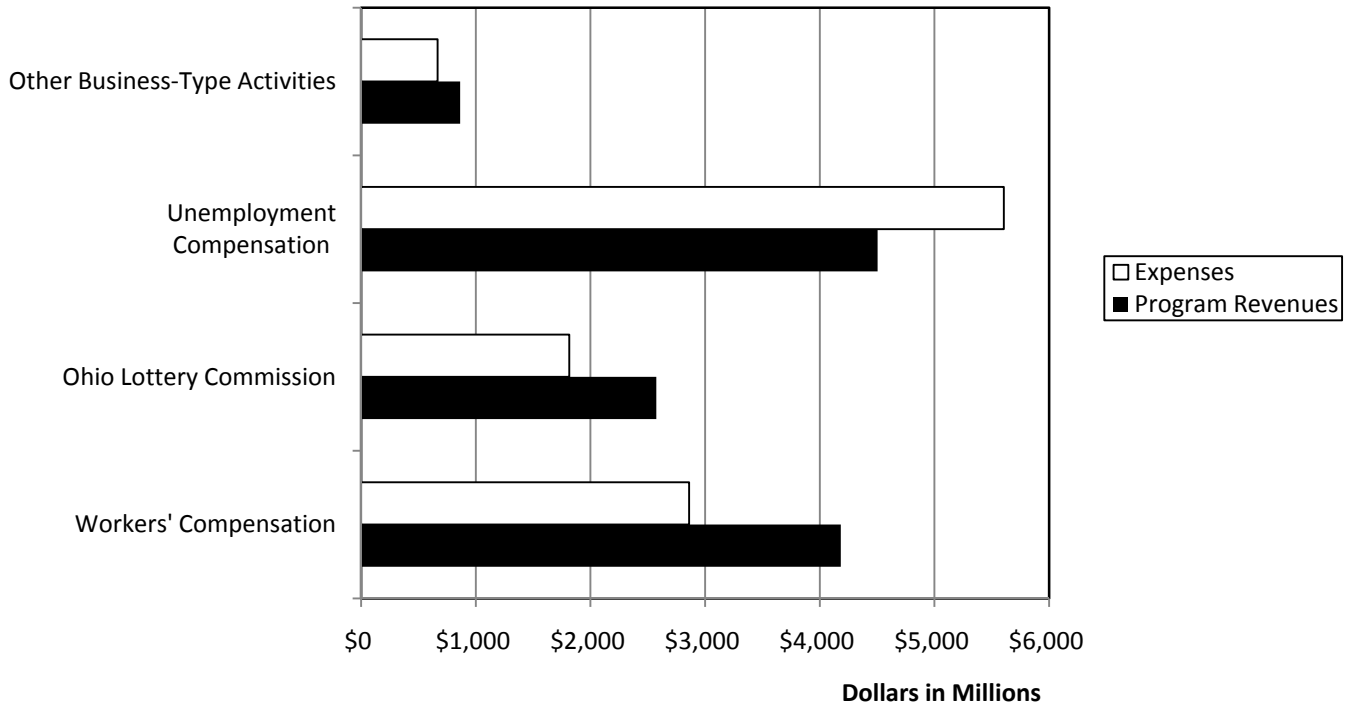
Business-Type Activities

The State's enterprise funds reported net assets of \$2.1 billion, as of June 30, 2010, as compared to \$1.91 billion in net assets, as of June 30, 2009, an increase of 10.4 percent. The primary increase in net assets for the business-type activities was the Workers' Compensation Fund, which reported net assets of \$3.83 billion, as of June 30, 2010, as compared to \$2.52 billion, as of June 30, 2009, a \$1.31 billion increase. The Lottery Commission Fund reported net assets of \$168.6 million, as of June 30, 2010, as compared to \$138.7 million, as of June 30, 2009, a \$29.9 million increase. The Tuition Trust Authority Fund also reported an increase in net assets. The Tuition Trust Authority Fund reported net assets of \$(47.5) million during fiscal year 2010 and \$(52.8) million during fiscal year 2009, an increase of \$5.4 million. The Unemployment Compensation Fund and the Liquor Control Fund, however, reported decreases in net assets during fiscal year 2010. The net assets in the Unemployment

Compensation Fund decreased \$1.14 billion from \$(761.2) million, as of June 30, 2009, to \$(1.91) billion, as of June 30, 2010. The net assets in the Liquor Control Fund decreased \$5.3 million from \$26.1 million, as of June 30, 2009, to \$20.8 million, as of June 30, 2010.

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

**Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2010**



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, 2010 and June 30, 2009 (dollars in thousands).

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

	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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2010, General Fund revenue decreased by \$1.21 billion while expenditures decreased by \$2.57 billion. Other sources and uses showed a large decline of net uses of \$181.4 million when compared with fiscal year 2009. As a result, the fund balance decreased by \$284.9 million (exclusive of a \$4.1 million increase in inventories) or 36.8 percent.

General Fund Budgetary Highlights

The State ended the first year of its 2010-11 biennial budget on June 30, 2010, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$524.3 million. Total budgetary sources for the General Fund (including \$1.48 billion in transfers from other funds) in the amount of \$26.32 billion were below final estimates by \$623.7 million or 2.3 percent during fiscal year 2010. Total tax receipts were below final estimates by \$121.5 million or .7 percent.

Total budgetary uses for the General Fund (including \$1.09 billion in transfers to other funds) in the amount of \$27.14 billion were below final estimates by \$1.15 billion or 4.1 percent for fiscal year 2010. There was no budget stabilization designation at June 30, 2009 for use in balancing the final fiscal year 2010 budget.

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

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

- An increase of 3.4 percent for Medicaid as well as Medicaid reform and cost containment initiatives.
- A .7 percent increase for corrections and youth services.
- Decreases of 8.3 percent for higher education and 5.15 percent for primary and secondary education.
- A decrease of 13.8 percent for mental health and developmental disabilities.
- Restructuring of \$736 million of fiscal years 2010 and 2011 GRF debt service into fiscal years 2012 through 2025.

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

- \$2.42 billion of funding under the American Recovery and Reinvestment Act of 2009, including \$1.46 billion for primary and secondary education, \$628 million for Federal Medical Assistance payments, and \$326 million for other purposes.
- \$933 million in gaming and license revenues from the Ohio Lottery Commission's implementation of video lottery terminals (VLTs). (In September 2009, the Ohio Supreme Court ruled that the VLT-enabling legislation in the Act was subject to referendum. In March 2010, the Secretary of State notified the committee for the petitioners that a referendum would be placed on the November 2010 ballot. In June 2010, the committee for the petitioners notified the Secretary of State that it was withdrawing the ballot issue).
- \$259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund to be deposited into a special State, non-GRF fund, to be used for various health care initiatives (pending Supreme Court decision outcome on allowable use).
- \$1.04 billion of "one-time" revenues or savings, including \$364 million from the spend-down of carry-forward balances (that required temporary suspension of the one-half of one percent of GRF revenue the State is required to maintain as an ending fund balance for the 2010-11 biennium); \$250 million transferred from Ohio School Facilities Commission funds with anticipated replacement through bond funding of school facilities in future biennia; \$272 million in savings through a two week unpaid "furlough" for State employees during each year of the biennium; \$84.3 million from a reduction in State funding to public libraries; and \$65 million from the transfer to the GRF of interest on the proceeds of the State's 2007 tobacco securitization.
- \$530 million from transfers to the GRF of unclaimed funds and from other non-GRF funds.

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

The State ended fiscal year 2010 with a GRF cash balance of \$510.4 million, a GRF budgetary fund balance of \$139.1 million, and a \$-0- balance in the Budget Stabilization Fund (BSF) with no designation of any GRF cash for transfer to the BSF for fiscal year 2011. The Office of Budget and Management is currently projecting and managing expenditures in support of a positive General Revenue Fund balance at the end of fiscal year 2011.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund*, had a fund balance of \$340.9 million at June 30, 2010, an increase of \$57.1 million, or 20.1 percent, compared to fiscal year 2009. This increase in fund balance is due to revenues exceeding expenditures by \$19.4 million, with net transfers totaling \$37.7 million.

Revenue for Licenses, Permits and Fees increased by \$528.7 million, or 110.2 percent, over fiscal year 2009. This increase was due to the establishment of a new, temporary (through October 1, 2011) assessment on hospital facility costs related to the Medicaid program to fund costs that otherwise would be charged to the General Fund, and to an increase in the Nursing Facility franchise fee.

Public assistance and Medicaid expenditures increased \$2.87 billion, or 44.1 percent, compared to the previous fiscal year. This increase in expenditures was largely offset by a \$2.35 billion, or 35.1 percent, increase in federal government revenue compared to the previous fiscal year. The increase in expenditures was primarily due to the Medicaid, TANF, Food Stamps and federally funded day-care programs. The continued downturn in the economy and high unemployment contributed to the increased program costs.

Health and Human Services expenditures increased by \$118.5 million, or 18.2 percent, over fiscal year 2009. This was mostly due to moving the PASSPORT program, which allows Medicaid-eligible seniors to receive community-based in-home services as an alternative to nursing home placement, from the General Fund to the Job, Family and Other Human Services Fund.

The increase in net transfers resulted from a transfer from the Unemployment Compensation Enterprise Fund of \$42.8 million for reimbursement of administrative costs associated with the program, an increase of \$38.9 million over the previous year.

The *Education Fund*, as of June 30, 2010, had a fund balance of \$80.9 million, a decrease of \$11.1 million, or 12 percent, since June 30, 2009. Revenues in the Education Fund increased by \$429.7 million, or 24.3 percent, in

fiscal year 2010. Expenditures increased by \$440.4 million, or 17.5 percent, compared to fiscal year 2009. The bulk of the change is due to an increase in primary, secondary, and other education expenditures. The increase in both revenues and expenditures is primarily due to the receipt and disbursement of federal money under the American Recovery and Reinvestment Act of 2009.

The fund balance for the *Highway Operating Fund*, as of June 30, 2010, totaled approximately \$1.17 billion, an increase of \$130 million (including a \$5.8 million decrease in inventories) or 12.4 percent since June 30, 2009. This was due to an excess of revenues over expenditures of \$147.3 million, which is an increase of \$211.3 million from fiscal year 2009. This change, coupled with a decrease in net transfers of \$99.9 million, contributed to the increase in fund balance.

Motor vehicle fuel tax revenue increased by \$46.2 million, or 7.5 percent, when compared to fiscal year 2009. This was due to a change in the law effective for fiscal years 2010 and 2011 concerning how the tax money is distributed, with the end result being the Department of Transportation receiving two percent of the tax proceeds as revenue instead of as transfers. Federal revenue increased by \$69.1 million, or 5.8 percent, as a result of revenues received under the American Recovery and Reinvestment Act of 2009, which more than offset a decline in traditional Federal Highway funding revenues.

The decrease in net transfers is attributable to an increase in transfers out of \$160 million, or 43.4 percent, compared to fiscal year 2009. This is due to changes in law that require the Highway Operating Fund to transfer \$100 million in motor vehicle fuel tax revenue during fiscal years 2010 and 2011 to the Ohio Public Works Commission, and due to changes in the law that require motor vehicle fuel taxes that previously were distributed directly into the Department of Public Safety to instead be funneled through the Highway Operating Fund as transfers-out.

For the *Revenue Distribution Fund*, the fund balance increased by \$42.5 million over the prior year for a fund deficit of \$191.7 million at June 30, 2010. Fiscal year 2010 net transfers out of \$443.5 million were less than the \$486 million excess of revenues over expenditures, thus causing the increase in fund balance.

Income taxes saw a decrease of \$55.7 million, or 8.1 percent. This decrease can be attributed to the current economy within the State, as discussed further in the economic outlook section.

Corporate and public utility tax revenues increased by \$164.5 million, or 10.1 percent, compared to fiscal year 2009. The fund's increased share of the collections of the commercial activities tax, which completed the phasing-in process in fiscal year 2010, accounted for the majority of the increase.

Expenditures in the Primary, Secondary and Other Education function increased by \$128 million, or 12.9 percent, compared to fiscal year 2009. This increase was primarily attributable to the final cessation of the tangible property tax. These expenditures are used to reimburse 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.

Transfers-in increased by \$180.6 million or 88.5 percent in fiscal year 2010 as compared to fiscal year 2009. The increase, primarily from the State's General Fund, was used to provide cash needed to cover the difference between revenue collected from the commercial activities tax, and the amount of cash needed to reimburse local school districts for revenues lost due to the phase-out of the tangible property tax.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2010, totaled approximately \$5.3 billion dollars, a decrease of \$75.9 million or 1.4 percent since June 30, 2009. The fund balance decline was due to decreases in tobacco settlement revenue of \$58 million and investment income of \$11.6 million, respectively, compared to fiscal year 2009. Tobacco settlement revenue decreased due to declining cigarette consumption and due to tobacco companies depositing more money into the disputed account during fiscal year 2010, as described in Note 19E. Debt Service expenditures totaling \$306 million dropped by \$74.6 million, or 19.6 percent, 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 \$1.31 billion increase in net assets was primarily due to investment income of \$2.05 billion, an increase of \$2.24 billion over fiscal year 2009. The increase in investment income is primarily attributable to a \$1.3 billion net increase in the fair value of the investment portfolio in fiscal year 2010. Measures taken by the Bureau of Workers' Compensation (BWC) Board of Directors to boost returns included

implementation of a strategy to diversify fixed and equity investments within the State Insurance Fund; a comprehensive update to the investment policy statement; and the selection of investment managers to execute BWC's passive investment strategy. These measures netted an approximate return of 12 percent, after management fees, during fiscal year 2010.

During fiscal year 2010, the benefit and claims expense increased to \$2.74 billion, exceeding premium and assessment income by \$619 million. Benefits and claims expense increased \$663.5 million over the prior year due to a discount rate reduction to 4 percent. The effect of the rate change was lessened due to lower estimates for future medical expense as a result of lower claim frequencies and a decrease in the medical inflation rate. A 12 percent reduction in premium rates, affecting a majority of Ohio's private employers, contributed to a \$242.5 million reduction in premium and assessment income over the prior year. Administration expenses increased \$31.2 million as the result of a reduction to the compensation adjustment expense allocation to 68.8 percent.

For fiscal year 2010, the *Lottery Commission Fund* reported \$758.9 million in net income before transfers of \$728.6 million and \$335 thousand to the Education and General funds, respectively, posting a \$29.9 million, or 21.6 percent, increase in the fund's net assets. Ticket sales increased approximately three percent increasing sales from \$2.42 billion in fiscal year 2009 to \$2.49 billion in fiscal year 2010. The online game KENO with the new Booster option and the introduction of the multistate game Powerball/Power Play contributed to the increase. Prizes expenses were \$1.51 billion as of June 30, 2010, compared to \$1.46 billion, as of June 30, 2009, an increase of approximately \$54.7 million or 3.7 percent. This increase was in proportion to ticket sales. During fiscal year 2010, depreciation expense increased by \$16.2 million to \$18 million as a result of new gaming equipment. The administration expense during fiscal year 2010 decreased by \$32.7 million to \$89.4 million. Investment income increased \$12 million or 21.6 percent during fiscal year 2010.

The \$1.14 billion decrease in net assets in the *Unemployment Compensation Fund* is due to the continued economic downturn in Ohio. The sluggish economy kept unemployment rates high resulting in more benefits paid and over longer periods of time. The unemployment rate in Ohio rose to a high of 11.8 percent during fiscal year 2010 compared to a high of 10.8 percent during fiscal year 2009. These factors resulted in benefits and claims expenses of \$5.61 billion, an increase of approximately \$2.12 billion or 60.8 percent from the previous year with premiums and assessment income rising a modest \$103.1 million or 9.4 percent. Federal grant funding rose sharply in fiscal year 2010 with a \$2.11 billion increase over the prior year. Investment income decreased \$8.94 million from fiscal year 2009 levels.

In order to maintain current benefit levels, federal loans were required. This resulted in a \$2.31 billion non-current intergovernmental payable at June 30, 2010. The State anticipates Federal assistance to continue into future fiscal years.

Nonmajor Proprietary Funds

The *Tuition Trust Authority Fund* ended fiscal year 2010 with a \$47.5 million deficit compared to the fiscal year 2009 deficit of \$52.8 million. Investment income of \$62.2 million, an increase of \$149.5 million or 171.2 percent from the previous year contributed to the change. The swing in investments is due to the increase in the fair value of investments due to positive returns in fiscal year 2010. Actuarial tuition benefits expense (which is reflected as "Other" operating revenues in the financial statements) was \$15.6 million, a \$135.7 million, or 89.7 percent decrease. This was the result of the change in tuition benefits payable from fiscal year 2009 to fiscal year 2010 due to tuition inflation and investment returns being higher than anticipated. Benefits and claims expenses decreased \$13.1 million, from \$84.5 million for fiscal year 2009 to \$71.4 million for fiscal year 2010. The drop in expenses is attributed to less reallocations to variable investment options within the Guaranteed Savings Plan and less redemptions in fiscal year 2010 verses fiscal year 2009.

The *Liquor Control Fund* reported a decrease in net assets of \$5.3 million, or 20.5 percent, after transferring \$167.7 million to the General Fund and \$55.3 million to other governmental funds. Transfers increased \$9.5 million or 4.4 percent over fiscal year 2009.

In fiscal year 2010, transfers from proprietary funds to governmental funds totaled \$1.01 billion, up \$70 million or 7.4 percent when compared to the \$943.1 million in transfers-out reported in fiscal year 2009.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010 and June 30, 2009, the State had invested \$25.3 billion and \$25 billion, respectively, net of accumulated depreciation of \$2.94 billion and \$2.82 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, 2010
With Comparatives as of June 30, 2009
(dollars in thousands)

	As of June 30, 2010			As of June 30, 2009		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 1,972,225	\$ 11,994	\$ 1,984,219	\$ 1,927,909	\$ 11,994	\$ 1,939,903
Buildings	1,867,937	80,790	1,948,727	1,898,089	85,940	1,984,029
Land Improvements	189,624	11	189,635	210,117	12	210,129
Machinery and Equipment	196,188	87,524	283,712	180,448	16,389	196,837
Vehicles	118,412	2,127	120,539	125,520	2,407	127,927
Infrastructure:						
Highway Network:						
General Subsystem	8,492,573	-	8,492,573	8,445,695	-	8,445,695
Priority Subsystem	7,654,329	-	7,654,329	7,542,770	-	7,542,770
Bridge Network	2,843,787	-	2,843,787	2,559,462	-	2,559,462
Parks, Recreation, and Natural Resources System	67,606	-	67,606	56,384	-	56,384
	<u>23,402,681</u>	<u>182,446</u>	<u>23,585,127</u>	<u>22,946,394</u>	<u>116,742</u>	<u>23,063,136</u>
Construction-in-Progress	1,745,373	-	1,745,373	1,933,142	-	1,933,142
Total Capital Assets, Net	<u>\$ 25,148,054</u>	<u>\$ 182,446</u>	<u>\$ 25,330,500</u>	<u>\$ 24,879,536</u>	<u>\$ 116,742</u>	<u>\$ 24,996,278</u>

During fiscal year 2010, the State recognized \$314.2 million in annual depreciation expense relative to its general governmental capital assets as compared with \$303.9 million in annual depreciation expense recognized in fiscal year 2009. The State also recognized \$31.3 million in annual depreciation expense relative to its business-type capital assets as compared with \$16.5 million in annual depreciation expense recognized in fiscal year 2009.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2010 totaling approximately \$639.3 million, as compared with \$315.6 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.3 percent (approximately a 1.1 percent increase for governmental activities and a 56.3 percent increase for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had \$140.8 million in major construction commitments (unrelated to infrastructure), as of June 30, 2010, as compared with the \$45.3 million balance reported for June 30, 2009.

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 42,891 in lane miles of highway (12,932 in lane miles for the priority highway subsystem and 29,959 in lane miles for the general highway subsystem) and approximately 105.4 million square feet of deck area that comprises 14,253 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 2009, indicates that

only 2 percent and 4.5 percent of the priority and general subsystems, respectively, were assigned a “poor” condition rating. For calendar year 2008, only 2.3 percent and 4.7 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 2009, indicates that only 3.3 percent and .6 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively. For calendar year 2008, 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 fiscal year 2010, total actual maintenance and preservation costs for the priority and general subsystems were \$394 million and \$299.5 million, respectively, compared to estimated costs of \$357.4 million for the priority system and \$209.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was \$330.3 million compared to estimated costs of \$330.6 million. For the previous fiscal year, 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. The State’s costs for actual maintenance and preservation 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, 2010 and June 30, 2009, the State had total debt of approximately \$16.84 billion and \$16.51 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2010
With Comparatives as of June 30, 2009
(dollars in thousands)

	As of June 30, 2010			As of June 30, 2009		
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	\$ 7,343,289	\$ -	\$ 7,343,289	\$ 7,138,051	\$ -	\$ 7,138,051
Revenue Bonds and Notes.....	6,891,331	64,200	6,955,531	6,646,593	80,657	6,727,250
Special Obligation Bonds	2,338,094	-	2,338,094	2,427,556	-	2,427,556
Certificates of Participation	200,428	-	200,428	216,537	-	216,537
Total Debt	<u>\$16,773,142</u>	<u>\$64,200</u>	<u>\$16,837,342</u>	<u>\$16,428,737</u>	<u>\$80,657</u>	<u>\$16,509,394</u>

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 2010, the State issued, at par, \$1.48 billion in general obligation bonds, \$353 million in revenue bonds, and \$326.5 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, \$952.7 million and \$201.5 million, respectively, were refunding bonds. The total increase in the State’s debt obligations for the current fiscal year, as based on carrying amount, was 1.99 percent (a 2.1 percent increase for governmental activities and a 20.4 percent decrease for business-type activities).

Credit Ratings

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

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

The State’s revenue bonds are rated as follows:

Revenue Bonds	Fitch	Moody’s	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development.....	AA-	Aa2	AA	Net Liquor Profits
State Infrastructure Bank.....	AA-	Aa1	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects	AA-	Aa3	AA-	Net Liquor Profits
Buckeye Tobacco Settlement Financing Authority	BBB-	Baa3	BB-	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers’ Compensation.....	AA	Aa3	AA	Workers’ Compensation Enterprise Fund

The respective ratings assigned to the Bonds by Fitch and Moody’s reflect those agencies’ recalibrations of their municipal rating scales in April 2010. According to those rating agencies, their recalibrations are to provide a greater degree of comparability of ratings among all issuers and obligations rated by each agency. Fitch and Moody’s have each announced that market participants should not view their recalibrations of municipal ratings as rating upgrades or as an improvement in the credit quality of the underlying securities, but rather as recalibrations of their ratings to different rating scales, denoting a comparable level of credit risk as ratings for other sectors. Further information regarding the recalibrations may be obtained directly from Fitch or Moody’s.

On June 10, 2009, Fitch revised from “negative” to “stable” its “credit outlook” associated with its general obligation credit rating of the State. On August 24, 2009, Moody’s revised from “stable” to “negative” its “credit outlook” associated with its general obligation credit rating of the State. On September 23, 2009, S&P also revised its “credit outlook” on the State from “stable” to “negative” associated with its general obligation credit rating of the State.

A 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. The ratings outlooks in effect from time to time reflect only the views of the particular rating organization. An explanation of its view of the meaning and significance of its rating outlook may be obtained from the respective rating agency.

Limitations on Debt

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

Those direct obligations of the state include general obligation and special obligation bonds that are paid from the state’s GRF, but exclude general obligation debt for Third Frontier Research and Development, development of sites and facilities, and veterans compensation, and general obligation bonds payable from non-GRF funds (such as highway bonds that are paid from highway user receipts. Pursuant to the implementing legislation, the Governor has designated the Director of the Ohio Office of Budget and Management as the State official responsible for making the five percent determinations and certifications. Application of the five percent cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly and may be changed by future constitutional amendments.

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

Conditions Expected to Affect Future Operations

Economic Factors

Through October 2010, the State's economy has continued to make slow, but positive progress as it recovers from the national recession. For the budget biennium, taxes have performed better than estimated and there has been good year-over-year growth. The State's unemployment rate has decreased to 10 percent from a high of 11 percent in March 2010. However, much of the gains in employment early in calendar year 2010 have reversed as of October 2010.

The national economy also continues its slow expansion. Real gross domestic product (GDP) increased by 2 percent in the third quarter of calendar year 2010 and marks a fourth consecutive quarterly increase. Modest growth is expected for the fourth quarter of calendar year 2010.

Nationally, total employment realized its best increase in October 2010 since May and the national unemployment rate held steady at 9.6 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.

For fiscal year 2011, total fiscal year-to-date GRF receipts through October 2010 are \$4 million above estimates and \$700.7 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2010 are \$29.4 million above estimates for the first four months of fiscal year 2011 and \$460.4 million above expenditures for the first four months of the prior fiscal year. As of October 2010, both receipts and disbursements are within one percent of budget estimates for fiscal year 2011. Furthermore, fiscal year 2011 receipts are approximately 8.9 percent ahead of receipts for the first four months of fiscal year 2010. Disbursements for fiscal year 2011 are approximately 4.8 percent above disbursements for the same time period of fiscal year 2010.

Unemployment Compensation Fund

Due to the declining revenues and rising unemployment claims resulting from the challenging economic climate, the State has sought federal assistance in meeting its unemployment benefit costs. In accordance with Title XII of the Social Security Act, the State has drawn repayable advances in the Unemployment Trust Fund of \$2.31 billion from the Federal Unemployment Account to cover the insufficient State funds for benefit claims during fiscal years 2009 and 2010. 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.

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BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2010
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer.....	\$ 5,446,083	\$ 100,858	\$ 5,546,941	\$ 979,187
Cash and Cash Equivalents.....	114,313	578,990	693,303	1,420,971
Investments.....	897,492	18,618,567	19,516,059	6,270,556
Collateral on Lent Securities.....	1,657,827	26,089	1,683,916	776,030
Deposit with Federal Government.....	—	384,416	384,416	—
Taxes Receivable.....	1,306,080	—	1,306,080	—
Intergovernmental Receivable.....	1,996,042	9,705	2,005,747	78,548
Premiums and				
Assessments Receivable.....	—	3,893,950	3,893,950	—
Investment Trade Receivable.....	—	126,696	126,696	—
Loans Receivable, Net.....	1,147,677	—	1,147,677	293,213
Receivable from Primary Government.....	—	—	—	43,292
Receivable from Component Units.....	3,887,358	—	3,887,358	—
Other Receivables.....	534,389	363,509	897,898	1,261,815
Inventories.....	90,731	42,136	132,867	65,755
Other Assets.....	112,686	24,328	137,014	605,366
Restricted Assets:				
Cash Equity with Treasurer.....	—	68	68	482,652
Cash and Cash Equivalents.....	138,098	93	138,191	449,327
Investments.....	389,026	1,278,427	1,667,453	1,239,098
Collateral on Lent Securities.....	—	267,929	267,929	—
Loans Receivable, Net.....	—	—	—	4,146,360
Other Receivables.....	237,511	3,009	240,520	—
Capital Assets Being Depreciated, Net.....	2,377,567	170,452	2,548,019	8,759,269
Capital Assets Not Being Depreciated.....	22,770,487	11,994	22,782,481	1,193,451
TOTAL ASSETS.....	43,103,367	25,901,216	69,004,583	28,064,890
Deferred Outflows of Resources.....	42,770	—	42,770	38,709
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....	43,146,137	25,901,216	69,047,353	28,103,599
LIABILITIES:				
Accounts Payable.....	693,313	46,446	739,759	503,941
Accrued Liabilities.....	472,098	6,813	478,911	669,168
Medicaid Claims Payable.....	1,095,425	—	1,095,425	—
Obligations Under Securities Lending.....	1,657,827	294,018	1,951,845	776,030
Investment Trade Payable.....	—	234,479	234,479	—
Intergovernmental Payable.....	2,028,800	209	2,029,009	4,358
Internal Balances.....	701,819	(701,819)	—	—
Payable to Primary Government.....	—	—	—	3,887,358
Payable to Component Units.....	43,292	—	43,292	—
Unearned Revenue.....	243,167	1,132	244,299	445,601
Benefits Payable.....	—	6,964	6,964	—
Refund and Other Liabilities.....	614,716	200,945	815,661	108,847
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	816,634	15,865	832,499	896,699
Due in More Than One Year.....	15,756,080	48,335	15,804,415	6,118,159
Certificates of Participation:				
Due in One Year.....	19,326	—	19,326	445
Due in More Than One Year.....	181,102	—	181,102	3,800
Other Noncurrent Liabilities:				
Due in One Year.....	153,536	2,522,659	2,676,195	1,061,503
Due in More Than One Year.....	572,833	21,120,393	21,693,226	1,190,557
TOTAL LIABILITIES.....	25,049,968	23,796,439	48,846,407	15,666,466

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>	22,578,727	51,578	22,630,305	5,689,553
<i>Restricted for:</i>				
<i>Primary, Secondary and Other Education.....</i>	38,495	—	38,495	467,559
<i>Transportation and Highway Safety.....</i>	1,601,532	—	1,601,532	—
<i>State and Local</i>				
<i>Highway Construction.....</i>	117,769	—	117,769	—
<i>Federal Programs.....</i>	85,232	—	85,232	24
<i>Coal Research</i>				
<i>and Development Program.....</i>	—	—	—	41,445
<i>Clean Ohio Program.....</i>	47,254	—	47,254	—
<i>Community and Economic Development</i>				
<i>and Capital Purposes.....</i>	1,001,840	—	1,001,840	42,831
<i>Debt Service.....</i>	—	—	—	2,936,136
<i>Enterprise Bond Program.....</i>	10,000	—	10,000	—
<i>Deferred Lottery Prizes.....</i>	—	86,616	86,616	—
<i>Nonexpendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	2,957,780
<i>Expendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,830,267
<i>Unrestricted.....</i>	(7,384,680)	1,966,583	(5,418,097)	(1,528,462)
TOTAL NET ASSETS.....	\$ 18,096,169	\$ 2,104,777	\$ 20,200,946	\$ 12,437,133

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)		
PRIMARY GOVERNMENT:						
GOVERNMENTAL ACTIVITIES:						
Primary, Secondary and Other Education.....	\$ 12,259,233	\$ 40,730	\$ 2,574,401	\$ —	\$ (9,644,102)	
Higher Education Support	2,771,611	3,672	323,111	—	(2,444,828)	
Public Assistance and Medicaid	18,828,082	1,302,439	14,280,726	—	(3,244,917)	
Health and Human Services	4,003,033	276,596	2,715,888	—	(1,010,549)	
Justice and Public Protection	3,077,704	996,420	314,096	391	(1,766,797)	
Environmental Protection and Natural Resources.....	416,071	201,812	81,824	388	(132,047)	
Transportation	2,187,406	129,639	40,180	1,228,613	(788,974)	
General Government	620,090	683,603	23,220	521	87,254	
Community and Economic Development.....	4,491,643	479,727	485,804	11,509	(3,514,603)	
Interest on Long-Term Debt (excludes interest charged as program expense).....	133,335	—	—	—	(133,335)	
TOTAL GOVERNMENTAL ACTIVITIES.....	48,788,208	4,114,638	20,839,250	1,241,422	(22,592,898)	
BUSINESS-TYPE ACTIVITIES:						
Workers' Compensation.....	2,861,222	2,133,439	2,049,621	—	1,321,838	
Lottery Commission.....	1,816,213	2,498,785	76,295	—	758,867	
Unemployment Compensation.....	5,605,830	1,304,308	3,200,074	—	(1,101,448)	
Ohio Building Authority.....	22,492	24,109	19	—	1,636	
Tuition Trust Authority.....	81,119	8,738	77,768	—	5,387	
Liquor Control.....	489,087	706,736	—	—	217,649	
Underground Parking Garage.....	3,755	3,222	7	—	(526)	
Office of Auditor of State.....	70,637	43,311	—	—	(27,326)	
TOTAL BUSINESS-TYPE ACTIVITIES.....	10,950,355	6,722,648	5,403,784	—	1,176,077	
TOTAL PRIMARY GOVERNMENT.....	\$ 59,738,563	\$ 10,837,286	\$ 26,243,034	\$ 1,241,422	\$ (21,416,821)	
COMPONENT UNITS:						
School Facilities Commission.....	\$ 862,026	\$ 8,161	\$ 54,278	\$ —	\$ (799,587)	
Ohio Water Development Authority.....	163,291	147,814	164,379	—	148,902	
Ohio State University.....	4,332,402	3,097,234	781,529	15,545	(438,094)	
University of Cincinnati.....	1,269,169	750,430	362,232	11,067	(145,440)	
Other Component Units.....	5,049,010	3,010,868	970,991	69,626	(997,525)	
TOTAL COMPONENT UNITS.....	\$ 11,675,898	\$ 7,014,507	\$ 2,333,409	\$ 96,238	\$ (2,231,744)	

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.....	\$ (22,592,898)	\$ 1,176,077	\$ (21,416,821)	\$ (2,231,744)
General Revenues:				
Taxes:				
Income.....	7,760,084	—	7,760,084	—
Sales.....	7,295,428	—	7,295,428	—
Corporate and Public Utility	2,351,084	—	2,351,084	—
Cigarette.....	886,875	—	886,875	—
Other.....	647,999	—	647,999	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,766,204	—	1,766,204	—
Total Taxes.....	20,707,674	—	20,707,674	—
Tobacco Settlement.....	336,259	—	336,259	—
Escheat Property.....	160,755	—	160,755	—
Unrestricted Investment Income.....	(52,677)	—	(52,677)	556,683
State Assistance	—	—	—	2,003,444
Other.....	592	48	640	78,870
Additions to Endowments and Permanent Fund Principal.....				
	—	—	—	66,108
Transfers-Internal Activities.....	978,327	(978,327)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS AND TRANSFERS.....	22,130,930	(978,279)	21,152,651	2,705,105
CHANGE IN NET ASSETS.....	(461,968)	197,798	(264,170)	473,361
NET ASSETS, JULY 1 (as restated).....	18,558,137	1,906,979	20,465,116	11,963,772
NET ASSETS, JUNE 30.....	\$ 18,096,169	\$ 2,104,777	\$ 20,200,946	\$ 12,437,133

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer.....	\$ 1,167,885	\$ 292,099	\$ 96,143
Cash and Cash Equivalents.....	9,735	2,736	7
Investments.....	519,636	5,760	447
Collateral on Lent Securities.....	336,317	83,247	27,400
Taxes Receivable	730,679	—	—
Intergovernmental Receivable.....	830,875	546,189	112,809
Loans Receivable, Net	231,446	—	—
Interfund Receivable	3,082	—	—
Receivable from Component Units.....	—	—	—
Other Receivables	76,062	363,822	788
Inventories	29,069	—	—
Other Assets	14,354	2,446	7,888
TOTAL ASSETS	\$ 3,949,140	\$ 1,296,299	\$ 245,482
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 130,497	\$ 232,192	\$ 13,686
Accrued Liabilities.....	182,382	28,416	2,916
Medicaid Claims Payable.....	932,688	3,643	—
Obligations Under Securities Lending.....	336,317	83,247	27,400
Intergovernmental Payable.....	389,378	389,929	76,149
Interfund Payable.....	593,903	13,848	2,757
Payable to Component Units.....	11,642	1,219	1,837
Deferred Revenue.....	295,105	87,157	8,283
Unearned Revenue.....	—	107,049	31,539
Refund and Other Liabilities.....	577,796	8,716	—
Liability for Escheat Property.....	6,390	—	—
TOTAL LIABILITIES.....	3,456,098	955,416	164,567
FUND BALANCES (DEFICITS):			
Reserved for:			
Debt Service.....	—	—	—
Encumbrances.....	219,934	1,605,754	24,737
Noncurrent Portion of Loans Receivable.....	226,258	—	—
Loan Commitments.....	—	—	—
Inventories.....	29,069	—	—
State and Local Highway Construction.....	—	—	—
Federal Programs.....	—	10,030	11,494
Other.....	158,993	28,708	230
Unreserved/Undesignated:			
General Fund.....	(141,212)	—	—
Special Revenue Funds.....	—	(1,303,609)	44,454
Capital Projects Funds.....	—	—	—
TOTAL FUND BALANCES (DEFICITS)	493,042	340,883	80,915
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 3,949,140	\$ 1,296,299	\$ 245,482

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
\$ 1,089,777	\$ 204,178	\$ —	\$ 2,596,001	\$ 5,446,083
439	5,914	138,098	95,482	252,411
—	—	389,026	371,649	1,286,518
310,473	58,190	—	842,200	1,657,827
69,258	502,113	—	4,030	1,306,080
71,802	—	—	434,367	1,996,042
115,993	—	—	800,238	1,147,677
725	92,035	886,507	3,219	985,568
—	—	3,887,358	—	3,887,358
2,326	—	237,510	91,092	771,600
40,768	—	—	20,894	90,731
4,045	—	—	6,009	34,742
\$ 1,705,606	\$ 862,430	\$ 5,538,499	\$ 5,265,181	\$ 18,862,637
\$ 104,199	\$ —	\$ —	\$ 212,901	\$ 693,475
33,074	—	—	70,871	317,659
—	—	—	159,094	1,095,425
310,473	58,190	—	842,200	1,657,827
644	945,076	—	227,624	2,028,800
78,926	1,142	—	996,811	1,687,387
400	—	—	28,194	43,292
2,924	8,754	237,487	153,250	792,960
—	6,914	—	97,665	243,167
—	34,072	—	760	621,344
—	—	—	—	6,390
530,640	1,054,148	237,487	2,789,370	9,187,726
—	—	5,301,012	41,393	5,342,405
2,072,947	235	—	2,533,462	6,457,069
114,349	—	—	788,613	1,129,220
—	—	—	150,959	150,959
40,768	—	—	20,894	90,731
—	117,769	—	—	117,769
4,891	—	—	29,779	56,194
7,001	—	—	70,452	265,384
—	—	—	—	(141,212)
(1,064,990)	(309,722)	—	(965,642)	(3,599,509)
—	—	—	(194,099)	(194,099)
1,174,966	(191,718)	5,301,012	2,475,811	9,674,911
\$ 1,705,606	\$ 862,430	\$ 5,538,499	\$ 5,265,181	\$ 18,862,637

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010
(dollars in thousands)

Total Fund Balances for Governmental Funds..... **\$ 9,674,911**

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.....	1,972,225
Buildings and Improvements, net of \$1,820,165 accumulated depreciation.....	1,867,937
Land Improvements, net of \$223,297 accumulated depreciation.....	189,624
Machinery and Equipment, net of \$518,231 accumulated depreciation.....	196,188
Vehicles, net of \$163,948 accumulated depreciation.....	118,412
Infrastructure, net of \$12,035 accumulated depreciation.....	19,058,295
Construction-in-Progress.....	1,745,373
	<u>25,148,054</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.....	154,915
Intergovernmental Receivable.....	312,120
Other Receivables.....	318,037
Other Assets.....	7,888
	<u>792,960</u>

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

77,944

Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.

42,770

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.....	(154,439)
<i>Bonds and Notes Payable:</i>	
General Obligation Bonds.....	(7,343,289)
Revenue Bonds.....	(6,891,331)
Special Obligation Bonds.....	(2,338,094)
Certificates of Participation.....	(200,428)
<i>Other Noncurrent Liabilities:</i>	
Compensated Absences.....	(444,775)
Capital Leases Payable.....	(8,624)
Derivatives.....	(55,784)
Estimated Claims Payable.....	(10,071)
Pollution Remediation, net of liabilities reported as accounts payable in the funds and recoveries reported above as other receivables.....	(5,440)
Liability for Escheat Property.....	(188,195)
	<u>(17,640,470)</u>

Total Net Assets of Governmental Activities..... **\$ 18,096,169**

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, 2010

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes.....	\$ 7,172,356	\$ —	\$ —
Sales Taxes.....	7,108,573	—	—
Corporate and Public Utility Taxes.....	549,596	—	—
Motor Vehicle Fuel Taxes.....	—	—	—
Cigarette Taxes.....	886,875	—	—
Other Taxes.....	589,121	2,270	—
Licenses, Permits and Fees.....	237,690	1,008,517	1,676
Sales, Services and Charges.....	51,811	39	541
Federal Government.....	6,753,767	9,046,746	2,173,006
Tobacco Settlement.....	—	—	—
Escheat Property.....	113,131	—	—
Investment Income.....	(12,331)	5,911	1,409
Other.....	498,261	171,684	23,846
TOTAL REVENUES.....	23,948,850	10,235,167	2,200,478
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education.....	7,759,951	476	2,905,395
Higher Education Support.....	2,278,892	1,458	33,421
Public Assistance and Medicaid.....	9,465,576	9,376,111	—
Health and Human Services.....	984,564	767,903	3,177
Justice and Public Protection.....	2,004,581	63,210	16,621
Environmental Protection and Natural Resources.....	63,740	—	—
Transportation.....	17,045	—	—
General Government.....	350,757	3,923	—
Community and Economic Development.....	794,243	11	—
CAPITAL OUTLAY.....	—	2,690	—
DEBT SERVICE.....	—	—	—
TOTAL EXPENDITURES.....	23,719,349	10,215,782	2,958,614
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	229,501	19,385	(758,136)
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued.....	97,739	—	—
Refunding Bonds Issued.....	—	—	—
Payment to Refunded Bond Escrow Agents.....	—	—	—
Premiums/Discounts.....	3,560	—	—
Capital Leases.....	708	—	—
Transfers-in.....	373,807	53,772	747,510
Transfers-out.....	(990,195)	(16,104)	(432)
TOTAL OTHER FINANCING SOURCES (USES).....	(514,381)	37,668	747,078
NET CHANGE IN FUND BALANCES.....	(284,880)	57,053	(11,058)
FUND BALANCES (DEFICITS), July 1.....	773,816	283,830	91,973
Increase (Decrease) for Changes in Inventories.....	4,106	—	—
FUND BALANCES (DEFICITS), JUNE 30.....	\$ 493,042	\$ 340,883	\$ 80,915

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
\$ —	\$ 635,791	\$ —	\$ 10,258	\$ 7,818,405
—	168,410	—	22,302	7,299,285
—	1,798,326	—	1,026	2,348,948
664,196	1,078,534	—	23,474	1,766,204
—	—	—	—	886,875
—	14,906	—	41,702	647,999
82,421	346,038	—	1,211,218	2,887,560
1,897	—	—	38,312	92,600
1,269,588	—	—	2,726,437	21,969,544
—	—	304,362	1,782	306,144
—	—	—	—	113,131
318	468	734	22,416	18,925
106,136	2	—	345,996	1,145,925
2,124,556	4,042,475	305,096	4,444,923	47,301,545
—	1,121,901	60,924	507	11,849,154
—	—	—	322,212	2,635,983
—	—	—	30,586	18,872,273
—	824	—	2,142,764	3,899,232
—	305,196	—	632,819	3,022,427
—	—	—	305,384	369,124
1,977,242	—	—	993	1,995,280
—	—	—	178,646	533,326
—	2,128,596	—	1,414,216	4,337,066
—	—	—	539,839	542,529
—	—	306,018	1,133,083	1,439,101
1,977,242	3,556,517	366,942	6,701,049	49,495,495
147,314	485,958	(61,846)	(2,256,126)	(2,193,950)
—	—	—	910,290	1,008,029
—	—	—	1,154,210	1,154,210
—	—	—	(1,319,366)	(1,319,366)
—	—	—	159,137	162,697
—	—	—	—	708
517,161	384,686	—	1,420,769	3,497,705
(528,650)	(828,192)	(14,008)	(141,797)	(2,519,378)
(11,489)	(443,506)	(14,008)	2,183,243	1,984,605
135,825	42,452	(75,854)	(72,883)	(209,345)
1,044,937	(234,170)	5,376,866	2,548,703	9,885,955
(5,796)	—	—	(9)	(1,699)
\$ 1,174,966	\$ (191,718)	\$ 5,301,012	\$ 2,475,811	\$ 9,674,911

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, 2010

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds.....	\$ (209,345)
Change in Inventories.....	(1,699)
	<u>(211,044)</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.....	479,612	
Depreciation Expense.....	(211,094)	
	<u>268,518</u>	<u>268,518</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.....	(530,000)	
Revenue Bonds.....	(353,000)	
Special Obligation Bonds.....	(125,000)	
Refunding Bonds, including Bond Premium/Discount, Net.....	(1,293,833)	
Premiums and Discounts, Net:		
General Obligation Bonds.....	(11,225)	
Revenue Bonds.....	(7,282)	
Special Obligation Bonds.....	(4,596)	
Deferred Refunding Loss.....	80,452	
Capital Leases.....	(708)	
	<u>(2,245,192)</u>	<u>(2,245,192)</u>

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

<i>Debt Principal Retirement and Defeasements:</i>		
General Obligation Bonds.....	1,313,222	
Revenue Bonds.....	161,715	
Special Obligation Bonds.....	420,390	
Certificates of Participation.....	14,725	
Capital Lease Payments.....	2,013	
	<u>1,912,065</u>	<u>1,912,065</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.

(109,318)

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>	1,795	
<i>Increase in Accrued Interest and Other Accrued Liabilities</i>	(5,486)	
<i>Amortization of Bond Premiums/Accretion of Bond Discount, Net</i>	15,171	
<i>Amortization of Deferred Refunding Loss</i>	(25,144)	
<i>Increase in Compensated Absences</i>	(103,279)	
<i>Increase in Derivative Liabilities (Excluding Hedging Derivatives)</i>	(13,014)	
<i>Decrease in Litigation Liabilities</i>	5,425	
<i>Decrease in Estimated Claims Payable</i>	281	
<i>Increase in Pollution Remediation</i>	(369)	
<i>Decrease in Liability for Escheat Property</i>	47,623	
	<hr/>	
<i>Total additional expenditures</i>		<u>(76,997)</u>
<i>Change in Net Assets of Governmental Activities</i>		<u>\$ (461,968)</u>

STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(dollars in thousands)

	GENERAL			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Income Taxes.....	\$ 7,479,299	\$ 7,479,299	\$ 7,247,224	\$ (232,075)
Sales Taxes.....	6,995,153	6,995,153	7,077,372	82,219
Corporate and Public Utility Taxes.....	458,607	458,607	447,182	(11,425)
Motor Vehicle Fuel Taxes.....	—	—	—	—
Cigarette Taxes.....	823,000	823,000	886,875	63,875
Other Taxes.....	613,163	613,163	589,033	(24,130)
Licenses, Permits and Fees.....	313,138	313,138	320,101	6,963
Sales, Services and Charges.....	69,454	69,454	69,928	474
Federal Government.....	7,281,990	7,281,990	6,996,495	(285,495)
Tobacco Settlement.....	—	—	585	585
Investment Income.....	83,417	83,417	31,321	(52,096)
Other.....	1,205,810	1,205,810	1,178,771	(27,039)
TOTAL REVENUES.....	25,323,031	25,323,031	24,844,887	(478,144)
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education.....	8,014,247	8,033,704	7,983,598	50,106
Higher Education Support.....	2,330,569	2,329,876	2,315,108	14,768
Public Assistance and Medicaid.....	10,518,239	10,521,872	10,029,088	492,784
Health and Human Services.....	1,265,128	1,270,143	1,173,373	96,770
Justice and Public Protection.....	2,266,867	2,274,217	2,191,180	83,037
Environmental Protection and Natural Resources.....	107,573	110,310	99,988	10,322
Transportation.....	23,937	23,937	23,751	186
General Government.....	1,012,549	824,192	685,231	138,961
Community and Economic Development.....	796,676	847,466	822,280	25,186
CAPITAL OUTLAY.....	15	15	—	15
DEBT SERVICE.....	925,269	925,269	725,021	200,248
TOTAL BUDGETARY EXPENDITURES.....	27,261,069	27,161,001	26,048,618	1,112,383
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....	(1,938,038)	(1,837,970)	(1,203,731)	634,239
OTHER FINANCING SOURCES (USES):				
Transfers-in.....	1,621,022	1,621,022	1,475,485	(145,537)
Transfers-out.....	(1,130,893)	(1,130,893)	(1,089,542)	41,351
TOTAL OTHER FINANCING SOURCES (USES).....	490,129	490,129	385,943	(104,186)
NET CHANGE IN FUND BALANCES.....	\$ (1,447,909)	\$ (1,347,841)	(817,788)	\$ 530,053
BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....			833,585	
Outstanding Encumbrances at Beginning of Fiscal Year.....			508,502	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30.....			\$ 524,299	

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

<u>JOB, FAMILY AND OTHER HUMAN SERVICES</u>				<u>EDUCATION</u>			
<u>BUDGET</u>			<u>VARIANCE</u>	<u>BUDGET</u>			<u>VARIANCE</u>
<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>WITH</u>	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>WITH</u>
			<u>FINAL</u>				<u>FINAL</u>
			<u>BUDGET</u>				<u>BUDGET</u>
			<u>POSITIVE/</u>				<u>POSITIVE/</u>
			<u>(NEGATIVE)</u>				<u>(NEGATIVE)</u>
		\$ —				\$ —	
		—				—	
		—				—	
		—				—	
		2,270				—	
		959,530				1,676	
		41				538	
		6,034,833				2,176,270	
		—				—	
		5,903				1,407	
		480,033				32,910	
		<u>7,482,610</u>				<u>2,212,801</u>	
\$ 2,859	\$ 2,859	910	\$ 1,949	\$ 3,059,092	\$ 3,174,250	2,946,449	\$ 227,801
3,500	3,500	1,861	1,639	42,043	45,878	37,437	8,441
9,152,451	9,379,628	8,486,787	892,841	—	—	—	—
849,281	900,906	808,099	92,807	4,878	4,945	3,569	1,376
92,987	92,092	59,473	32,619	34,244	35,432	22,244	13,188
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
3,505	3,894	2,928	966	—	—	—	—
548	548	548	—	—	—	—	—
1,987	40,927	8,539	32,388	—	—	—	—
—	—	—	—	—	—	—	—
<u>\$ 10,107,118</u>	<u>\$ 10,424,354</u>	<u>9,369,145</u>	<u>\$ 1,055,209</u>	<u>\$ 3,140,257</u>	<u>\$ 3,260,505</u>	<u>3,009,699</u>	<u>\$ 250,806</u>
		<u>(1,886,535)</u>				<u>(796,898)</u>	
		14,095				786,040	
		<u>(24,416)</u>				<u>(40,431)</u>	
		<u>(10,321)</u>				<u>745,609</u>	
		<u>(1,896,856)</u>				<u>(51,289)</u>	
		(1,270,770)				49,438	
		<u>1,553,080</u>				<u>52,602</u>	
		<u>\$ (1,614,546)</u>				<u>\$ 50,751</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, 2010

(dollars in thousands)
(continued)

	HIGHWAY OPERATING			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Income Taxes.....			\$ —	
Sales Taxes.....			—	
Corporate and Public Utility Taxes.....			—	
Motor Vehicle Fuel Taxes.....			661,748	
Cigarette Taxes.....			—	
Other Taxes.....			—	
Licenses, Permits and Fees.....			81,745	
Sales, Services and Charges.....			1,897	
Federal Government.....			1,294,503	
Tobacco Settlement.....			—	
Investment Income.....			7,283	
Other.....			122,865	
TOTAL REVENUES.....			2,170,041	
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.....	7,147,573	7,148,246	4,231,015	2,917,231
General Government.....	—	—	—	—
Community and Economic Development.....	—	—	—	—
CAPITAL OUTLAY.....	—	—	—	—
DEBT SERVICE.....	177,867	177,867	148,503	29,364
TOTAL BUDGETARY EXPENDITURES.....	\$ 7,325,440	\$ 7,326,113	4,379,518	\$ 2,946,595
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....			(2,209,477)	
OTHER FINANCING SOURCES (USES):				
Transfers-in.....			573,395	
Transfers-out.....			(436,446)	
TOTAL OTHER FINANCING SOURCES (USES).....			136,949	
NET CHANGE IN FUND BALANCES.....			(2,072,528)	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....			(542,885)	
Outstanding Encumbrances at Beginning of Fiscal Year.....			1,503,101	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30.....			\$ (1,112,312)	

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

REVENUE DISTRIBUTION

BUDGET		ACTUAL	VARIANCE
ORIGINAL	FINAL		WITH FINAL BUDGET
			POSITIVE/ (NEGATIVE)

\$ 629,171
 170,309
 1,757,687
 1,071,568
 —
 14,906
 490,089
 —
 —
 —
 470
2
4,134,202

\$ 1,241,331	\$ 1,241,331	1,121,205	\$ 120,126
—	—	—	—
—	—	—	—
2,200	2,200	1,831	369
569,005	569,005	480,187	88,818
—	—	—	—
—	—	—	—
—	—	—	—
2,221,870	2,398,070	2,123,123	274,947
—	—	—	—
—	—	—	—
<u>\$ 4,034,406</u>	<u>\$ 4,210,606</u>	<u>3,726,346</u>	<u>\$ 484,260</u>

407,856

1,231,486
(1,650,863)
(419,377)

(11,521)

197,732
802

\$ 187,013

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2010
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 11,953	\$ 55,025	\$ —
Cash and Cash Equivalents.....	428,970	148,407	—
Collateral on Lent Securities.....	4,615	15,644	—
Restricted Assets:			
Cash Equity with Treasurer.....	—	68	—
Investments.....	—	39,219	—
Collateral on Lent Securities.....	—	267,929	—
Other Receivables.....	—	3,009	—
Deposit with Federal Government.....	—	—	384,416
Intergovernmental Receivable.....	—	—	21
Premiums and Assessments Receivable.....	803,444	—	14,715
Investment Trade Receivable.....	126,696	—	—
Interfund Receivable.....	69,206	—	—
Other Receivables.....	304,923	38,194	16,792
Inventories.....	—	—	—
Other Assets.....	7,554	9,562	6,759
TOTAL CURRENT ASSETS.....	1,757,361	577,057	422,703
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents.....	93	—	—
Investments.....	—	716,935	—
Investments.....	18,530,487	—	—
Premiums and Assessments Receivable.....	3,075,791	—	—
Interfund Receivable.....	637,823	—	—
Capital Assets Being Depreciated, Net.....	87,390	74,633	—
Capital Assets Not Being Depreciated.....	11,994	—	—
TOTAL NONCURRENT ASSETS.....	22,343,578	791,568	—
TOTAL ASSETS.....	24,100,939	1,368,625	422,703
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable.....	5,189	6,210	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	4,615	283,573	—
Investment Trade Payable.....	234,479	—	—
Intergovernmental Payable.....	—	—	209
Deferred Prize Awards Payable.....	—	42,296	—
Interfund Payable.....	—	30	—
Unearned Revenue.....	—	1,132	—
Benefits Payable.....	1,966,452	—	6,964
Refund and Other Liabilities.....	442,531	180,086	6,759
Bonds and Notes Payable.....	15,865	—	—
TOTAL CURRENT LIABILITIES.....	2,669,131	513,327	13,932
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	—	—	2,314,187
Deferred Prize Awards Payable.....	—	630,319	—
Interfund Payable.....	—	2,638	—
Benefits Payable.....	15,911,948	—	—
Refund and Other Liabilities.....	1,646,446	53,765	—
Bonds and Notes Payable.....	48,335	—	—
TOTAL NONCURRENT LIABILITIES.....	17,606,729	686,722	2,314,187
TOTAL LIABILITIES.....	20,275,860	1,200,049	2,328,119
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt.....	35,275	7,874	—
Restricted for Deferred Lottery Prizes.....	—	86,616	—
Unrestricted.....	3,789,804	74,086	(1,905,416)
TOTAL NET ASSETS (DEFICITS).....	\$ 3,825,079	\$ 168,576	\$ (1,905,416)

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

NONMAJOR PROPRIETARY FUNDS		TOTAL	
\$	33,880	\$	100,858
	1,613		578,990
	5,830		26,089
	—		68
	409,270		448,489
	—		267,929
	—		3,009
	—		384,416
	9,684		9,705
	—		818,159
	—		126,696
	2,346		71,552
	3,600		363,509
	42,136		42,136
	453		24,328
	508,812		3,265,933
	—		93
	113,003		829,938
	88,080		18,618,567
	—		3,075,791
	8,550		646,373
	8,429		170,452
	—		11,994
	218,062		23,353,208
	726,874		26,619,141
	35,047		46,446
	6,813		6,813
	5,830		294,018
	—		234,479
	—		209
	—		42,296
	3,220		3,250
	—		1,132
	79,000		2,052,416
	6,480		635,856
	—		15,865
	136,390		3,332,780
	—		2,314,187
	—		630,319
	10,218		12,856
	553,900		16,465,848
	9,828		1,710,039
	—		48,335
	573,946		21,181,584
	710,336		24,514,364
	8,429		51,578
	—		86,616
	8,109		1,966,583
\$	16,538	\$	2,104,777

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS – ENTERPRISE FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services.....	\$ —	\$ 2,490,186	\$ 38,377
Premium and Assessment Income.....	2,118,421	—	1,195,058
Federal Government.....	—	—	3,233,451
Investment Income.....	—	—	—
Other.....	15,018	8,599	36,563
TOTAL OPERATING REVENUES.....	2,133,439	2,498,785	4,503,449
OPERATING EXPENSES:			
Costs of Sales and Services.....	—	—	—
Administration.....	67,990	89,380	—
Bonuses and Commissions.....	—	153,426	—
Prizes.....	—	1,513,724	—
Benefits and Claims.....	2,736,984	—	5,605,679
Depreciation.....	11,561	18,037	—
Other.....	44,687	14	151
TOTAL OPERATING EXPENSES.....	2,861,222	1,774,581	5,605,830
OPERATING INCOME (LOSS).....	(727,783)	724,204	(1,102,381)
NONOPERATING REVENUES (EXPENSES):			
Investment Income.....	2,049,621	67,881	933
Interest Expense.....	—	(4,971)	—
Other.....	—	(28,247)	—
TOTAL NONOPERATING REVENUES (EXPENSES).....	2,049,621	34,663	933
INCOME (LOSS) BEFORE TRANSFERS.....	1,321,838	758,867	(1,101,448)
TRANSFERS:			
Transfers-in.....	—	—	—
Transfers-out.....	(12,101)	(728,960)	(42,756)
TOTAL TRANSFERS.....	(12,101)	(728,960)	(42,756)
NET INCOME (LOSS).....	1,309,737	29,907	(1,144,204)
NET ASSETS (DEFICITS), JULY 1.....	2,515,342	138,669	(761,212)
NET ASSETS (DEFICITS), JUNE 30.....	\$ 3,825,079	\$ 168,576	\$ (1,905,416)

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
\$ 783,174	\$ 3,311,737
—	3,313,479
—	3,233,451
62,168	62,168
18,590	78,770
863,932	9,999,605
510,659	510,659
82,779	240,149
—	153,426
—	1,513,724
71,395	8,414,058
1,655	31,253
540	45,392
667,028	10,908,661
196,904	(909,056)
26	2,118,461
—	(4,971)
(62)	(28,309)
(36)	2,085,181
196,868	1,176,125
34,818	34,818
(229,328)	(1,013,145)
(194,510)	(978,327)
2,358	197,798
14,180	1,906,979
\$ 16,538	\$ 2,104,777

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS – ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers.....	\$ —	\$ 2,482,818	\$ —
Cash Received from Premiums and Assessments.....	2,139,809	—	1,206,313
Cash Received from Interfund Services Provided.....	58,508	1,613	—
Other Operating Cash Receipts.....	54,107	6,986	32,863
Cash Payments to Suppliers for Goods and Services.....	(39,817)	(62,152)	(152)
Cash Payments to Employees for Services.....	(232,117)	(25,520)	—
Cash Payments for Benefits and Claims.....	(2,057,557)	—	(5,089,160)
Cash Payments for Lottery Prizes.....	—	(1,457,705)	—
Cash Payments for Bonuses and Commissions.....	—	(153,556)	—
Cash Payments for Premium Reductions and Refunds.....	(99,747)	—	—
Cash Payments for Interfund Services Used.....	(13,429)	(3,385)	—
Other Operating Cash Payments.....	—	(14)	(433,466)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	(190,243)	789,085	(4,283,602)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	—
Transfers-out	(12,101)	(728,960)	(42,756)
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....	(12,101)	(728,960)	(42,756)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases.....	(15,930)	(14,338)	—
Interest Paid	(3,866)	(4,476)	—
Acquisition and Construction of Capital Assets	(7,257)	798	—
Proceeds from Sales of Capital Assets	50	1,682	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....	(27,003)	(16,334)	—
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments.....	(49,530,877)	(48,346)	(1,195,400)
Proceeds from the Sales and Maturities of Investments	48,954,066	99,315	5,521,758
Investment Income Received	747,565	14,586	—
Borrower Rebates and Agent Fees.....	(5,682)	(526)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....	165,072	65,029	4,326,358
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS.....	(64,275)	108,820	—
CASH AND CASH EQUIVALENTS, JULY 1	505,291	94,680	—
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 441,016	\$ 203,500	\$ —

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
\$ 766,129	\$ 3,248,947
—	3,346,122
9,036	69,157
11,276	105,232
(490,871)	(592,992)
(89,195)	(346,832)
—	(7,146,717)
—	(1,457,705)
—	(153,556)
—	(99,747)
(5,933)	(22,747)
(71,391)	(504,871)
129,051	(3,555,709)
36,349	36,349
(229,328)	(1,013,145)
(192,979)	(976,796)
(3)	(30,271)
—	(8,342)
(2,729)	(9,188)
2	1,734
(2,730)	(46,067)
(665,829)	(51,440,452)
714,161	55,289,300
21,239	783,390
—	(6,208)
69,571	4,626,030
2,913	47,458
32,580	632,551
\$ 35,493	\$ 680,009

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS – ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(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).....	\$ (727,783)	\$ 724,204	\$ (1,102,381)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	—
Depreciation	11,561	18,037	—
Provision for Uncollectible Accounts.....	29,859	—	—
Amortization of Premiums and Discounts.....	(527)	—	—
Interest on Bonds, Notes and Capital Leases.....	3,866	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government.....	—	—	(3,170,536)
Intergovernmental Receivable.....	—	—	443
Premiums and Assessments Receivable.....	(172,018)	—	555
Interfund Receivable.....	73,838	—	—
Other Receivables	37,431	(8,499)	(3,725)
Inventories	—	—	—
Other Assets	(375)	(1,649)	(261)
Increase (Decrease) in Liabilities:			
Accounts Payable	1,540	(484)	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	(324)
Deferred Prize Awards Payable.....	—	(63,862)	—
Interfund Payable.....	—	711	—
Unearned Revenue	—	1,132	—
Benefits Payable.....	452,027	—	(7,203)
Refund and Other Liabilities.....	100,338	119,495	(170)
NET CASH FLOWS PROVIDED (USED) BY			
OPERATING ACTIVITIES.....	\$ (190,243)	\$ 789,085	\$ (4,283,602)
NONCASH INVESTING,			
CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments.....	\$ 1,344,234	\$ 27,675	\$ —

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
\$ 196,904	\$ (909,056)
(62,168)	(62,168)
1,655	31,253
—	29,859
—	(527)
—	3,866
—	(3,170,536)
(1,774)	(1,331)
—	(171,463)
1,589	75,427
1,351	26,558
(2,265)	(2,265)
604	(1,681)
9,476	10,532
456	456
(418)	(742)
—	(63,862)
(1,497)	(786)
(164)	968
—	444,824
<u>(14,698)</u>	<u>204,965</u>
<u>\$ 129,051</u>	<u>\$ (3,555,709)</u>

\$ — \$ 1,371,909

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	<u>STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/09)</u>	<u>VARIABLE COLLEGE SAVINGS PLAN</u>	<u>STAR OHIO</u>
ASSETS:			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	26,688	62,037	—
Investments (at fair value):			
U.S. Government and Agency Obligations.....	—	—	2,414,071
Common and Preferred Stock.....	270,467	—	—
Corporate Bonds and Notes.....	—	—	—
Foreign Stocks and Bonds.....	20,602	—	—
Commercial Paper.....	—	—	214,984
Mutual Funds.....	305,455	5,014,991	389,933
Real Estate.....	8,893	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	—	—	—
Partnership and Hedge Funds.....	62,000	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio).....	—	—	—
Collateral on Lent Securities.....	15,190	—	—
Employer Contributions Receivable.....	1,687	—	—
Employee Contributions Receivable.....	1,068	—	—
Other Receivables.....	1,614	9,717	263
Other Assets.....	5	—	—
Capital Assets, Net.....	9	—	—
TOTAL ASSETS.....	713,678	5,086,745	3,019,251
LIABILITIES:			
Accounts Payable.....	1,175	—	—
Accrued Liabilities.....	17,649	3,884	—
Obligations Under Securities Lending.....	19,116	—	—
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	65	9,176	2,909
TOTAL LIABILITIES.....	38,005	13,060	2,909
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits.....	579,050	—	—
Employees' Postemployment Healthcare Benefits.....	96,623	—	—
Individuals, Organizations and Other Governments.....	—	5,073,685	—
Pool Participants.....	—	—	3,016,342
TOTAL NET ASSETS.....	\$ 675,673	\$ 5,073,685	\$ 3,016,342

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

AGENCY

\$ 239,745
135,677

15,086,054
51,064,574
11,049,450
33,637,382
4,038,128
6,283,467
11,091,410
7,656,127
5,958,992
931,013
65,333
67,089
—
—
1,343
428,812
—

147,734,596

—
—
67,089
163,131

147,504,376

147,734,596

—
—
—
—

\$ —

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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	<u>STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/09)</u>	<u>VARIABLE COLLEGE SAVINGS PLAN</u>	<u>STAR OHIO</u>
ADDITIONS:			
Contributions from:			
Employer.....	\$ 24,735	\$ —	\$ —
Employees.....	8,624	—	—
Plan Participants.....	—	1,265,735	—
Other.....	1,009	—	—
Total Contributions.....	34,368	1,265,735	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	125,533	317,342	—
Interest, Dividends and Other.....	9,649	238,635	8,278
Total Investment Income.....	135,182	555,977	8,278
Less: Investment Expense.....	4,658	21,070	3,478
Net Investment Income.....	130,524	534,907	4,800
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	12,957,951
Reinvested Distributions.....	—	—	4,800
Shares Redeemed.....	—	—	(14,623,959)
Net Capital Share and Individual Account Transactions.....	—	—	(1,661,208)
TOTAL ADDITIONS.....	164,892	1,800,642	(1,656,408)
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries.....	49,884	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	8,386	—	—
Refunds of Employee Contributions.....	1,077	—	—
Administrative Expense.....	882	—	—
Transfers to Other Retirement Systems.....	406	—	—
Distributions to Shareholders and Plan Participants.....	—	1,058,721	4,800
TOTAL DEDUCTIONS.....	60,635	1,058,721	4,800
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits.....	87,455	—	—
Employees' Postemployment Healthcare Benefits.....	16,802	—	—
Individuals, Organizations and Other Governments.....	—	741,921	—
Pool Participants.....	—	—	(1,661,208)
TOTAL CHANGE IN NET ASSETS.....	104,257	741,921	(1,661,208)
NET ASSETS, JULY 1.....	571,416	4,331,764	4,677,550
NET ASSETS, JUNE 30.....	\$ 675,673	\$ 5,073,685	\$ 3,016,342

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, 2010
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/09)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 896,524	\$ 117	\$ —
Cash and Cash Equivalents.....	—	38,619	656,415
Investments.....	—	48,065	587,528
Collateral on Lent Securities.....	768,990	—	—
Intergovernmental Receivable.....	—	525	18,773
Loans Receivable, Net.....	941	—	13,533
Receivable from Primary Government.....	—	—	9,185
Other Receivables.....	16	4	455,278
Inventories.....	—	—	35,522
Other Assets.....	—	—	40,145
TOTAL CURRENT ASSETS.....	1,666,471	87,330	1,816,379
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer.....	467,559	—	—
Cash and Cash Equivalents.....	—	414,590	—
Investments.....	—	643,711	—
Loans Receivable, Net.....	—	4,146,360	—
Investments.....	—	4,294	1,951,800
Loans Receivable, Net.....	4,053	44,729	57,984
Other Receivables.....	—	47,794	23,440
Other Assets.....	—	56,555	—
Capital Assets Being Depreciated, Net.....	159	1,128	2,883,982
Capital Assets Not Being Depreciated.....	4,826	539	347,152
TOTAL NONCURRENT ASSETS.....	476,597	5,359,700	5,264,358
TOTAL ASSETS.....	2,143,068	5,447,030	7,080,737
Deferred Outflows of Resources.....	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....	2,143,068	5,447,030	7,080,737
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable.....	11,407	53,412	194,017
Accrued Liabilities.....	505	10,414	345,543
Obligations Under Securities Lending.....	768,990	—	—
Intergovernmental Payable.....	883,899	294	—
Unearned Revenue.....	—	—	185,831
Refund and Other Liabilities.....	1,711	13	40,355
Bonds and Notes Payable.....	—	170,530	499,365
Certificates of Participation.....	—	—	445
TOTAL CURRENT LIABILITIES.....	1,666,512	234,663	1,265,556
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	455,221	—	—
Unearned Revenue.....	—	—	—
Refund and Other Liabilities.....	693	189	207,696
Payable to Primary Government.....	3,887,358	—	—
Bonds and Notes Payable.....	—	2,124,281	883,056
Certificates of Participation.....	—	—	3,800
TOTAL NONCURRENT LIABILITIES.....	4,343,272	2,124,470	1,094,552
TOTAL LIABILITIES.....	6,009,784	2,359,133	2,360,108
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt.....	4,968	1,666	1,875,977
Restricted for:			
Primary, Secondary and Other Education.....	467,559	—	—
Federal Programs.....	—	—	—
Coal Research and Development Program.....	—	—	—
Community and Economic Development and Capital Purposes.....	—	—	—
Debt Service.....	—	2,936,136	—
Nonexpendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Endowments and Quasi-Endowments.....	—	—	1,091,825
Loans, Grants and Other College and University Purposes.....	—	—	—
Expendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Instructional Department Uses.....	—	—	—
Student and Public Services.....	—	—	—
Academic Support.....	—	—	—
Debt Service.....	—	—	—
Capital Purposes.....	—	—	9,183
Endowments and Quasi-Endowments.....	—	—	95,721
Current Operations.....	—	—	382,333
Loans, Grants and Other College and University Purposes.....	—	—	—
Unrestricted.....	(4,339,243)	150,095	1,265,590
TOTAL NET ASSETS (DEFICITS).....	\$ (3,866,716)	\$ 3,087,897	\$ 4,720,629

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 82,546	\$ 979,187
75,591	650,346	1,420,971
184,237	1,137,857	1,957,687
—	7,040	776,030
—	59,250	78,548
6,391	18,704	39,569
1,702	32,405	43,292
107,539	368,358	931,195
1,984	28,249	65,755
4,872	66,595	111,612
382,316	2,451,350	6,403,846
—	15,093	482,652
—	34,737	449,327
—	595,387	1,239,098
—	—	4,146,360
990,843	1,365,932	4,312,869
28,644	118,234	253,644
137,953	121,433	330,620
349,652	87,547	493,754
1,332,713	4,541,287	8,759,269
85,900	755,034	1,193,451
2,925,705	7,634,684	21,661,044
3,308,021	10,086,034	28,064,890
—	38,709	38,709
3,308,021	10,124,743	28,103,599
62,531	182,574	503,941
94,316	218,390	669,168
—	7,040	776,030
—	1,128	885,321
31,039	276,597	493,467
45,691	153,752	241,522
116,018	110,786	896,699
—	—	445
349,595	950,267	4,466,593
—	8,318	463,539
—	7,889	7,889
197,729	312,821	719,128
—	—	3,887,358
916,096	2,194,726	6,118,159
—	—	3,800
1,113,825	2,523,754	11,199,873
1,463,420	3,474,021	15,666,466
404,659	3,402,283	5,689,553
—	—	467,559
—	24	24
—	41,445	41,445
—	42,831	42,831
—	—	2,936,136
115,775	154,959	270,734
82,761	14,056	96,817
501,681	570,649	2,164,155
336,144	89,930	426,074
43,889	152,475	196,364
92,279	16,656	108,935
31,874	150,164	182,038
39,710	17,888	57,598
25,100	169,130	194,230
3,610	12,811	16,421
25,660	91,641	126,484
87,184	21,604	204,509
3,314	101,405	487,052
11,902	244,734	256,636
39,059	1,356,037	(1,528,462)
\$ 1,844,601	\$ 6,650,722	\$ 12,437,133

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/09)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education.....	\$ 861,883	\$ —	\$ —
Community and Economic Development.....	—	—	—
Cost of Services.....	—	104,457	—
Administration.....	—	12,152	—
<i>Education and General:</i>			
Instruction and Departmental Research.....	—	—	869,418
Separately Budgeted Research.....	—	—	419,982
Public Service.....	—	—	118,585
Academic Support.....	—	—	140,255
Student Services.....	—	—	87,603
Institutional Support.....	—	—	191,532
Operation and Maintenance of Plant.....	—	—	109,440
Scholarships and Fellowships.....	—	—	104,547
Auxiliary Enterprises.....	—	—	223,704
Hospitals.....	—	—	1,768,293
Interest on Long-Term Debt.....	—	331	49,993
Depreciation.....	143	104	231,744
Other.....	—	46,247	17,306
TOTAL EXPENSES.....	862,026	163,291	4,332,402
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures.....	8,161	147,814	3,097,234
Operating Grants, Contributions and Restricted Investment Income.....	54,278	164,379	781,529
Capital Grants, Contributions and Restricted Investment Income.....	—	—	15,545
TOTAL PROGRAM REVENUES.....	62,439	312,193	3,894,308
NET PROGRAM (EXPENSE) REVENUE	(799,587)	148,902	(438,094)
GENERAL REVENUES:			
Unrestricted Investment Income.....	—	1,499	323,944
State Assistance.....	60,924	—	484,465
Other.....	—	259	1,746
TOTAL GENERAL REVENUES.....	60,924	1,758	810,155
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....	—	—	33,363
CHANGE IN NET ASSETS.....	(738,663)	150,660	405,424
NET ASSETS (DEFICITS), JULY 1 (as restated).....	(3,128,053)	2,937,237	4,315,205
NET ASSETS (DEFICITS), JUNE 30.....	\$ (3,866,716)	\$ 3,087,897	\$ 4,720,629

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 18,654	\$ 880,537
—	40,257	40,257
—	—	104,457
—	—	12,152
288,177	1,584,335	2,741,930
175,532	209,794	805,308
54,917	138,757	312,259
68,591	415,864	624,710
41,297	227,353	356,253
296,256	450,772	938,560
60,926	315,141	485,507
36,118	314,102	454,767
79,284	587,065	890,053
—	300,767	2,069,060
48,328	95,743	194,395
101,996	296,627	630,614
17,747	53,779	135,079
1,269,169	5,049,010	11,675,898
750,430	3,010,868	7,014,507
362,232	970,991	2,333,409
11,067	69,626	96,238
1,123,729	4,051,485	9,444,154
(145,440)	(997,525)	(2,231,744)
—	231,240	556,683
201,318	1,256,737	2,003,444
3,572	73,293	78,870
204,890	1,561,270	2,638,997
10,566	22,179	66,108
70,016	585,924	473,361
1,774,585	6,064,798	11,963,772
\$ 1,844,601	\$ 6,650,722	\$ 12,437,133

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2010, 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 — nonexpendable and expendable. Nonexpendable net assets are those that are required to be retained in perpetuity.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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. Revenue from the federal government for the underfunded regular and extended unemployment benefits is also reported as operating revenues for the Unemployment Compensation Fund, since this source provides significant funding for the payment of unemployment benefits — the fund's principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

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

The State reports the following major governmental funds:

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

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



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, 2009.

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, 2009. 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 and other legally separate entities subject to the control of the university's board.

C. Measurement Focus and Basis of Accounting

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

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

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
Transportation Certificates of Participation
OAKS Certificates of Participation
STARS Certificates of Participation
OAKS Project
STARS Project

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

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

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

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

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

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

E. Cash Equity with Treasurer and Cash and Cash Equivalents

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

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

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

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

F. Investments

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 four years of employment, up to a maximum rate of 9.2 hours every two weeks after 24 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, the State pays employees, at their full rate, 100 percent of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50 to 55 percent of unused sick leave.

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

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

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Intra-Entity Balances and Activities

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

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

S. Derivatives Instruments

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

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

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

T. Use of Estimates

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Restatements of net assets, as of June 30, 2009, for the primary government's component units that resulted from implementation of a new standard, change in reporting entity and other adjustments, are presented in the following table (dollars in thousands).

Government-Wide Financial Statements	
	Total Component Units
Net Assets, as of June 30, 2009, As Previously Reported	\$ 11,868,913
<i>Implementation of New Accounting Standard:</i>	
Capital Assets Being Depreciated, Net.....	1,450
Capital Assets Not Being Depreciated.....	27,810
Deferred Outflows of Resources-Derivatives.....	15,573
Fair Value of Derivatives.....	(20,240)
<i>Change in Reporting Entity:</i>	
Net Assets of University of Physicians, Inc.-Component Unit of University of Cincinnati.....	73,128
<i>Other Adjustments that Increased/(Decreased) Net Assets:</i>	
Clinical Facility-Component Unit of University of Toledo.....	(2,862)
Total Changes in Net Assets.....	94,859
Net Assets, July 1, 2009, As Restated	\$ 11,963,772



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

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2010, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
- Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
- Governmental Accounting Standards Board (GASB) Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB 51 establishes 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.

GASB 53 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.

GASB 58 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.

C. Recently Issued GASB Pronouncements

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 the 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.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The provisions of GASB 59 are effective for financial statements for periods beginning after June 15, 2010. The objective of GASB 59 is to update and improve the accounting and financial reporting requirements that address financial instruments in the following pronouncements: NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences* and GASB Statement No. 25, No. 31, No. 40, No. 43, and No. 53.

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 2010. 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 2010, whenever signed into law or otherwise legally authorized.

For fiscal year 2010, 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, 2010
(dollars in thousands)

	Major Special Revenue Funds				
	General	Job, Family, and Other Human Services	Education	Highw ay Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	\$ 493,042	\$ 340,883	\$ 80,915	\$ 1,174,966	\$ (191,718)
Less: Reserved Fund Balances	634,254	1,644,492	36,461	2,239,956	118,004
Unreserved/Undesignated Fund Balances —					
GAAP Basis	(141,212)	(1,303,609)	44,454	(1,064,990)	(309,722)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity w ith Treasurer	(19,279)	10,195	(1,143)	(9,843)	(16,931)
Taxes Receivable	(730,679)	-	-	(69,258)	(502,113)
Intergovernmental Receivable	(830,875)	(546,189)	(112,809)	(71,802)	-
Loans Receivable, Net	(231,446)	-	-	(115,993)	-
Interfund Receivable	(3,082)	-	-	(725)	(92,035)
Other Receivables	(76,062)	(363,822)	(788)	(2,326)	-
Deferred Revenue	295,105	87,157	8,283	2,924	8,754
Unearned Revenue	-	107,049	31,539	-	6,914
Total Revenue Accruals/Adjustments	(1,596,318)	(705,610)	(74,918)	(267,023)	(595,411)
Expenditure Accruals/Adjustments:					
Cash Equity w ith Treasurer	(48,078)	(6,734)	(763)	(9,552)	-
Inventories	(29,069)	-	-	(40,768)	-
Other Assets	(14,354)	(2,446)	(7,888)	(4,045)	-
Accounts Payable	130,497	232,192	13,686	104,199	-
Accrued Liabilities	182,382	28,416	2,916	33,074	-
Medicaid Claims Payable	932,688	3,643	-	-	-
Intergovernmental Payable	389,378	389,929	76,149	644	945,076
Interfund Payable	593,903	13,848	2,757	78,926	1,142
Payable to Component Units	11,642	1,219	1,837	400	-
Refund and Other Liabilities	577,796	8,716	-	-	34,072
Liability for Escheat Property	6,390	-	-	-	-
Total Expenditure Accruals/Adjustments	2,733,175	668,783	88,694	162,878	980,290
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis)					
to Reserved for:					
Noncurrent Portion of Loans Receivable	226,258	-	-	114,349	-
Inventories	29,069	-	-	40,768	-
State and Local Highw ay Construction	-	-	-	-	117,769
Federal Programs	-	10,030	11,494	4,891	-
Other	158,993	28,708	230	7,001	-
Cash and Investments Held					
Outside of State Treasury	(529,371)	(8,496)	(454)	(439)	(5,914)
Other	11	2	-	1	1
Total Other Adjustments	(115,040)	30,244	11,270	166,571	111,856
Total Basis Differences	1,021,817	(6,583)	25,046	62,426	496,735
TIMING DIFFERENCES					
Encumbrances	(356,306)	(304,354)	(18,749)	(109,748)	-
Budgetary Fund Balances (Deficits) —					
Non-GAAP Basis	\$ 524,299	\$ (1,614,546)	\$ 50,751	\$ (1,112,312)	\$ 187,013



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.

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

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The table below reports the carrying amount of deposits, as of June 30, 2010, held by the primary government, including fiduciary activities, and its component units and the extent of exposure to custodial credit risk.

Primary Government (including Fiduciary Activities) and Component Units					
Deposits—Custodial Credit Risk					
As of June 30, 2010					
(dollars in thousands)					
				Uninsured Portion of Reported Bank Balance	
	Carrying Amount	Bank Balance	Uncollateralized	Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor- Government's Name	Collateralized with Securities Held by the Pledging Institution
Primary Government	\$ 1,421,576	\$ 1,440,755	\$ -	\$ 333,779	\$ 23,960
Component Units	1,521,589	1,481,570	69,234	1,012,782	264,019
Total Deposits — Reporting Entity	\$ 2,943,165	\$ 2,922,325	\$ 69,234	\$ 1,346,561	\$ 287,979

The following tables report the fair value, as of June 30, 2010, 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, 2010
(dollars 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, 2010**

	Total Fair Value	
<i>Investments Subject to Custodial Credit Risk Exposure:</i>		
U.S. Government Obligations	\$ 17,134,218	\$ 199,751
U.S. Government Obligations—Strips	390,790	-
U.S. Agency Obligations	11,210,485	-
U.S. Agency Obligations—Strips	299,456	-
Common and Preferred Stock	57,090,379	295,689
Corporate Bonds and Notes	15,566,772	-
Corporate Bonds and Notes—Strips	1,536	-
Municipal Obligations.....	546,576	-
Commercial Paper	4,912,199	-
Repurchase Agreements	1,681	-
Mortgage and Asset-Backed Securities	6,083,423	-
International Investments:		
Foreign Stocks	32,683,283	1,509,190
Foreign Bonds	4,130,769	-
High-Yield and Emerging Markets Fixed Income	1,110,016	-
Securities Lending Collateral:		
Commercial Paper	429,920	-
Repurchase Agreements	1,455,978	-
Equity Mutual Funds	3,558	-
Variable Rate Notes	100,220	-
Fixed Rate Notes	72,386	-
Master Notes	128,300	-
U.S. Agency Obligations.....	49,867	-
Corporate Bonds.....	3,418	-
Bond Mutual Funds.....	537,807	-
Common Stock	22,966	-
		<u>\$ 2,004,630</u>
<i>Investments Not Subject to Custodial Credit Risk Exposure:</i>		
U.S. Government Obligations	249,939	
U.S. Agency Obligations	2,470,337	
U.S. Agency Obligations—Strips	28,163	
Common and Preferred Stock	6,838	
International Investments-Commingled Equity Funds	713,973	
Equity Mutual Funds	6,683,604	
Bond Mutual Funds	3,973,328	
Real Estate	11,078,020	
Venture Capital	7,656,127	
Partnerships and Hedge Funds	211,777	
Investment Contracts	6,007	
Deposit with Federal Government	384,416	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(2,237,869)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(270,766)	
Total Investments — Primary Government	<u>\$ 184,919,897</u>	



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2010	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust	
		Department or Agent but not in the Component Unit's Name	Counterparty but not in the Component Unit's Name
<i>Investments Subject to Custodial Credit Risk Exposure:</i>			
U.S. Government Obligations	\$ 419,457	\$ 200,726	\$ 96,734
U.S. Government Obligations—Strips	4,628	2,271	-
U.S. Agency Obligations	971,842	642,875	108,806
Common and Preferred Stock	884,215	120,900	342,667
Corporate Bonds and Notes	566,126	247,533	234,553
Commercial Paper	10,458	5,317	-
Repurchase Agreements	89,945	-	88,996
Mortgage and Asset-Backed Securities	75,508	-	-
Negotiable Certificates of Deposit	9,647	-	-
Municipal Obligations	14,912	11,419	-
International Investments:			
Foreign Stocks	245,052	677	174,359
Foreign Bonds	2,282	-	1,878
Other Investments	93,535	-	71,544
		<u>\$ 1,231,718</u>	<u>\$ 1,119,537</u>
<i>Investments Not Subject to Custodial Credit Risk</i>			
Equity Mutual Funds	1,204,210		
Bond Mutual Funds	1,252,804		
Real Estate	38,549		
Life Insurance	13,234		
Investment Contracts	25,868		
Charitable Remainder Trusts	234,551		
Partnerships and Hedge Funds	1,430,774		
Investment in State Treasurer's Cash and Investment Pool	2,237,869		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	270,766		
Total Investments — Component Units	<u>\$ 10,096,232</u>		
Total Investments — Reporting Entity	<u>\$ 195,016,129</u>		

Reconciliation of Deposits and Investments Disclosures with Financial Statements
As of June 30, 2010
(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	\$ 5,446,083	\$ 100,858	\$ 979,187	\$ 239,745	\$ 6,765,873
Cash and Cash Equivalents	114,313	578,990	1,420,971	224,402	2,338,676
Investments	897,492	18,618,567	6,270,556	155,563,326	181,349,941
Collateral on Lent Securities	1,657,827	26,089	776,030	82,279	2,542,225
Deposit with Federal Government	-	384,416	-	-	384,416
Restricted Assets:					
Cash Equity with Treasurer	-	68	482,652	-	482,720
Cash and Cash Equivalents	138,098	93	449,327	-	587,518
Investments	389,026	1,278,427	1,239,098	-	2,906,551
Collateral on Lent Securities	-	267,929	-	-	267,929
Total Reporting Entity	<u>\$ 8,642,839</u>	<u>\$ 21,255,437</u>	<u>\$ 11,617,821</u>	<u>\$ 156,109,752</u>	<u>\$ 197,625,849</u>
Total Carrying Amount of Deposits and Investments per Financial Statements					\$ 197,625,849
Outstanding Warrants and Other Reconciling Items					156,976
Differences Resulting from Component Units with December 31 Year-Ends					176,469
Total Carrying Amount of Deposits and Investments Disclosed in Note 4					<u>\$ 197,959,294</u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2010, reported for the primary government and its component units is (dollars in thousands) \$197,625,849. The total of the carrying amounts of both deposits in the amount of \$2,943,165 and investments in the amount of \$195,016,129 that has been categorized and disclosed in this note is \$197,959,294. A reconciliation of the difference is presented in the table on the previous page.

2. Credit Risk

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

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

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

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

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

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

Workers' Compensation Enterprise Fund

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

State Highway Patrol Retirement System Pension Trust Fund

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

STAR Ohio Investment Trust Fund

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



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, 2010
(dollars in thousands)

Investment Type	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$ 9,255,689	\$ 10,811	\$ 3,828,580	\$ -	\$ -	\$ -
U.S. Agency Obligations—Strips	299,456	-	-	-	-	-
Corporate Bonds and Notes	2,167,365	1,553,090	5,557,192	4,795,054	625,578	576,404
Corporate Bonds and Notes—Strips	1,507	28	-	-	-	-
Foreign Bonds.....	553,107	294,386	748,159	1,738,673	151,868	68,578
Municipal Bonds.....	57,037	216,331	257,978	15,230	-	-
Commercial Paper	4,245,823	59,461	606,915	-	-	-
Repurchase Agreements	1,681	-	-	-	-	-
Mortgage and Asset-Backed Securities	5,227,773	122,656	86,728	90,136	139,053	108,685
High-Yield & Emerging Markets Fixed Income ...	13,461	4,338	15,991	149,322	262,164	424,505
Bond Mutual Funds	3,014,310	56,105	486,883	15,729	9,789	53,780
Investment Contracts	-	-	-	-	-	-
Securities Lending Collateral:						
Commercial Paper	-	-	429,920	-	-	-
Repurchase Agreements	-	273,000	1,174,764	-	-	-
Fixed Rate Notes.....	-	-	-	72,386	-	-
Variable Rate Notes	-	62,017	38,203	-	-	-
Master Notes	-	-	128,300	-	-	-
Corporate Bonds.....	-	-	400	-	-	-
U.S. Government Agency.....	49,867	-	-	-	-	-
Bond Mutual Funds	501,327	36,480	-	-	-	-
Total Primary Government	\$25,388,403	\$2,688,703	\$13,360,013	\$6,876,530	\$1,188,452	\$ 1,231,952

Investment Type	Credit Rating					Unrated	Total
	CCC/Caa	CC/Ca	C	D			
U.S. Agency Obligations	\$ -	\$ -	\$ -	\$ -	\$ 585,742	\$13,680,822	
U.S. Agency Obligations—Strips	-	-	-	-	28,163	327,619	
Corporate Bonds and Notes	162,234	6,459	1,520	1,131	120,745	15,566,772	
Corporate Bonds and Notes—Strips	-	-	-	-	1	1,536	
Foreign Bonds.....	15,275	6,809	8,328	-	545,586	4,130,769	
Municipal Bonds.....	-	-	-	-	-	546,576	
Commercial Paper	-	-	-	-	-	4,912,199	
Repurchase Agreements	-	-	-	-	-	1,681	
Mortgage and Asset-Backed Securities	141,729	61,362	1,100	2,114	102,087	6,083,423	
High-Yield & Emerging Markets Fixed Income ...	122,808	1,197	5,079	678	110,473	1,110,016	
Bond Mutual Funds	4,506	376	388	306	331,156	3,973,328	
Investment Contracts	-	-	-	-	6,007	6,007	
Securities Lending Collateral:							
Commercial Paper	-	-	-	-	-	429,920	
Repurchase Agreements	-	-	-	-	8,214	1,455,978	
Fixed Rate Notes	-	-	-	-	-	72,386	
Variable Rate Notes	-	-	-	-	-	100,220	
Master Notes	-	-	-	-	-	128,300	
Corporate Bonds.....	-	-	-	-	3,018	3,418	
U.S. Government Agency.....	-	-	-	-	-	49,867	
Bond Mutual Funds	-	-	-	-	-	537,807	
Total Primary Government	\$ 446,552	\$ 76,203	\$ 16,415	\$ 4,229	\$1,841,192	\$53,118,644	



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investment Type	Component Units Investment Credit Ratings As of June 30, 2010 (dollars in thousands)					
	Credit Rating					
	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	\$ 947,846	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds and Notes	107,564	114,583	250,443	78,972	8,246	1,089
Commercial Paper	5,000	-	5,458	-	-	-
Repurchase Agreements	89,945	-	-	-	-	-
Mortgage and Asset-Backed Securities	1,163	-	-	-	-	-
Negotiable Certificates of Deposit	452	-	-	-	-	-
Municipal Obligations	5,392	3,289	2,637	20	-	-
Bond Mutual Funds	580,444	206,644	135,363	41,695	14,772	6,361
Foreign Bonds	-	327	-	611	-	-
Investment Contracts	24,126	-	-	-	-	-
Other Investments	-	-	-	-	-	-
Total Component Units	\$ 1,761,932	\$ 324,843	\$ 393,901	\$121,298	\$ 23,018	\$7,450

Investment Type	Credit Rating				Total
	CCC/Caa	CC/Ca	C	Unrated	
U.S. Agency Obligations	\$ -	\$ -	\$ -	\$ 23,996	\$ 971,842
Corporate Bonds and Notes	23	-	19	5,187	566,126
Commercial Paper	-	-	-	-	10,458
Repurchase Agreements	-	-	-	-	89,945
Mortgage and Asset-Backed Securities	-	-	-	74,345	75,508
Negotiable Certificates of Deposit	-	-	-	9,195	9,647
Municipal Obligations	-	-	-	3,574	14,912
Bond Mutual Funds	4,213	308	-	263,004	1,252,804
Foreign Bonds	-	-	-	1,344	2,282
Investment Contracts	-	-	-	1,742	25,868
Other Investments	-	-	-	1,652	1,652
Total Component Units	\$ 4,236	\$ 308	\$ 19	\$384,039	\$3,021,044

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

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

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



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 or \$250 million; bankers’ acceptances, limited at five percent; corporate notes and foreign debt, limited at one-half of one percent; and mutual funds, limited at 10 percent.

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

For the Lottery Commission Enterprise Fund, no more than two percent of the total average portfolio may be invested in the securities of any single issuer with the following exceptions: U.S. government obligations, 100 percent maximum; repurchase agreements, limited at the lesser 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 or \$500 million; and mutual funds, limited at 10 percent.

As of June 30, 2010, 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	2,051,141	7%
Federal Home Loan Bank	1,880,382	6%
<i>STAR Ohio Investment Trust Fund:</i>		
Federal National		
Mortgage Association	1,038,088	22%
Federal Home Loan Bank	1,315,527	28%
Federal Home Loan		
Mortgage Corporation	1,219,073	26%
<i>Agency Fund:</i>		
Federal Home Loan		
Mortgage Corporation	9,451,369	6%
<i>School Facilities Commission</i>		
<i>Component Unit Fund:</i>		
Federal National		
Mortgage Association	24,693	14%
Federal Home Loan Bank	38,382	22%
Federal Home Loan		
Mortgage Corporation	16,632	10%
<i>Ohio Water Development Authority</i>		
<i>Component Unit Fund (12/31/09):</i>		
Federal National		
Mortgage Association	211,645	19%
Federal Home Loan Bank	92,749	8%
Federal Home Loan		
Mortgage Corporation	108,568	10%

4. Interest Rate Risk

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

Investment policies governing the treasury’s cash and investment pool, which is reported as “Cash Equity with 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, 2010, one investment reported as "Cash Equity with Treasurer" has terms that make its fair value highly sensitive to the interest rate changes. The U.S. agency obligations investment type includes a \$5 million investment with a call date during fiscal year 2012. This investment has a maturity date in fiscal year 2014 and is 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, 2010. Variable rate notes of \$81.3 million have quarterly reset dates. U.S. agency and instrumentality obligations of \$37.4 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has collateral on lent securities with reset dates. Variable rate notes and U.S. agency and instrumentality obligations with reset dates are reported as collateral on lent securities. Variable rate notes of \$19 million and U.S. agency and instrumentality obligations of \$12.5 million have quarterly reset dates.

Also during fiscal year 2010, 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.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables list the investment maturities of the State's investments. All investments at June 30, 2010, meet the requirements of the State's laws and policies, when applicable.

Primary Government (including Fiduciary Activities)					
Investments Subject to Interest Rate Risk					
As of June 30, 2010					
(dollars in thousands)					
Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ 1,232,580	\$ 5,696,640	\$ 3,341,078	\$ 7,113,859	\$ 17,384,157
U.S. Government Obligations—Strips	12,200	113,878	94,995	169,717	390,790
U.S. Agency Obligations	9,000,609	844,413	792,828	3,042,972	13,680,822
U.S. Agency Obligations—Strips	43,513	79,100	138,405	66,601	327,619
Corporate Bonds and Notes	800,138	4,021,340	2,996,692	7,748,602	15,566,772
Corporate Bonds and Notes—Strips	-	-	1,465	71	1,536
Municipal Bonds.....	-	909	323	545,344	546,576
Commercial Paper	4,912,199	-	-	-	4,912,199
Repurchase Agreements	1,681	-	-	-	1,681
Mortgage and Asset-Backed Securities	2,772	118,755	693,828	5,268,068	6,083,423
Foreign Bonds	141,611	938,657	546,405	2,504,096	4,130,769
High-Yield & Emerging Markets Fixed Income	90,531	262,479	506,907	250,099	1,110,016
Bond Mutual Funds	3,742,365	120,967	100,774	9,222	3,973,328
Investment Contracts	-	6,007	-	-	6,007
Securities Lending Collateral:					
Commercial Paper	429,920	-	-	-	429,920
Repurchase Agreements	1,455,978	-	-	-	1,455,978
Variable Rate Notes	100,220	-	-	-	100,220
Master Notes	128,300	-	-	-	128,300
Fixed Rate Notes	-	29,589	42,797	-	72,386
Corporate Bonds.....	3,418	-	-	-	3,418
U.S. Agency Obligations.....	49,867	-	-	-	49,867
Bond Mutual Funds	537,807	-	-	-	537,807
Total Primary Government	<u>\$22,685,709</u>	<u>\$12,232,734</u>	<u>\$ 9,256,497</u>	<u>\$26,718,651</u>	<u>\$ 70,893,591</u>

Component Units					
Investments Subject to Interest Rate Risk					
As of June 30, 2010					
(dollars in thousands)					
Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	\$ 155,950	\$ 237,537	\$ 9,636	\$ 16,334	\$ 419,457
U.S. Government Obligations—Strips	1,276	2,828	382	142	4,628
U.S. Agency Obligations	512,359	393,329	35,230	30,924	971,842
Corporate Bonds and Notes	227,666	238,906	79,914	19,640	566,126
Commercial Paper	10,458	-	-	-	10,458
Repurchase Agreements	89,945	-	-	-	89,945
Mortgage and Asset-Backed Securities	3,050	343	30,007	42,108	75,508
Negotiable Certificates of Deposit	7,163	2,484	-	-	9,647
Municipal Obligations	4,936	6,245	1,245	2,486	14,912
Bond Mutual Funds	608,880	222,366	313,739	107,819	1,252,804
Foreign Bonds	-	229	742	1,311	2,282
Investment Contracts	-	-	-	25,868	25,868
Other Investments	14,074	1,285	-	-	15,359
Total Component Units	<u>\$ 1,635,757</u>	<u>\$ 1,105,552</u>	<u>\$ 470,895</u>	<u>\$ 246,632</u>	<u>\$ 3,458,836</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. The 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 the full faith and credit of that foreign nation.

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

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

Workers' Compensation Enterprise Fund

The Fund's investment policy requires that:

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

Retirement Systems Agency Fund

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

As of June, 30, 2010, 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, 2010

(dollars in thousands)

Currency	Fiduciary Activities			Total
	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	
Argentinean Peso	\$ 77,855	\$ -	\$ -	\$ 77,855
Australian Dollar	440,478	9,305	-	449,783
Brazilian Real	464,492	46,423	11,366	522,281
British Pound	2,682,713	109,792	-	2,792,505
Bulgarian Lev	289	-	-	289
Canadian Dollar	710,659	103,168	-	813,827
Chilean Peso.....	33,231	-	-	33,231
Chinese Yuan	852	-	-	852
Colombian Peso	5,187	9,566	3,505	18,258
Czech Koruna	32,680	-	-	32,680
Danish Krone	192,362	-	-	192,362
Egyptian Pound	26,842	963	74	27,879
Euro	3,653,665	246,004	4,908	3,904,577
Ghana Cedi.....	-	-	343	343
Hong Kong Dollar	1,266,154	-	-	1,266,154
Hungarian Forint	40,549	384	-	40,933
Indian Rupee	223,190	8,402	-	231,592
Indonesian Rupiah	82,545	15,536	4,370	102,451
Israeli Shekel	73,312	965	-	74,277
Japanese Yen	2,449,120	9,193	4,540	2,462,853
Jordanian Dollar	1	-	-	1
Malaysian Ringgit	132,856	5,577	4,017	142,450
Mexican Peso	152,853	24,399	4,269	181,521
Moroccan Dirham	694	-	-	694
New Zealand Dollar	72,645	4,959	-	77,604
Norwegian Krone	196,790	-	-	196,790
Pakistani Rupee	2,450	-	-	2,450
Philippines Peso	21,212	-	-	21,212
Polish Zloty	58,537	7,423	-	65,960
Renminbi Yuan.....	3,040	-	-	3,040
Russian Ruble	36,141	-	989	37,130
Singapore Dollar	274,251	-	-	274,251
South African Rand	301,090	-	1,010	302,100
South Korean Won	697,827	12,833	-	710,660
Sri Lankan Rupee	1,015	-	-	1,015
Swedish Krona	267,037	33,460	-	300,497
Swiss Franc	712,154	-	-	712,154
Taiwan Dollar	542,489	-	-	542,489
Thailand Baht	145,594	1,930	-	147,524
Turkish Lira	222,508	13,614	-	236,122
Ukraine Hryvana.....	9	-	-	9
Uruguayuan Peso	-	3,606	-	3,606
Zimbabwean Dollar	885	-	-	885
Investments Held in Foreign Currency	<u>\$16,298,253</u>	<u>\$ 667,502</u>	<u>\$ 39,391</u>	<u>17,005,146</u>
Foreign Investments Held in U.S. Dollars				<u>21,632,895</u>
Total Foreign Investments-Primary Government, including Fiduciary Activities				<u><u>\$38,638,041</u></u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units			
International Investments—Foreign Currency Risk			
As of June 30, 2010			
(dollars in thousands)			
<u>The Ohio State University:</u>	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate & International Bonds	Total
Currency			
Australian Dollar	\$ 24,256	\$ 1,311	\$ 25,567
Brazilian Real	5,195	1	5,196
British Pound	17,570	-	17,570
Canadian Dollar	8,621	-	8,621
Czech Koruna.....	811	-	811
Danish Krone	966	-	966
Egyptian Pound.....	806	-	806
Euro	43,785	-	43,785
Hong Kong Dollar	6,073	-	6,073
Hungarian Forint.....	172	-	172
Indian Rupee.....	2,600	-	2,600
Indonesian Rupiah	3,489	-	3,489
Israeli Shekel	524	11	535
Japanese Yen	20,037	-	20,037
Malaysian Ringgit	192	-	192
Mexican Peso	1,011	555	1,566
New Zealand Dollar	183	-	183
Norwegian Krone	1,377	-	1,377
Polish Zloty	159	-	159
Singapore Dollar	945	-	945
South African Rand	7,266	-	7,266
South Korean Won	11,744	-	11,744
Swedish Krona	3,240	-	3,240
Swiss Franc	4,289	-	4,289
Taiwan Dollar	5,947	-	5,947
Thailand Baht	1,828	-	1,828
Turkish Lira	1,273	-	1,273
Total Investments Held in Foreign Currency-Ohio State University	<u>\$ 174,359</u>	<u>\$ 1,878</u>	<u>\$176,237</u>



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	\$ 2,911	\$ -	\$ 2,911
Brazilian Real	3,786	-	3,786
British Pound	7,488	21	7,509
Bulgarian Lev.....	165	-	165
Canadian Dollar	7,796	-	7,796
Chinese Yuan.....	2,136	-	2,136
Czech Koruna.....	322	-	322
Euro	18,611	-	18,611
Hong Kong Dollar	2,221	-	2,221
Hungarian Forint.....	113	-	113
Indian Rupee.....	706	-	706
Indonesian Rupiah	887	-	887
Israeli Shekel.....	90	-	90
Japanese Yen	13,351	-	13,351
Lebanese Pound.....	47	-	47
Mexican Peso	247	-	247
Netherlands Antilles Guilder.....	1,087	-	1,087
Polish Zloty.....	261	-	261
Romanian Leu.....	143	-	143
Russian Ruble.....	967	-	967
Serbian Dinar.....	69	-	69
Singapore Dollar	386	-	386
South African Rand	2,012	-	2,012
South Korean Won	2,036	-	2,036
Taiwan Dollar	1,400	-	1,400
Thailand Baht	323	-	323
Turkish Lira	371	-	371
Venezuelan Bolivar.....	32	-	32
Zimbabwean Dollar.....	14	-	14
Kenyan Shilling.....	19	-	19
Nigerian Nira.....	19	-	19
Investments Held in Foreign Currency	70,016	21	70,037
Foreign Investments Held in U.S. Dollars	677	383	1,060
Total Nonmajor Component Units	<u>\$ 70,693</u>	<u>\$ 404</u>	<u>\$ 71,097</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 of fair value. At no point in time can the value of the collateral be less than 100 percent of the underlying securities.

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Consequently, as of June 30, 2010, the State had no credit exposure since the amount the State owed to the borrowers at least equaled or exceeded the amount borrowers owed to the State.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 107.5 days or less while the weighted average maturity of securities loans is 3.8 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 2010, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2010, 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.

E. Investment Derivatives

As of June 30, 2010, the State reports the following investment derivatives in its financial statements (dollars in thousands):

Investment Derivatives					
As of June 30, 2010					
<i>(dollars in thousands)</i>					
	Notional	Fair Value at 6/30/2010		Increase (Decrease) in Fair Value	
		Amount	Reported as	Amount	Reported as
Governmental Activities:					
Investment Derivatives:					
Pay-fixed interest rate sw aps	\$157,750	(\$13,014)	Other Noncurrent Liability	(\$13,014)	Operating Restricted Investment Loss - Primary, Secondary and Other Education Function
Fiduciary Funds—Agency:					
Investment Derivatives:					
Call options	15,900	(34)	Investments	253	Refund and Other Liabilities
Credit default sw aps	24,814	(2,004)	Investments	17,815	Refund and Other Liabilities
Credit linked notes	8,376	8,376	Investments	850	Refund and Other Liabilities
Foreign currency contracts	104,100	367,815	Investments	1,259	Refund and Other Liabilities
Forward contracts	6,567,269	(63,885)	Investments	(51,959)	Refund and Other Liabilities
Futures contracts	3,093,794	4,099	Investments	(58,550)	Refund and Other Liabilities
Equity sw aps	1,528,469	-	Investments	(63,518)	Refund and Other Liabilities
Interest rate sw ap	115,781	494	Investments	(2,001)	Refund and Other Liabilities
Total return sw aps	248,581	-	Investments	(3,142)	Refund and Other Liabilities
Major Component Units:					
Investment Derivatives:					
<i>The Ohio State University:</i>					
Pay-fixed interest rate sw aps	16,576	(1,912)	Other Noncurrent Liability	(1,912)	Other Expenses
<i>University of Cincinnati:</i>					
Pay-fixed interest rate sw ap	24,075	(2,771)	Other Noncurrent Liability	(2,771)	Operating Restricted Investment Loss

For governmental activities, the pay-fixed swaps included in the table above do not meet the criteria for hedging derivatives as of June 30, 2010, and are reported as investment derivatives. The accumulated changes in fair value of (\$18.4) million at July 1, 2009, and the increases in the fair values for fiscal year 2010 of \$5.4 million are



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

netted and reported as operating restricted investment losses of \$13 million for the primary, secondary and other education function in the Statement of Activities.

The credit quality ratings of JPMorgan Chase, the counterparty, are Aa1/AA- as of June 30, 2010. The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2010. However, should interest rates change and the fair values of the swaps becomes positive, the State would be exposed to credit risk in the amount of the derivative's positive fair value.

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

These swaps, maturing March 15, 2025, are associated with Common Schools Bonds, Series 2005A and Series 2005B. The underlying index is a variable rate based on 62 percent of the 10 year LIBOR 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.

Ohio Public Employees Retirement System, Ohio Police and Fire Pension Fund, School Employees Retirement System of Ohio, and State Teachers Retirement System of Ohio have entered into the derivatives reported in the Agency Fund. All derivatives of these retirement systems are categorized as investment derivatives. The fair values and associated risks of the investment derivatives for the Agency Fund are included in the balances and risks disclosed in the previous sections of this note disclosure.

For the major component units, the pay-fixed swaps for The Ohio State University and the University of Cincinnati component units in the table above do not meet the criteria for hedging derivatives. The accumulated changes in fair value of (\$1.3) million at July 1, 2009, and the decreases in the fair values for fiscal year 2010 of \$629 thousand for The Ohio State University are netted and reported as operating investment losses of \$1.9 million in the Statement of Activities. The decrease in fair value of \$2.8 million for the University of Cincinnati is reported as an operating investment loss of \$2.8 million in the Statement of Activities.

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

The University of Cincinnati's pay-fixed swap is used to protect the University against the potential of rising interest rates within the variable rate market on the 2010A BANS of \$24.1 million. The swap matures on June 1, 2030. It has an underlying index of 67 percent LIBOR. The University was not exposed to credit risk because the swap had a negative fair value at June 30, 2010. There are no counterparty collateral posting requirements on the swap.

NOTE 5 RECEIVABLES

A. Taxes Receivable – Primary Government

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2010, approximately \$155 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet of which \$146.2 million is reported in the General Fund and \$8.8 million is reported in the Revenue Distribution Special Revenue Fund.



NOTE 5 RECEIVABLES (Continued)

Refund liabilities for income taxes, totaling approximately \$603 million are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which \$569 million is reported in the General Fund and \$34 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				Total Primary Government
	General	Highway Operating	Revenue Distribution	Nonmajor Governmental Activities	
Current-Due Within One Year:					
Income Taxes	\$293,258	\$ -	\$17,561	\$ -	\$310,819
Sales Taxes	343,779	-	20,587	-	364,366
Motor Vehicle Fuel Taxes	-	69,258	93,788	2,352	165,398
Commercial Activity Taxes	-	-	337,709	-	337,709
Public Utility Taxes	55,626	-	30,191	-	85,817
Severance Taxes	-	-	-	1,678	1,678
	<u>692,663</u>	<u>69,258</u>	<u>499,836</u>	<u>4,030</u>	<u>1,265,787</u>
Noncurrent-Due in More Than One Year:					
Income Taxes	38,016	-	2,277	-	40,293
Taxes Receivable, Net	<u>\$730,679</u>	<u>\$69,258</u>	<u>\$502,113</u>	<u>\$4,030</u>	<u>\$1,306,080</u>

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, 2010 (dollars in thousands):

	From Nonexchange Programs		Services		Total Primary Government
	Federal Government	Local Government	Other State Governments	Local Government	
Governmental Activities:					
Major Governmental Funds:					
General	\$ 699,553	\$ 128,610	\$ -	\$ 2,712	\$ 830,875
Job, Family and Other Human Services	372,027	174,162	-	-	546,189
Education	34,566	78,243	-	-	112,809
Highway Operating	71,802	-	-	-	71,802
Nonmajor Governmental Funds	<u>372,287</u>	<u>34,077</u>	<u>-</u>	<u>28,003</u>	<u>434,367</u>
Total Governmental Activities	<u>1,550,235</u>	<u>415,092</u>	<u>-</u>	<u>30,715</u>	<u>1,996,042</u>
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	-	21	-	21
Nonmajor Proprietary Funds	-	-	-	9,684	9,684
Total Business-Type Activities	<u>-</u>	<u>-</u>	<u>21</u>	<u>9,684</u>	<u>9,705</u>
Intergovernmental Receivable	<u>\$ 1,550,235</u>	<u>\$ 415,092</u>	<u>\$ 21</u>	<u>\$ 40,399</u>	<u>\$ 2,005,747</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, 2010, are detailed in the following tables (dollars in thousands):

Primary Government - Loans Receivable				
Loan Program	Governmental Activities			
	Major Governmental Funds			Total Primary Government
	General	Highway Operating	Nonmajor Governmental Funds	
Housing Finance	\$ 214,795	\$ -	\$ -	\$ 214,795
School District Solvency Assistance	8,807	-	-	8,807
Wayne Trace Local School District	3,575	-	-	3,575
Office of Minority Financial Incentives	1,747	-	-	1,747
Highway, Transit, & Aviation Infrastructure Bank.....	-	115,993	-	115,993
Economic Development				
Office of Financial Incentives	-	-	411,958	411,958
Rail Development	-	-	3,029	3,029
Brownfield Revolving Loan	-	-	2,403	2,403
Local Infrastructure Improvements	-	-	382,848	382,848
Other Loans Receivable.....	2,660	-	-	2,660
Loans Receivable, Gross	231,584	115,993	800,238	1,147,815
Estimated Uncollectible	(138)	-	-	(138)
Loans Receivable, Net	<u>231,446</u>	<u>115,993</u>	<u>800,238</u>	<u>1,147,677</u>
Current-Due Within One Year	10,453	15,193	41,261	66,907
Noncurrent-Due in More Than One Year	220,993	100,800	758,977	1,080,770
Loans Receivable, Net	<u>\$ 231,446</u>	<u>\$ 115,993</u>	<u>\$ 800,238</u>	<u>\$ 1,147,677</u>

Major Component Units - Loans Receivable			
Loan Program	Ohio Water Development Authority (12/31/09)	Ohio State University	University of Cincinnati
	Water and Wastewater Treatment (including restricted portion).....	\$4,191,089	\$ -
Student	-	89,567	37,276
Other	-	-	4,310
Loans Receivable, Gross.....	4,191,089	89,567	41,586
Estimated Uncollectible.....	-	(18,050)	(6,551)
Loans Receivable, Net.....	<u>4,191,089</u>	<u>71,517</u>	<u>35,035</u>
Current-Due Within One Year.....	-	13,533	6,391
Noncurrent-Due in More Than One Year.....	4,191,089	57,984	28,644
Loans Receivable, Net.....	<u>\$4,191,089</u>	<u>\$71,517</u>	<u>\$35,035</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, 2010, 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	\$61,851	\$171,331	\$ -	\$ -	\$ -	\$14,577	\$247,759
Tobacco Settlement	-	-	-	-	237,486	73,863	311,349
Health Facility Bed Assessments	-	107,188	-	-	-	-	107,188
Interest	870	-	-	162	24	166	1,222
Accounts	7,247	83,696	699	1,459	-	-	93,101
Environmental Legal Settlements	-	-	-	-	-	678	678
Miscellaneous	6,094	1,607	89	705	-	1,808	10,303
	<u>76,062</u>	<u>363,822</u>	<u>788</u>	<u>2,326</u>	<u>237,510</u>	<u>91,092</u>	<u>771,600</u>
Reconciliation of balances included in "Other Receivables" balance in the government-wide financial statements...	300	-	-	-	-	-	300
Other Receivables, Net.....	<u>76,362</u>	<u>363,822</u>	<u>788</u>	<u>2,326</u>	<u>237,510</u>	<u>91,092</u>	<u>771,900</u>
Current-Due Within One Year	76,062	363,822	788	2,326	24	17,229	460,251
Noncurrent-Due in More Than One Year	300	-	-	-	237,486	73,863	311,649
Other Receivables, Net.....	<u>\$76,362</u>	<u>\$363,822</u>	<u>\$788</u>	<u>\$2,326</u>	<u>\$237,510</u>	<u>\$91,092</u>	<u>\$771,900</u>
Business-Type Activities							
Major Proprietary Funds							
Types of Receivables	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds		Total	
Accounts.....	\$ 144,769	\$ -	\$ 100,842	\$ 186	\$	245,797	
Interest and Dividends (including restricted portion).....	161,171	3,009	-	3,414		167,594	
Lottery Sales Agents.....	-	38,450	-	-		38,450	
Other Receivables, Gross.....	305,940	41,459	100,842	3,600		451,841	
Estimated Uncollectible.....	(1,017)	(256)	(84,050)	-		(85,323)	
Other Receivables, Net-Due Within One Year.....	<u>\$ 304,923</u>	<u>\$ 41,203</u>	<u>\$ 16,792</u>	<u>\$ 3,600</u>		<u>\$ 366,518</u>	
Total Primary Government.....						<u>\$ 1,138,418</u>	



NOTE 5 RECEIVABLES (Continued)

Major Component Units - Other Receivables		
Types of Receivables	Ohio State University	University of Cincinnati
Accounts.....	\$999,896	\$51,781
Interest.....	18,856	8,826
Investment Trade Receivable (Stock and Bond Proceeds).....	-	96,246
Pledges.....	54,464	74,555
Unbilled Charges.....	-	37,407
Other Receivables, Gross.....	1,073,216	268,815
Estimated Uncollectible.....	(594,498)	(23,323)
Other Receivables, Net.....	<u>478,718</u>	<u>245,492</u>
Current-Due Within One Year.....	455,278	107,539
Noncurrent-Due Within More Than One Year.....	23,440	137,953
Other Receivables, Net.....	<u>\$478,718</u>	<u>\$245,492</u>

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2010, is comprised of interest due of approximately \$1.4 million, investment trade receivable of \$9.5 million, and miscellaneous receivables of \$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, 2010, follow (dollars in thousands).

Primary Government - Accrued Liabilities			
	Wages and Employee Benefits	Accrued Interest	Total Accrued Liabilities
Governmental Activities:			
Major Governmental Funds:			
General.....	\$ 182,382	\$ -	\$ 182,382
Job, Family and Other Human Services.....	28,416	-	28,416
Education.....	2,916	-	2,916
Highway Operating.....	33,074	-	33,074
Nonmajor Governmental Funds.....	70,871	-	70,871
	<u>317,659</u>	<u>-</u>	<u>317,659</u>
Reconciliation of fund level statements to government-wide statements due to basis differences.....			
	-	154,439	154,439
Total Governmental Activities.....	<u>317,659</u>	<u>154,439</u>	<u>472,098</u>
Business-Type Activities:			
Nonmajor Proprietary Funds.....	6,813	-	6,813
Total Primary Government.....	<u>\$ 324,472</u>	<u>\$ 154,439</u>	<u>\$ 478,911</u>

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Expenses
Fiduciary Activities:				
State Highway Patrol Retirement System				
Pension Trust (12/31/2009).....	\$ 17,112	\$ 537	\$ -	\$ 17,649
Variable College Savings Plan				
Private-Purpose Trust.....	-	-	3,884	3,884
Total Fiduciary Activities.....	<u>\$ 17,112</u>	<u>\$ 537</u>	<u>\$ 3,884</u>	<u>\$ 21,533</u>

Major Component Units - Accrued Liabilities					
	Wages and Employee Benefits	Self- Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University.....	\$ 165,593	\$ 144,813	\$ 3,691	\$31,446	\$ 345,543
University of Cincinnati.....	39,751	-	4,590	49,975	94,316



NOTE 6 PAYABLES (Continued)

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2010, are comprised of the following (dollars in thousands).

Primary Government - Intergovernmental Payable					
	Local Government				
	Shared Revenue and Local		Federal	Other	Total
	Permissive Taxes	Subsidies and Other	Government	States	
Governmental Activities:					
Major Governmental Funds:					
General	\$ 277,354	\$ 98,799	\$ 13,225	\$ -	\$ 389,378
Job, Family and Other Human Services ...	-	389,929	-	-	389,929
Education	-	76,149	-	-	76,149
Highway Operating	-	644	-	-	644
Revenue Distribution	942,919	-	-	2,157	945,076
Nonmajor Governmental Funds	-	227,624	-	-	227,624
Total Governmental Activities	<u>1,220,273</u>	<u>793,145</u>	<u>13,225</u>	<u>2,157</u>	<u>2,028,800</u>
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	53	2,314,343	-	2,314,396
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the business-type financial statements					
	-	-	(2,314,187)	-	(2,314,187)
Total Business-Type Activities	<u>-</u>	<u>53</u>	<u>156</u>	<u>-</u>	<u>209</u>
Total Primary Government					<u>\$ 2,029,009</u>
Fiduciary Activities:					
Holding and Distribution Agency Fund	\$ -	\$ -	\$ 1,327	\$14,108	\$ 15,435
Payroll Withholding and Fringe Benefits Agency Fund	-	28,819	-	-	28,819
Other Agency Fund	113,181	5,696	-	-	118,877
Total Fiduciary Activities	<u>\$ 113,181</u>	<u>\$ 34,515</u>	<u>\$ 1,327</u>	<u>\$14,108</u>	<u>\$ 163,131</u>

As of June 30, 2010, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately \$1.34 billion for long-term funding contracts the Commission has with local school districts. In the government-wide Statement of Net Assets, the intergovernmental payable balance for the Commission is included with "Other Noncurrent Liabilities."

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



NOTE 6 PAYABLES (Continued)

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2010, consist of the balances, as follows (dollars in thousands):

Primary Government - Refund and Other Liabilities						
	Personal Income Tax Estimated Refund					
	Claims	Other	Total			
Governmental Activities:						
Major Governmental Funds:						
General	\$ 571,168	\$ 6,628	\$ 577,796			
Job, Family and Other Human Services	-	8,716	8,716			
Revenue Distribution	34,072	-	34,072			
Nonmajor Governmental Funds	-	760	760			
	605,240	16,104	621,344			
Reconciliation of balances included in the "Refund and Other Liabilities" and "Other Noncurrent Liabilities" balances in the government-wide financial statements.....						
	-	(6,628)	(6,628)			
Total Governmental Activities	\$ 605,240	\$ 9,476	\$ 614,716			
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	\$ 1,926,200	\$ 87,974	\$ 27,617	\$ -	\$ 47,186	\$ 2,088,977
Lottery Commission	-	162,025	2,584	66,757	2,485	233,851
Unemployment Compensation	-	6,759	-	-	-	6,759
Nonmajor Proprietary Funds	-	2,844	12,416	-	1,048	16,308
	1,926,200	259,602	42,617	66,757	50,719	2,345,895
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements.....						
	(1,926,200)	(87,974)	(42,170)	(66,757)	(21,849)	(2,144,950)
Total Business-Type Activities	\$ -	\$ 171,628	\$ 447	\$ -	\$ 28,870	\$ 200,945
					Total Primary Government	
					\$ 815,661	
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/2009)....						
	\$ -	\$ -	\$ -	\$ -	\$ 65	\$ 65
Variable College Savings Plan						
Private-Purpose Trust.....	-	-	-	-	9,176	9,176
STAR Ohio Investment Trust	-	-	-	-	2,909	2,909
Agency Funds:						
Holding and Distribution	-	27,881	-	-	-	27,881
Centralized Child Support Collections.....	59,023	-	-	-	-	59,023
Retirement Systems	-	-	-	146,765,956	-	146,765,956
Payroll Withholding and Fringe Benefits	-	-	88,995	-	-	88,995
Other	-	401,870	-	29,377	131,274	562,521
Total Fiduciary Activities.....	\$ 59,023	\$ 429,751	\$ 88,995	\$ 146,795,333	\$ 143,424	\$ 147,516,526



NOTE 6 PAYABLES (Continued)

	Major Component Units - Refund and Other Liabilities					
	Refund and Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity		Total
				Life Agreements	Other	
Ohio State University.....	\$ 51,703	\$ 108,988	\$ 17,418	\$ 38,050	\$31,892	\$ 248,051
University of Cincinnati.....	30,774	58,649	140,529	-	13,468	243,420

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

A. Interfund Balances

Interfund balances, as of June 30, 2010, consist of the following (in thousands):

Due from	Due To					
	Governmental Activities					
	General	Highway Operating	Revenue Distribution	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Major Governmental Funds:						
General	\$ -	\$ -	\$ 92,035	\$ -	\$ 2,802	\$ 94,837
Revenue Distribution	-	725	-	-	417	1,142
Nonmajor Governmental Funds	-	-	-	886,507	-	886,507
Total Governmental Activities ...	-	725	92,035	886,507	3,219	982,486
Business-Type Activities:						
Nonmajor Proprietary Funds	3,082	-	-	-	-	3,082
Total Business-Type Activities .	3,082	-	-	-	-	3,082
Total Primary Government	\$3,082	\$725	\$92,035	\$886,507	\$3,219	\$985,568

Due from	Business-Type Activities			
	Major Proprietary Fund			Total Primary Government
	Workers' Compensation	Nonmajor Proprietary Funds	Total	
Major Governmental Funds:				
General	\$488,171	\$10,895	\$499,066	\$593,903
Job, Family, Other Human Services	13,848	-	13,848	13,848
Education	2,757	-	2,757	2,757
Highway Operating	78,926	-	78,926	78,926
Revenue Distribution	-	-	-	1,142
Nonmajor Governmental Funds	110,303	1	110,304	996,811
Total Governmental Activities	694,005	10,896	704,901	1,687,387
Business-Type Activities:				
Major Proprietary Funds:				
Lottery Commission	2,668	-	2,668	2,668
Nonmajor Proprietary Funds	10,356	-	10,356	13,438
Total Business-Type Activities	13,024	-	13,024	16,106
Total Primary Government	\$707,029	\$10,896	\$717,925	\$1,703,493



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

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

The nonmajor governmental funds include an internal balance for bond proceeds transferred from the Buckeye Tobacco Settlement Financing Authority to fund capital projects at state-supported institutions of higher education. This assistance is included in the nonmajor funds as a due to/from other fund of \$886.5 million and is being amortized over the projected payment period of the future tobacco settlement receipts.

The State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized \$707 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 \$701.8 million in the internal balance reported for governmental activities.



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

B. Interfund Transfers

Interfund transfers, for the fiscal year ended of June 30, 2010, consist of the following (dollars in thousands):

Transferred from	Transferred to							Total
	Governmental Activities							
	Major Governmental Funds						Nonmajor Governmental Funds	
General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution				
Major Governmental Funds:								
General	\$ -	\$ 10,912	\$ 673	\$ -	\$ 198,959	\$ 744,833	\$ 955,377	
Job, Family and Other Human Services ..	14,582	-	1,500	-	-	22	16,104	
Education	370	62	-	-	-	-	432	
Highway Operating	400	-	-	-	185,727	342,523	528,650	
Revenue Distribution	112,682	-	16,712	463,161	-	235,637	828,192	
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	-	-	-	-	-	14,008	14,008	
Nonmajor Governmental Funds	69,369	42	-	54,000	-	18,386	141,797	
Total Governmental Activities	197,403	11,016	18,885	517,161	384,686	1,355,409	2,484,560	
Major Proprietary Funds:								
Workers' Compensation	8,324	-	-	-	-	3,777	12,101	
Lottery Commission	335	-	728,625	-	-	-	728,960	
Unemployment Compensation	-	42,756	-	-	-	-	42,756	
Nonmajor Proprietary Funds	167,745	-	-	-	-	61,583	229,328	
Total Business-Type Activities	176,404	42,756	728,625	-	-	65,360	1,013,145	
Total Primary Government	\$373,807	\$53,772	\$747,510	\$517,161	\$384,686	\$1,420,769	\$3,497,705	

Transferred from	Business-Type Activities		Total Primary Government
	Nonmajor Proprietary Funds	Total	
Major Governmental Funds:			
General	\$34,818	\$ 34,818	\$ 990,195
Job, Family and Other Human Services ...	-	-	16,104
Education	-	-	432
Highway Operating	-	-	528,650
Revenue Distribution	-	-	828,192
Buckeye Tobacco Settlement Financing Authority Revenue Bonds.....	-	-	14,008
Nonmajor Governmental Funds	-	-	141,797
Total Governmental Activities	34,818	34,818	2,519,378
Major Proprietary Funds:			
Workers' Compensation	-	-	12,101
Lottery Commission	-	-	728,960
Unemployment Compensation	-	-	42,756
Nonmajor Proprietary Funds	-	-	229,328
Total Business-Type Activities	-	-	1,013,145
Total Primary Government	\$34,818	\$34,818	\$3,532,523

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 2010, the component units reported \$2 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 \$3.89 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	\$ -	\$11,642	\$74,188	\$1,661,577	\$59,049	\$1,794,814
Job, Family and Other Human	-	1,219	-	-	-	-
Education	-	1,837	-	-	-	-
Highway Operating	-	400	-	-	-	-
Buckeye Tobacco Settlement Authority Revenue Bonds.....	3,887,358	-	-	-	-	-
Nonmajor Governmental Funds	-	28,194	-	208,630	-	208,630
Total Governmental Activities.....	<u>3,887,358</u>	<u>43,292</u>	<u>74,188</u>	<u>1,870,207</u>	<u>59,049</u>	<u>2,003,444</u>
Total Primary Government	<u>\$3,887,358</u>	<u>\$43,292</u>	<u>\$74,188</u>	<u>\$1,870,207</u>	<u>\$59,049</u>	<u>\$2,003,444</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	\$ -	\$3,887,358	\$60,924
Ohio State University	9,185	-	484,465
University of Cincinnati	1,702	-	201,318
Nonmajor Component Units	32,405	-	1,256,737
Total Component Units	<u>\$43,292</u>	<u>\$3,887,358</u>	<u>\$2,003,444</u>



NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2010, reported for the primary government was as follows (dollars in thousands):

	Primary Government			Balance June 30, 2010
	Balance July 1, 2009	Increases	Decreases	
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$1,927,909	\$54,427	(\$10,111)	\$1,972,225
Buildings	59,908	1,090	-	60,998
Land Improvements	1,202	-	-	1,202
Construction-in-Progress	1,933,142	451,531	(639,300)	1,745,373
Infrastructure:				
Highway Network:				
General Subsystem	8,445,695	53,360	(6,482)	8,492,573
Priority Subsystem	7,542,770	113,629	(2,070)	7,654,329
Bridge Network	2,559,462	339,234	(54,909)	2,843,787
Total Capital Assets Not Being Depreciated.....	<u>22,470,088</u>	<u>1,013,271</u>	<u>(712,872)</u>	<u>22,770,487</u>
Other Capital Assets:				
Buildings	3,566,802	95,753	(35,451)	3,627,104
Land Improvements	421,785	12,142	(22,208)	411,719
Machinery and Equipment	656,726	73,497	(15,804)	714,419
Vehicles	272,913	20,544	(11,097)	282,360
Infrastructure:				
Parks, Recreation and Natural Resources Network.....	65,752	15,541	(1,652)	79,641
Total Other Capital Assets at Historical Cost.....	<u>4,983,978</u>	<u>217,477</u>	<u>(86,212)</u>	<u>5,115,243</u>
Less Accumulated Depreciation for:				
Buildings	1,728,621	103,444	(11,900)	1,820,165
Land Improvements	212,870	15,348	(4,921)	223,297
Machinery and Equipment	476,278	65,684	(23,731)	518,231
Vehicles	147,393	23,945	(7,390)	163,948
Infrastructure:				
Parks, Recreation and Natural Resources Network.....	9,368	2,673	(6)	12,035
Total Accumulated Depreciation	<u>2,574,530</u>	<u>211,094</u>	<u>(47,948)</u>	<u>2,737,676</u>
Other Capital Assets, Net	<u>2,409,448</u>	<u>6,383</u>	<u>(38,264)</u>	<u>2,377,567</u>
Governmental Activities-				
Capital Assets, Net	<u>\$24,879,536</u>	<u>\$1,019,654</u>	<u>(\$751,136)</u>	<u>\$25,148,054</u>

For fiscal year 2010, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	(in 000s)
Primary, Secondary and Other Education.....	\$1,779
Public Assistance and Medicaid.....	1,962
Health and Human Services.....	12,916
Justice and Public Protection.....	82,269
Environmental Protection and Natural Resources.....	19,888
Transportation.....	94,584
General Government.....	72,906
Community and Economic Development.....	27,937
Total Depreciation Expense for Governmental Activities.....	314,241
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	(103,147)
Fiscal Year 2010 Increases to Accumulated Depreciation.....	<u>\$211,094</u>



NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2010, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

Governmental Activities (net book value):	(in 000s)
Temporarily Impaired Assets Removed from Service:	
Buildings.....	\$21,612
Land Improvements	4
Construction-In-Progress.....	2,280
Total.....	<u>\$23,896</u>
Permanently Impaired Assets Removed from Service:	
Buildings.....	\$5,233
Land Improvements.....	1,533
Total.....	<u>\$6,766</u>

	Primary Government (Continued)			
	Balance			Balance
	July 1, 2009	Increases	Decreases	June 30, 2010
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	223,634	2,233	-	225,867
Land Improvements	66	-	-	66
Machinery and Equipment	119,759	96,106	(74,448)	141,417
Vehicles	4,557	358	(266)	4,649
Total Other Capital Assets at Historical Cost....	<u>348,016</u>	<u>98,697</u>	<u>(74,714)</u>	<u>371,999</u>
Less Accumulated Depreciation for:				
Buildings	137,694	7,383	-	145,077
Land Improvements	54	1	-	55
Machinery and Equipment	103,370	24,716	(74,193)	53,893
Vehicles	2,150	545	(173)	2,522
Total Accumulated Depreciation	<u>243,268</u>	<u>32,645</u>	<u>(74,366)</u>	<u>201,547</u>
Other Capital Assets, Net	<u>104,748</u>	<u>66,052</u>	<u>(348)</u>	<u>170,452</u>
Business-Type Activities - Capital Assets, Net..	<u>\$116,742</u>	<u>\$66,052</u>	<u>(\$348)</u>	<u>\$182,446</u>

For fiscal year 2010, the State charged depreciation expense to the following business-type functions:

Business-Type Activities	(in 000s)
Workers' Compensation.....	\$11,561
Lottery Commission.....	18,037
Tuition Trust Authority.....	149
Liquor Control.....	357
Underground Parking Garage.....	623
Office of Auditor of State.....	526
Total Depreciation Expense for Business-Type Activities.....	<u>31,253</u>
Gains (Losses) on Capital Asset Disposals Included in Depreciation.....	1,392
Fiscal year 2010 Increase to Accumulated Depreciation.....	<u>\$32,645</u>



NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2010, reported for discretely presented major component unit funds with significant capital asset balance was as follows (dollars in thousands):

	Major Component Units			Balance June 30, 2010
	Balance July 1, 2009 (as restated)	Increases	Decreases	
<u>Ohio State University:</u>				
Capital Assets Not Being Depreciated:				
Land	\$74,118	\$70	(\$262)	\$73,926
Construction-in-Progress	386,184	-	(112,958)	273,226
Total Capital Assets Not Being Depreciated.....	<u>460,302</u>	<u>70</u>	<u>(113,220)</u>	<u>347,152</u>
Other Capital Assets:				
Buildings	3,607,824	333,440	(2,105)	3,939,159
Land Improvements	279,732	2,416	(152)	281,996
Machinery, Equipment and Vehicles	900,585	137,173	(115,039)	922,719
Library Books and Publications	162,335	2,449	(1,772)	163,012
Total Other Capital Assets at Historical Cost.....	<u>4,950,476</u>	<u>475,478</u>	<u>(119,068)</u>	<u>5,306,886</u>
Other Capital Assets:				
Buildings	1,391,707	126,980	(1,032)	1,517,655
Land Improvements	160,938	11,430	(52)	172,316
Machinery, Equipment and Vehicles	592,181	89,210	(96,833)	584,558
Library Books and Publications	146,025	4,124	(1,774)	148,375
Total Accumulated Depreciation	<u>2,290,851</u>	<u>231,744</u>	<u>(99,691)</u>	<u>2,422,904</u>
Other Capital Assets, Net	<u>2,659,625</u>	<u>243,734</u>	<u>(19,377)</u>	<u>2,883,982</u>
Total Capital Assets, Net	<u>\$3,119,927</u>	<u>\$243,804</u>	<u>(\$132,597)</u>	<u>\$3,231,134</u>
<u>University of Cincinnati:</u>				
Capital Assets Not Being Depreciated:				
Land	\$25,100	\$ -	\$ -	\$25,100
Construction-in-Progress	29,454	33,158	(16,438)	46,174
Collections of Works of Art and Historical Treasures.....	14,582	44	-	14,626
Total Capital Assets Not Being Depreciated.....	<u>69,136</u>	<u>33,202</u>	<u>(16,438)</u>	<u>85,900</u>
Other Capital Assets:				
Buildings	1,834,958	16,109	-	1,851,067
Land Improvements	99,708	271	-	99,979
Machinery, Equipment and Vehicles	236,919	15,918	(5,442)	247,395
Library Books and Publications	148,481	8,766	(2,965)	154,282
Infrastructure	115,716	139	-	115,855
Total Other Capital Assets at Historical Cost.....	<u>2,435,782</u>	<u>41,203</u>	<u>(8,407)</u>	<u>2,468,578</u>
Less Accumulated Depreciation for:				
Buildings	698,597	65,494	-	764,091
Land Improvements	26,275	4,946	-	31,221
Machinery, Equipment and Vehicles	154,815	18,903	(6,098)	167,620
Library Books and Publications	106,056	8,146	(2,091)	112,111
Infrastructure	56,220	4,602	-	60,822
Total Accumulated Depreciation	<u>1,041,963</u>	<u>102,091</u>	<u>(8,189)</u>	<u>1,135,865</u>
Other Capital Assets, Net	<u>1,393,819</u>	<u>(60,888)</u>	<u>(218)</u>	<u>1,332,713</u>
Total Capital Assets, Net	<u>\$1,462,955</u>	<u>(\$27,686)</u>	<u>(\$16,656)</u>	<u>\$1,418,613</u>

For fiscal year 2010, Ohio State University and the University of Cincinnati reported approximately \$231.7 million and \$102 million in depreciation expense, respectively.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

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

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

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

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

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

Employer and employee required contributions to OPERS are established 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 2010, 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, 2009 through June 30, 2010	10.00%	14.00%
<u>Law Enforcement Employees:</u>		
July 1, 2009 through December 31, 2009	10.10%	17.63%
January 1, 2010 through June 30, 2010	11.10%	17.87%

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 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):

	2010	2009	2008
<u>Primary Government:</u>			
Regular Employees	\$241,734	\$216,623	\$ 217,003
Law Enforcement			
Employees.....	3,889	3,708	3,718
Total	<u>\$245,623</u>	<u>\$220,331</u>	<u>\$ 220,721</u>

Major Component Units:

School Facilities			
Commission	\$345	\$303	\$268
Ohio Water			
Development Authority.....	155	80	72
Ohio State University.....	85,332	67,273	63,104
University of Cincinnati.....	13,814	11,950	11,672



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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):

	2010	2009	2008
<i>Primary Government:</i>			
Employer Contributions	\$5,085	\$4,762	\$4,407
Employee Contributions	11,114	10,672	9,721
<i>Major Component Units:</i>			
<i>Ohio State University:</i>			
Employer Contributions ..	2,427	2,139	1,988
Employee Contributions .	5,871	5,288	4,425
<i>University of Cincinnati:</i>			
Employer Contributions ..	372	335	300
Employee Contributions .	812	775	640

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:

	<u>Employer Share</u> <u>Defined Benefit</u> <u>and Combined</u> <u>Plans</u>
July 1, 2009 through February 28, 2010	5.50%
March 1, 2010 through June 30, 2010	5.00%

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



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):

	2010	2009	2008
<i>Primary Government:</i>			
Regular Employees	\$148,549	\$196,410	\$190,963
Law Enforcement			
Employees	1,694	2,288	2,238
Total	<u>\$150,243</u>	<u>\$198,698</u>	<u>\$193,201</u>

Major Component Units:

School Facilities			
Commission	\$212	\$271	\$236
Ohio Water			
Development Authority.....	65	72	64
Ohio State University.....	52,407	60,263	55,482
University of Cincinnati.....	8,486	10,709	10,262

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2010, employers paid 4.5 percent of their share into members' accounts for the period covering July 1, 2009 through June 30, 2010. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after five years of credit service for the period covering July 1, 2009 through June 30, 2010. 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 and the defined contribution portion of the combined plan were as follows (dollars in thousands):

	2010	2009	2008
<i>Primary Government</i>	<u>\$2,621</u>	<u>\$2,454</u>	<u>\$2,272</u>
<i>Major Component Units:</i>			
Ohio State University.....	1,251	1,103	954
University of Cincinnati.....	192	172	144

The number of active contributing participants for the primary government was 55,870, as of June 30, 2010.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, became effective on January 1, 2007. Member and employer contribution rates increased as of January 1, of each year from 2006 to 2008. Rates for law enforcement employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the 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 350 employees or 40 percent of the agency's workforce, as a result of a closure of the agency or a lay-off within a six-month period. Under these circumstances, qualifying employees must decide whether to accept the offer in the time between the announcement of the layoffs and the effective date, 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, 2010, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2010, the State incurred expenditures/expenses totaling \$17.6 million for 389 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 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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 2010 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):

	2010	2009	2008
<i>Primary Government</i>	\$8,101	\$7,498	\$7,536
<i>Major Component Units:</i>			
Ohio State University.....	39,969	38,355	36,631
University of Cincinnati.....	15,274	14,609	14,487

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):

	2010	2009	2008
<i>Primary Government:</i>			
Employer Contributions	\$106	\$98	\$105
Employee Contributions	177	163	170
<i>Major Component Units:</i>			
Ohio State University:			
Employer Contributions	3,290	3,155	2,707
Employee Contributions	3,785	3,633	3,149
University of Cincinnati:			
Employer Contributions	926	885	813
Employee Contributions	1,158	1,107	1,038

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)

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2009 (the most recent information available), 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):

	2010	2009	2008
<i>Primary Government</i>	\$623	\$577	\$580
<i>Major Component Units:</i>			
Ohio State University.....	3,075	2,950	2,818
University of Cincinnati.....	1,175	1,124	1,114

The number of eligible benefit recipients for STRS as a whole was 169,828, as of June 30, 2009 (the most recent information available); a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2010, 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 nine percent of the total salaries of contributing members.

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

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Pension Benefits

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

During calendar year 2009, all of the employees' contributions funded pension benefits while 21 percent of the employer's contributions funded pension benefits from January 1, 2009 through June 30, 2009 and 22 percent from July 1, 2009 through December 31, 2009. 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 2009 were approximately \$20.5 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
2009	\$19,978	102.4%
2008	21,221	95.7%
2007	21,666	92.1%

The contributions made by employers in 2007 and 2008 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, 2009. 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. Based upon significant declines in investment values during 2008, the SHPRS actuary was unable to amortize unfunded actuarially accrued pension liabilities over a finite period. Without plan design changes, the system is unlikely to be able to pay off future liabilities.



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						
<i>(dollars in thousands)</i>						
(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)
2009	\$940,084	\$620,357	\$319,727	66.0%	\$94,825	337.2%
2008	904,522	603,266	301,256	66.7%	94,302	319.5%
2007	866,255	700,861	165,394	80.9%	93,753	176.4%

Other Post Employment Benefits (OPEB)

The healthcare coverage provided by SHPRS is considered to be an OPEB as described in GASB Statement 45. Healthcare benefits are not guaranteed and are subject to change at any time. The OPEB valuation is based on the substantive plan as it is currently presented to plan members, including historical pattern of cost-sharing between the plan and benefit recipients. The actuarial methods and assumptions do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing in the future.

During calendar year 2009, 4.5 percent of the employer's contributions funded healthcare benefits. Active members do not make contributions to the OPEB plan. The cost of retiree healthcare benefits is recognized as claims incurred and premiums paid. The calendar year 2009 expense was \$9.8 million. The number of active contributing plan participants, as of December 31, 2009, was 1,547.

The employer contributions for calendar year 2009 were approximately \$4.8 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
2009	\$19,379	24.7%
2008	19,273	24.2%
2007	18,303	25.0%

The contributions made by employers did not meet the ARC, but they did meet the statutory requirements.

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, 2009, 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 healthcare inflation was assumed to be at least four percent a year, plus an additional declining percentage ranging from 5 percent to 0.5 percent through 2019. There are no cost of living adjustments for OPEB benefits. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for OPEB benefits.

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

Net assets available for benefits allocated to healthcare costs at December 31, 2009 were \$100.7 million, and included investments carried at fair value, as previously described.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of December 31, 2009, 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 \$186.8 million, the actuarial accrued liability for healthcare benefits at that date was \$287.6 million.

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

SHPRS Schedule of Funding Progress Last Three Calendar Years – OPEB						
<i>(dollars in thousands)</i>						
(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)
2009	\$287,582	\$100,748	\$186,834	35.0%	\$94,825	197.0%
2008	324,171	95,785	228,386	29.5%	94,302	242.2%
2007	335,232	111,180	224,052	33.2%	93,753	239.0%

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

The ARP is a defined contribution retirement plan that is authorized under Section 3305.02, Ohio Revised Code. The ARP provides at least three or more alternative retirement plans for academic and administrative employees of Ohio's institutions of 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, 2010, 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, 2010, 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.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2010, for the ARP follow (dollars in thousands):

	<u>OPERS</u>	<u>STRS</u>
<i>Major Component Units:</i>		
Ohio State University:		
Employer Contributions	\$21,423	\$17,591
Employee Contributions	16,193	16,753
University of Cincinnati:		
Employer Contributions	7,882	6,339
Employee Contributions	5,958	6,036

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 19 constitutional amendments (the last adopted November 2009 for compensation to veterans of the Persian Gulf, Afghanistan, and Iraq conflicts), have authorized the incurrence of general obligation debt for the construction and improvement of common school and higher education facilities, highways, local infrastructure improvements, research and development of coal technology, natural resources, research and development support for high-tech business, business site development, and veterans compensation. Issuances for highway capital improvements, natural resources, and conservation are, in part, used for acquisition, construction or improvement of capital assets. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1999 constitutional amendment provided for the issuance of Common School Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2010, the General Assembly had authorized the issuance of \$3.87 billion in Common Schools Capital Facilities Bonds, of which \$3.29 billion has been issued. As of June 30, 2010, 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, 2010, the General Assembly has authorized the issuance of approximately \$2.77 billion in Highway Capital Improvements Bonds, of which \$2.12 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, 2010, the General Assembly had authorized \$3 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which \$2.76 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, 2010, the General Assembly had authorized the issuance of \$231 million in Coal Research and Development Bonds, of which \$198 million had been issued.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled \$350 million, as of June 30, 2010, of which \$325 million had been issued.

Constitutional amendments in 2000 and 2008 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, 2010, the General Assembly had authorized the issuance of approximately \$300 million in Conservation Projects Bonds of which \$250 million had been issued.

Through approval of the May 2010 and November 2005 amendments, voters authorized the issuance of \$1.2 billion of Third Frontier Research and Development Bonds. Obligations that may be issued are limited to \$450 million for fiscal years 2006 through 2011, \$225 million in fiscal year 2012, and \$175 million in any fiscal year thereafter, plus any obligations unissued from previous fiscal years. As of June 30, 2010, the General Assembly had authorized the issuance of \$450 million in Third Frontier Research and Development Bonds, of which \$256 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 \$150 million in Site Development Bonds as of June 30, 2010, of which \$75 million had been issued.

A 2009 constitutional amendment provides for the issuance of up to \$200 million in Veterans Compensation Bonds. No obligations may be issued after December 31, 2013. As of June 30, 2010, none of the \$200 million authorized had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2010, 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, 2010. 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, 2010
(dollars in thousands)**

	Fiscal Years		Maturing	Outstanding	Authorized But
	Issued	Interest Rates	Through Fiscal	Balance	Unissued
			Year		
Common Schools Capital Facilities	2002-10	1.8%-5.5%	2027	\$2,727,712	\$580,000
Higher Education Capital Facilities	2002-10	2.0%-5.5%	2027	1,549,299	613,000
Highway Capital Improvements	2001-10	2.9%-5.3%	2025	726,141	657,000
Infrastructure Improvements	1992-10	2.0%-7.6%	2031	1,674,163	240,014
Coal Research and Development	2002-10	2.0%-4.3%	2020	28,498	33,000
Natural Resources Capital Facilities	2002-10	2.0%-5.0%	2024	152,483	25,000
Conservation Projects	2002-10	2.0%-5.0%	2024	198,346	50,000
Third Frontier Research and Development	2007-10	2.0%-5.5%	2020	221,403	194,300
Site Development	2007-10	2.0%-5.3%	2020	65,244	75,000
Total General Obligation Bonds				<u>\$7,343,289</u>	<u>\$2,467,314</u>



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Future Funding of Current Interest and Capital Appreciation Bonds:			
Year Ending June 30,	Principal	Interest	Total
2011.....	\$302,235	\$297,499	\$599,734
2012.....	529,500	281,726	811,226
2013.....	543,405	259,697	803,102
2014.....	533,295	234,939	768,234
2015.....	493,945	210,363	704,308
2016-2020	2,204,440	734,701	2,939,141
2021-2025	1,571,370	256,049	1,827,419
2026-2030	280,795	28,031	308,826
2031-2035	15,245	416	15,661
Total Current Interest and Capital Appreciation Bonds	<u>\$6,474,230</u>	<u>\$2,303,421</u>	<u>\$8,777,651</u>

Future Funding of Variable-Rate Bonds:				
Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2011.....	\$21,125	\$12,272	\$10,995	\$44,392
2012.....	19,230	11,809	10,767	41,806
2013.....	18,125	11,374	10,524	40,023
2014.....	36,045	10,844	10,275	57,164
2015.....	51,895	9,780	9,873	71,548
2016-2020.....	293,260	28,721	39,313	361,294
2021-2025	218,540	9,034	13,311	240,885
2026-2030	13,620	42	371	14,033
Total Variable-Rate Bonds	<u>\$671,840</u>	<u>\$93,876</u>	<u>\$105,429</u>	<u>\$871,145</u>
Total General Obligation Bonds	7,146,070			
Unamortized Premium/(Discount),	318,486			
Deferred Refunding Loss	(121,267)			
Total Carrying Amount	<u>\$7,343,289</u>			

The Coal Development bonds Series K, dated September 4, 2009, were defeased on April 23, 2010, until their final maturity date. The State used the unspent proceeds and some interest earnings to purchase eligible investments in an escrow account to make the principal and interest payments until final maturity. The debt service is secured solely by the escrow account and is no longer considered State debt.

For the year ended June 30, 2010, NOTE 15 summarizes changes in general obligation bonds.

Hedging Derivatives

As of June 30, 2010, approximately \$354.2 million of Infrastructure Improvement Bonds and Common Schools Bonds have associated cash flow hedges with a fair value of (\$42.8) million. The value of these bonds is reported as part of the Bonds and Notes Payable section and the negative fair value of the cash flow hedges is reported in the Other Noncurrent Liabilities section on the Statement of Net Assets. The fair value decreased \$15.2 million during fiscal year 2010. This decrease is reported on the Statement of Net Assets as part of Deferred Outflows of Resources. Fair value of the cash flow hedges is determined using the zero-coupon method.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

Hedging Derivatives
As of June 30, 2010
(dollars in thousands)

Issue	Type of Cash Flow Hedge	Notational Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2010	State's Swap Rate at 06/30/2010	Effective Date	Termination (Maturity) Date
Infrastructure Improvements, Series 2001B	Pay-fixed interest rate swap	\$63,900	SIFMA Index	0.31%	4.63%	11/29/2001	8/1/2021
Objective: Convert Series 2001B variable-rate bonds into a synthetic fixed rate to minimize interest expense							
Embedded Option: The counterparties may elect to terminate the swap if the SIFMA index averages 7 percent or higher over a 180-day period.							
Credit Quality Ratings of Counterparty: 50% Aa1/AA- JPMorgan Chase; 50% A2/A Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2004A	Pay-fixed interest rate swap	\$55,295	LIBOR (See terms below)	0.47%	3.51%	3/3/2004	2/1/2023
Objective: Convert Series 2004A variable-rate bonds into a synthetic fixed rate to minimize interest expense							
Credit Quality Ratings of Counterparty: A2/A Morgan Stanley Capital Services							
Terms: 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)							
Common Schools, Series 2003D	Pay-fixed interest rate swap	\$67,000	LIBOR (see terms below)	0.48%	3.41%	9/14/2007	3/15/2024
Objective: Convert Series 2003D variable-rate bonds into a synthetic fixed rate to minimize interest expense							
Credit Quality Ratings of Counterparty: 50% Aa1/AA- JPMorgan Chase; 50% A2/A Morgan Stanley Capital Services							
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006B	Pay-fixed interest rate swap	\$84,020	LIBOR (see terms below)	0.48%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006B variable-rate bonds into a synthetic fixed rate to minimize interest expense							
Credit Quality Ratings of Counterparty: 50% Aa3/A+ UBS AG; 50% Aaa/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006C	Pay-fixed interest rate swap	\$84,020	LIBOR (see terms below)	0.48%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006C variable-rate bonds into a synthetic fixed rate to minimize interest expense							
Credit Quality Ratings of Counterparty: 50% Aa3/A+ UBS AG; 50% Aaa/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points							

The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2010. However, should interest rates change and the fair values of the swaps becomes positive, the State would be exposed to credit risk in the amount of the derivative's positive fair value.

Each swap counterparty is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement. This arrangement protects the State by mitigating the credit risk, and therefore termination risk,



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

inherent in the swap. Collateral on all swaps must be in the form of cash or U.S. government securities held by a third-party custodian. Net payments are made on the same date, as specified in the agreements.

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

These swaps expose the State to basis risk or a mismatch (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.

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

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

The State retains the right to terminate any swap agreement at the market value prior to maturity. The State has termination risk under the contracts, particularly upon the occurrence of an additional termination event (ATE), as defined in the swap agreements. An ATE occurs if either the credit rating of the bonds associated with a specific swap or the credit rating of the swap counterparty falls below a threshold defined in each swap agreement. If the swap was terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the State 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 termination events have occurred.

Advance Refundings

During fiscal year 2010, there were ten advance refundings of general obligations bonds. Three of these refundings, sometimes called restructurings, were for GRF debt service relief rather than economic savings. Details on the advanced refundings are presented in the table on the following page.

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

The State had defeased general obligation bonds from prior years and placed the proceeds in irrevocable trusts. As of June 30, 2010, the balances in these trusts for bonds defeased in prior years were \$71.9 million for Infrastructure Improvement Bonds, \$12.5 million for Natural Resources Bonds, \$67.8 million for Common Schools Bonds, and \$81.1 million for Higher Education Bonds.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

**Primary Government — Governmental Activities
General Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2010
(dollars in thousands)**

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Higher Education, Series 2009C	10/6/2009	\$262,430	2.64%	\$264,295	\$293,974	\$20,188/12 yrs	\$16,677
Common Schools, Series 2009C	10/6/2009	240,830	2.56%	246,955	274,623	17,342/12 yrs	14,099
Conservation, Series 2009A	10/6/2009	34,040	2.40%	34,795	37,882	2,256/11 yrs	2,049
Natural Resources, Series M	10/6/2009	5,285	2.05%	5,040	5,356	438/ 7 yrs	358
Higher Education, Series 2010A	1/21/2010	95,240	3.16%	100,780	105,120	(26,695)/13 yrs	(3,694)
Higher Education, Series 2010B	1/21/2010	24,360	2.16%	24,615	27,586	1,395/ 7 yrs	964
Common Schools, Series 2010A	1/21/2010	131,170	3.09%	141,425	148,028	(35,364)/13 yrs	(4,504)
Common Schools, Series 2010B	1/21/2010	53,685	1.99%	54,860	60,483	2,814/ 7 yrs	2,074
Infrastructure, Series 2010A	1/21/2010	51,290	3.17%	49,550	51,857	(13,842)/13 yrs	(1,955)
Infrastructure, Series 2010C	3/5/2010	54,400	2.08%	54,710	60,525	3,513/ 8 yrs	2,862
Total		<u>\$952,730</u>		<u>\$977,025</u>	<u>\$1,065,434</u>		<u>\$28,930</u>

NOTE 11 REVENUE BONDS AND NOTES

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

A. Primary Government

Economic Development bonds, issued by the Treasurer of State for the Office of Financial Incentive's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State for economic development projects that create or retain jobs in the State. The taxable bonds, payable through 2030, are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

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

Pledged net liquor revenues through the maturity of the Economic Development and Revitalization Project revenue bonds total approximately \$846.2 million. During fiscal year 2010, pledged net revenues were \$218 million. Principal and interest requirements for fiscal year 2010 totaled \$47.4 million.

Since fiscal year 1998, the Treasurer of State has issued a total of \$1.52 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.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Issuances for the State Infrastructure Bank are, in part, used for the acquisition, construction, or improvement of capital assets. Total pledged federal highway receipts and loan repayments through the maturity of the bonds in 2022 are estimated at approximately \$1.05 billion. For fiscal year 2010, principal and interest payments on the revenue bonds was \$147.7 million and pledged receipts was \$145.1 million.

BTSFA is authorized by the Ohio General Assembly to issue and to sell obligations, the aggregate principle amount of which shall not exceed \$6 billion, exclusive of obligations issued to refund, renew, or advance refund other obligations issued or incurred. On October 29, 2007, BTSFA successfully securitized 100 percent of the projected tobacco settlement receipts for the next 45 years through the issuance of five series of asset-backed revenue bonds, aggregating in the amount of \$5.53 billion. The future tobacco settlement receipts, including related investment earnings and net of specified operating and enforcement expenses, have been pledged to repay the bonds, which are payable through 2052. Annual principal and interest payments on the bonds will require 100 percent of the net tobacco settlement receipts. As of June 30, 2010, the total principal and interest payments remaining to be paid on the bonds were \$18.52 billion. Principal and interest paid and total net tobacco settlement receipts for fiscal year 2010 were \$306 million and \$305 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 \$70.6 million. For fiscal year 2010, both the total lease rental payments and the principal and interest payments on the revenue bonds were \$19.8 million.

Revenue bonds outstanding for the primary government, as of June 30, 2010, are presented below.

Primary Government Revenue Bonds As of June 30, 2010 (dollars in thousands)				
	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	2004-10	1.3%-7.7%	2030	\$413,848
Revitalization Project	2003-10	2.0%-5.0%	2026	167,460
State Infrastructure Bank	2004-10	2.0%-6.0%	2022	878,106
Buckeye Tobacco Settlement Financing Authority....	2008	4.1%-7.5%	2052	5,431,917
Total Governmental Activities				<u>6,891,331</u>
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	64,200
Total Business-Type Activities				<u>64,200</u>
Total Revenue Bonds				<u>\$6,955,531</u>



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2010, are presented below.

Primary Government Future Funding Requirements for Revenue Bonds As of June 30, 2010 (dollars in thousands)						
Year Ending June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011.....	\$161,150	\$347,501	\$508,651	\$15,865	\$3,109	\$18,974
2012.....	167,505	339,682	507,187	15,890	2,326	18,216
2013.....	176,310	331,831	508,141	15,915	1,543	17,458
2014.....	186,235	323,081	509,316	15,200	751	15,951
2015.....	194,130	314,185	508,315	-	-	-
2016-2020.....	974,650	1,427,860	2,402,510	-	-	-
2021-2025.....	838,610	1,180,001	2,018,611	-	-	-
2026-2030.....	620,160	980,096	1,600,256	-	-	-
2031-2035.....	505,200	800,087	1,305,287	-	-	-
2036-2040.....	879,212	746,163	1,625,375	-	-	-
2041-2045.....	1,216,505	420,442	1,636,947	-	-	-
2046-2050.....	840,179	3,033,274	3,873,453	-	-	-
2051-2053.....	155,111	3,262,189	3,417,300	-	-	-
	<u>6,914,957</u>	<u>13,506,392</u>	<u>20,421,349</u>	<u>62,870</u>	<u>7,729</u>	<u>70,599</u>
Net Unamortized						
Premium/(Discount).....	(17,760)	-	(17,760)	1,873	-	1,873
Deferred Refunding						
Loss	(5,866)	-	(5,866)	(543)	-	(543)
Total	<u>\$6,891,331</u>	<u>\$13,506,392</u>	<u>\$20,397,723</u>	<u>\$64,200</u>	<u>\$7,729</u>	<u>\$71,929</u>
Total						
Year Ending June 30,	Principal	Interest	Total			
2011.....	\$177,015	\$350,610	\$527,625			
2012.....	183,395	342,008	525,403			
2013.....	192,225	333,374	525,599			
2014.....	201,435	323,832	525,267			
2015.....	194,130	314,185	508,315			
2016-2020.....	974,650	1,427,860	2,402,510			
2021-2025.....	838,610	1,180,001	2,018,611			
2026-2030.....	620,160	980,096	1,600,256			
2031-2035.....	505,200	800,087	1,305,287			
2036-2040.....	879,212	746,163	1,625,375			
2041-2045.....	1,216,505	420,442	1,636,947			
2046-2050.....	840,179	3,033,274	3,873,453			
2051-2053.....	155,111	3,262,189	3,417,300			
	<u>6,977,827</u>	<u>13,514,121</u>	<u>20,491,948</u>			
Net Unamortized						
Premium/(Discount).....	(15,887)	-	(15,887)			
Deferred Refunding						
Loss	(6,409)	-	(6,409)			
Total	<u>\$6,955,531</u>	<u>\$13,514,121</u>	<u>\$20,469,652</u>			



NOTE 11 REVENUE BONDS AND NOTES (Continued)

For the year ended June 30, 2010, NOTE 15 summarizes changes in revenue bonds.

B. Component Units

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

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs and reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 2009, approximately \$1.26 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, 2009, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2010.....	\$103,205	\$58,242	\$161,447
2011.....	108,970	53,551	162,521
2012.....	90,750	48,739	139,489
2013.....	91,255	44,435	135,690
2014.....	99,550	39,928	139,478
2015-2019.....	517,090	126,391	643,481
2020-2024.....	205,280	20,338	225,618
2025-2029.....	9,235	415	9,650
	<u>1,225,335</u>	<u>392,039</u>	<u>1,617,374</u>
Net Unamortized			
Premium/(Discount).....	76,362	-	76,362
Deferred Refunding Loss..	(43,665)	-	(43,665)
Total	<u>\$1,258,032</u>	<u>\$392,039</u>	<u>\$1,650,071</u>

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately \$80.4 million in bonds have adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2009 the rate for variable-rate bonds was approximately 0.22 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, 2010, follow.

**Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2010**

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/2009)			Ohio State University		
	Principal	Interest	Total	Principal	Interest	Total
2010.....	\$170,530	\$100,573	\$271,103			
2011.....	180,535	93,102	273,637	\$499,366	\$40,446	\$539,812
2012.....	184,270	85,090	269,360	67,196	37,851	105,047
2013.....	188,875	77,552	266,427	77,046	33,848	110,894
2014.....	186,335	69,893	256,228	57,792	30,751	88,543
2015.....	-	-	-	59,740	28,003	87,743
2015-2019.....	848,860	232,696	1,081,556	-	-	-
2016-2020.....	-	-	-	270,955	99,365	370,320
2020-2024.....	398,605	68,304	466,909	-	-	-
2021-2025.....	-	-	-	159,770	52,306	212,076
2025-2029.....	85,915	12,805	98,720	-	-	-
2026-2030.....	-	-	-	103,420	19,802	123,222
2030-2034.....	17,845	2,012	19,857	-	-	-
2031-2035.....	-	-	-	26,530	2,639	29,169
2036-2040.....	-	-	-	10,780	15	10,795
	<u>\$2,261,770</u>	<u>\$742,027</u>	<u>\$3,003,797</u>	<u>\$1,332,595</u>	<u>\$345,026</u>	<u>\$1,677,621</u>
Net Unamortized						
Premium/(Discount).....	105,490	-	105,490	49,826	-	49,826
Deferred Refunding						
Loss	(72,449)	-	(72,449)	-	-	-
Total	<u>\$2,294,811</u>	<u>\$742,027</u>	<u>\$3,036,838</u>	<u>\$1,382,421</u>	<u>\$345,026</u>	<u>\$1,727,447</u>
Year Ending	University of Cincinnati					
December 31 or June 30,	Principal	Interest	Total			
2011.....	\$210,522 *	\$40,390	\$250,912			
2012.....	35,469	37,568	73,037			
2013.....	38,685	36,015	74,700			
2014.....	42,984	34,182	77,166			
2015.....	51,463	32,011	83,474			
2016-2020.....	227,625	128,643	356,268			
2021-2025.....	215,795	72,796	288,591			
2026-2030.....	145,670	27,215	172,885			
2031-2035.....	50,220	2,428	52,648			
	<u>\$1,018,433</u>	<u>\$411,248</u>	<u>\$1,429,681</u>			
Net Unamortized						
Premium/(Discount).....	13,681	-	13,681			
Total	<u>\$1,032,114</u>	<u>\$411,248</u>	<u>\$1,443,362</u>			

* FY 2011 principal includes \$96,205 of BANS that are outstanding as of June 30, 2010.



NOTE 12 SPECIAL OBLIGATION BONDS

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

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

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

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

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2010, are presented in the following table.

Primary Government-Governmental Activities					
Special Obligation Bonds					
As of June 30, 2010					
(dollars in thousands)					
	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized but Unissued
Ohio Building Authority	1998-10	2.0%-6.1%	2030	\$1,579,433	\$200,915
Treasurer of State Chapter 154	1999-10	2.6%-4.8%	2021	758,661	218,225
				<u>\$2,338,094</u>	<u>\$419,140</u>

Future special obligation debt service requirements, as of June 30, 2010, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2011.....	\$ 328,620	\$ 102,574	\$ 431,194
2012.....	305,760	87,480	393,240
2013.....	259,235	74,150	333,385
2014.....	205,175	63,134	268,309
2015.....	195,775	54,030	249,805
2016-2020.....	675,875	154,895	830,770
2021-2025.....	272,370	43,617	315,987
2026-2030.....	42,855	5,207	48,062
	<u>2,285,665</u>	<u>585,087</u>	<u>2,870,752</u>
Net Unamortized			
Premium/(Discount).....	87,825	-	87,825
Deferred Refunding Loss..	(35,396)	-	(35,396)
Total	<u>\$2,338,094</u>	<u>\$ 585,087</u>	<u>\$2,923,181</u>

For the year ended June 30, 2010, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2010, OBA had five current refunding issues. The proceeds of the refunding bonds were used to purchase U.S. Government securities in amounts sufficient, without further investment, to pay, when due, the principle, interest and redemption premium on the bonds being refunded.



NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Details on the advanced refunding for the fiscal year 2010 are presented in the table below.

Primary Government — Governmental Activities							
Special Obligation Bonds							
Details of Advance Refundings							
For the Year Ended June 30, 2010							
<i>(dollars in thousands)</i>							
Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Ohio Building Authority:							
Administrative Building 2009 Series B	9/17/2009	\$86,590	3.41%	\$91,588	\$96,395	(\$19,706)/15 yrs	\$1,013
Adult Correctional 2009 Series B	9/17/2009	75,790	3.46%	80,189	83,198	(19,873)/15 yrs	295
Juvenile Correctional 2009 Series B	9/17/2009	16,820	3.51%	16,678	17,012	(5,944)/15 yrs	(56)
Highway Safety 2010 Series A	4/1/2010	10,860	2.80%	11,236	11,988	938/10 yrs	892
Juvenile Correctional 2010 Series B	4/1/2010	11,450	2.30%	12,025	13,055	699/8 yrs	527
Total		<u>\$201,510</u>		<u>\$211,716</u>	<u>\$221,648</u>		<u>\$2,671</u>

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, 2010, \$68 million and \$68 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, 2010, approximately \$200.4 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of \$8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. 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.



NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2010, are presented in the following table.

**Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2010
(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	\$2,065
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-09	2.5%-5.25%	2019	161,045
State Taxation Accounting and Revenue System (STARS)....	2008	3.0%-5.0%	2019	37,318
Total Certificates of Participation				<u>\$200,428</u>

As of June 30, 2010, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending	Principal	Interest	Total
2011.....	\$19,255	\$8,164	\$27,419
2012.....	22,180	7,321	29,501
2013.....	21,610	6,357	27,967
2014.....	22,530	5,431	27,961
2015.....	23,540	4,400	27,940
2016-2020.....	86,015	6,930	92,945
	<u>195,130</u>	<u>38,603</u>	<u>233,733</u>
Net Unamortized			
Premium.....	5,298	-	5,298
Total	<u>\$200,428</u>	<u>\$38,603</u>	<u>\$239,031</u>

For the year ended June 30, 2010, NOTE 15 summarizes changes in COP obligations.



NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Component Units

For the State's component units, approximately \$4.2 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, 2010, 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, 2010			
<i>(dollars in thousands)</i>			
Year Ending	<i>Ohio State University</i>		
	Principal	Interest	Total
2011.....	\$445	\$202	\$647
2012.....	465	180	645
2013.....	490	156	646
2014.....	515	130	645
2015.....	540	104	644
2016-2020	1,790	138	1,928
Total.....	\$4,245	\$910	\$5,155

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2010, 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	\$444,775
Capital Leases Payable	8,624
Derivatives.....	55,784
Litigation Liabilities	6,628
Pollution Remediation Liabilities.....	5,902
Estimated Claims Payable	10,071
Liability for Escheat Property	194,585
Total Governmental Activities	726,369
Business-Type Activities:	
Compensated Absences	42,169
Capital Leases Payable	66,757
Workers' Compensation:	
Benefits Payable	17,878,400
Other	2,036,024
Unemployment Compensation:	
Intergovernmental Payable	2,314,187
Deferred Prize Awards Payable	672,615
Tuition Benefits Payable	632,900
Total Business-Type Activities	23,643,052
Total Primary Government	\$24,369,421



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

For the year ended June 30, 2010, 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, 2010, was \$487 million, of which \$444.8 million is allocable to governmental activities and \$42.2 million is allocable to business-type activities.

As of June 30, 2010, discretely presented major component units reported a total of \$168.7 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.

The primary government's total operating lease expenditures/expenses for fiscal year 2010 were approximately \$77.5 million.

Fiscal year 2011 future minimum lease commitments for operating leases judged to be noncancelable, as of June 30, 2010, were \$3.5 million. Future minimum lease commitments for capital leases judged to be noncancelable, as of June 30, 2010, are below (dollars in thousands):

Year Ending June 30,	Capital Leases		
	Governmental Activities	Business- Type Activities	Total
2011.....	\$ 2,919	\$ 18,814	\$ 21,733
2012.....	2,542	18,814	21,356
2013.....	2,316	18,813	21,129
2014.....	1,216	18,813	20,029
2015.....	441	-	441
2016-2020.....	33	-	33
Total Lease Payments.....	9,467	75,254	84,721
Amount for Interest.....	(843)	(8,497)	(9,340)
Present Value of Net Minimum Lease Payments...	<u>\$ 8,624</u>	<u>\$ 66,757</u>	<u>\$ 75,381</u>



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2010, the primary government had the following capital assets under capital leases (dollars in thousands):

Primary Government			
	Governmental	Business-	
	Activities	Type	Total
	Activities	Activities	
Equipment	\$15,705	\$81,095	\$96,800
Vehicles	2,223	-	2,223
Total	<u>\$17,928</u>	<u>\$81,095</u>	<u>\$99,023</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, 2010, are presented in the following table (dollars in thousands):

Major Component Units		
Capital Leases		
Year Ending June 30,	Ohio State	University of
	University	Cincinnati
2011.....	\$ 6,650	\$ 14,787
2012.....	5,556	14,351
2013.....	4,107	13,199
2014.....	2,004	13,376
2015.....	318	12,984
2016-2020.....	102	57,301
2021-2025.....	-	51,260
2026-2030.....	-	26,779
2031-2035.....	-	10,438
Total Minimum Lease Payments.....	<u>18,737</u>	<u>214,475</u>
Amount for interest.....	<u>(1,319)</u>	<u>(73,945)</u>
Present Value of Net Minimum		
Lease Payments.....	<u>\$ 17,418</u>	<u>\$ 140,530</u>
Equipment & Vehicles.....	\$ 53,932	\$ 1,271
Buildings	-	183,493
Total	<u>\$ 53,932</u>	<u>\$ 184,764</u>

C. Derivatives

For governmental activities, the State has reported (\$55.8) million of investment and hedging derivatives as of June 30, 2010. Additional information regarding the State's derivatives is included in NOTE 4 and NOTE 10.

As of June 30, 2010, the discretely presented major component units reported a total of (\$4.7) million of investment derivatives. Additional information regarding the major component units' derivatives is included in NOTE 4.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

D. 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, 2010, \$6.6 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.

E. Pollution Remediation Liabilities

The State recognizes a liability for pollution remediation in the amount \$5.9 million, as of June 30, 2010. 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.

F. Estimated Claims Payable

For governmental activities, the State recognized \$6.5 million in estimated claims liabilities, as of June 30, 2010, 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 \$3.6 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Programs at the Department of Development, as of June 30, 2010. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

G. 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, 2010, the liability totaled approximately \$194.6 million.

H. 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, 2010, in the amount of approximately \$17.88 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.

I. 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 3.2 to 9.0 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. As of June 30, 2010, this payable totals \$672.6 million.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

Future payments of prize awards, stated at present value, as of June 30, 2010, follow (dollars in thousands):

Year Ending June 30,	
2011.....	\$ 77,068
2012.....	76,247
2013.....	76,094
2014.....	76,003
2015.....	75,865
2016-2020.....	307,623
2021-2025.....	150,942
2026-2030.....	65,998
2031-2035.....	31,469
2036-2040.....	1,514
	938,823
Unamortized Discount	(266,208)
Net Prize Liability	\$672,615

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

J. Unemployment Compensation

As of June 30, 2010, the State's Unemployment Compensation Fund is recognizing a liability for repayable advances from the Federal government of \$2.31 billion. These advances were used for the payment of compensation benefits.

K. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately \$632.9 million, as of June 30, 2010. 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 seven percent, 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, 2009.....	\$ (62.8)
Adjustment to Beginning of Year's	
Assets.....	(9.8)
Interest on the Deficit at 6.5 Percent	(4.7)
Investment Gain	24.0
Higher-Than-Assumed Tuition Increase	(18.0)
Interest Gain on Late Tuition Payouts	0.6
Other.....	(0.1)
Actuarial Deficit, as of June 30, 2010.....	\$ (70.8)

As of June 30, 2010, the market value of actuarial net assets available for the payment of the tuition benefits payable was \$562.1 million.

L. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately \$2.04 billion in other noncurrent liabilities, as of June 30, 2010, of which 1.) \$1.93 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 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) \$21.8 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, 2010, are presented for the primary government in the following table.

**Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2010**
(dollars in thousands)

Governmental Activities:	Balance June 30, 2009 (restated)	Additions	Reductions	Balance June 30, 2010	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	\$7,138,051	\$1,632,287	\$1,427,049	\$7,343,289	\$332,222
Revenue Bonds (NOTE 11)	6,646,593	413,068	168,330	6,891,331	151,829
Special Obligation Bonds (NOTE 12)	2,427,556	363,473	452,935	2,338,094	332,583
Total Bonds and Notes Payable	<u>16,212,200</u>	<u>2,408,828</u>	<u>2,048,314</u>	<u>16,572,714</u>	<u>816,634</u>
Certificates of Participation (NOTE 13)	216,537	7	16,116	200,428	19,326
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	341,496	422,406	319,127	444,775	72,705
Capital Leases Payable	9,929	708	2,013	8,624	2,555
Derivatives.....	46,016	15,160	5,392	55,784	-
Litigation Liabilities	8,735	-	2,107	6,628	6,628
Pollution Remediation Liabilities	5,533	1,204	835	5,902	2,338
Estimated Claims Payable	10,352	725	1,006	10,071	2,543
Liability for Escheat Property	244,628	5,287	55,330	194,585	66,767
Total Other Noncurrent Liabilities	<u>666,689</u>	<u>445,490</u>	<u>385,810</u>	<u>726,369</u>	<u>153,536</u>
Total Noncurrent Liabilities	<u>\$17,095,426</u>	<u>\$2,854,325</u>	<u>\$2,450,240</u>	<u>\$17,499,511</u>	<u>\$989,496</u>
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	\$80,657	\$332	\$16,789	\$64,200	\$15,865
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	31,920	36,865	26,616	42,169	4,566
Capital Leases Payable	3	81,095	14,341	66,757	15,222
Workers' Compensation:					
Benefits Payable	17,426,373	2,216,473	1,764,446	17,878,400	1,966,452
Other:					
Adjustment Expenses Liability	1,819,997	520,757	414,554	1,926,200	393,273
Premium Payment Security Deposits ..	88,474	1,919	2,419	87,974	-
Miscellaneous	28,133	32,748	39,031	21,850	21,850
Unemployment Compensation:					
Intergovernmental Payable	862,538	1,451,649	-	2,314,187	-
Deferred Prize Awards Payable	699,849	52,036	79,270	672,615	42,296
Tuition Benefits Payable	648,500	-	15,600	632,900	79,000
Total Other Noncurrent Liabilities	<u>21,605,787</u>	<u>4,393,542</u>	<u>2,356,277</u>	<u>23,643,052</u>	<u>2,522,659</u>
Total Noncurrent Liabilities	<u>\$21,686,444</u>	<u>\$4,393,874</u>	<u>\$2,373,066</u>	<u>\$23,707,252</u>	<u>\$2,538,524</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.



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

For fiscal year 2010, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital and construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt.

	<u>(in 000s)</u>
Governmental Activities:	
Primary, Secondary and Other Education	\$338,968
Higher Education Support	129,279
Environmental Protection and Natural Resources	900
Community and Economic Development.....	<u>123,472</u>
Total Interest Expense Charged to Governmental Functions	<u><u>\$592,619</u></u>

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2010 (December 31, 2009 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, 2010
(dollars in thousands)**

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amount Due Within One Year
<i>School Facilities Commission:</i>					
Intergovernmental Payable	\$1,723,578	\$522,715	\$910,111	\$1,336,182	\$880,961
Other Liabilities*.....	935	-	935	-	-
Compensated Absences*	611	743	530	824	131
Total	<u>\$1,725,124</u>	<u>\$523,458</u>	<u>\$911,576</u>	<u>\$1,337,006</u>	<u>\$881,092</u>
<i>Ohio Water Development Authority:</i>					
Revenue Bonds & Notes Payable (NOTE 11) .	\$2,498,815	\$545,309	\$749,313	\$2,294,811	\$170,530
Compensated Absences*	199	153	150	202	13
Total	<u>\$2,499,014</u>	<u>\$545,462</u>	<u>\$749,463</u>	<u>\$2,295,013</u>	<u>\$170,543</u>
<i>Ohio State University:</i>					
Compensated Absences*	\$103,581	\$13,195	\$7,788	\$108,988	\$7,788
Capital Leases Payable*	23,606	2,151	8,338	17,419	6,031
Derivatives*.....	1,283	629	-	1,912	-
Other Liabilities*	124,252	27,375	54,644	96,983	3,787
Revenue Bonds & Notes Payable (NOTE 11) .	1,331,969	432,785	382,333	1,382,421	499,365
Certificates of Participation (NOTE 13)	4,670	-	425	4,245	445
Total	<u>\$1,589,361</u>	<u>\$476,135</u>	<u>\$453,528</u>	<u>\$1,611,968</u>	<u>\$517,416</u>
<i>University of Cincinnati:</i>					
Compensated Absences*	\$63,704	\$8,372	\$13,427	\$58,649	\$36,632
Capital Leases Payable*	148,957	-	8,428	140,529	7,668
Derivatives*.....	-	2,771	-	2,771	-
Other Liabilities*	39,954	76,415	74,898	41,471	1,391
Revenue Bonds & Notes Payable (NOTE 11) .	959,538	312,009	239,433	1,032,114	116,018
Total	<u>\$1,212,153</u>	<u>\$399,567</u>	<u>\$336,186</u>	<u>\$1,275,534</u>	<u>\$161,709</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, 2010 (December 31, 2009 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

	<u>Outstanding Amount</u>
Primary Government:	
Ohio Department of Development:	
Ohio Enterprise Bond Program	\$197,080
Hospital Facilities Bonds	7,320
Ohio Department of Transportation:	
State Transportation Infrastructure Bond Fund Program.....	<u>21,560</u>
Total Primary Government	<u><u>\$225,960</u></u>
Component Units (12/31/09):	
Ohio Water Development Authority	\$2,197,180
Ohio Air Quality Development Authority	<u>2,500,000</u>
Total Component Units	<u><u>\$4,697,180</u></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, 2010 (dollars in thousands):

Primary Government:	
<u>Major Government Funds:</u>	
Revenue Distribution.....	(\$191,718)
<u>Nonmajor Governmental Funds:</u>	
Higher Education Improvements Special Revenue Fund.....	(740,521)
Help America Vote Act Special Revenue Fund.....	<u>(10)</u>
Total Governmental Funds.....	<u><u>(\$932,249)</u></u>
<u>Major Proprietary Funds:</u>	
Unemployment Compensation.....	(\$1,905,416)
<u>Nonmajor Proprietary Funds:</u>	
Tuition Trust Authority.....	<u>(47,454)</u>
Total Business-Type Funds.....	<u><u>(\$1,952,870)</u></u>
Component Units:	
<u>Major Component Units:</u>	
School Facilities Commission Fund	(\$3,866,716)
<u>Nonmajor Component Units:</u>	
Ohio Capital Fund.....	<u>(39,392)</u>
Total Component Units.....	<u><u>(\$3,906,108)</u></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, 2010, are presented in the following table:

Primary Government						
Governmental Funds — Reserved for Other						
As of June 30, 2010						
<i>(dollars in thousands)</i>						
	General Fund	Job, Family, and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	\$16,029	\$2,386	\$230	\$2,956	\$6,224	\$27,825
Prepays (included in “Other Assets”)	14,354	2,446	-	4,045	5,972	26,817
Advances to Local Governments	128,610	23,876	-	-	-	152,486
Ohio Enterprise Bond Program	-	-	-	-	10,000	10,000
Loan Guarantee Programs	-	-	-	-	23,030	23,030
Assets in Excess of						
Debt Service Requirements	-	-	-	-	3	3
Environmental Protection and						
Natural Resources	-	-	-	-	2,585	2,585
Community and Economic Development ...	-	-	-	-	22,638	22,638
Total Reserved for Other	<u>\$158,993</u>	<u>\$28,708</u>	<u>\$230</u>	<u>\$7,001</u>	<u>\$70,452</u>	<u>\$265,384</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. No member state shares were distributed as of December 31, 2009.



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, 2009 (the GLPF's year-end), are presented below (dollars in thousands):

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

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

Summary Financial information for the GLPF, for the fiscal year ended December 31, 2009, was as follows (dollars in thousands):

Cash and Investments	\$105,632
Other Assets	144
Total Assets	105,776
Total Liabilities	944
Total Net Assets	104,832
Total Liabilities and Net Assets	\$105,776
Total Revenues and Other Additions.....	\$20,792
Total Expenditures	(3,201)
Net Increase in Net Assets	\$17,591

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 financially accessible to Ohio residents. The primary government also provides financing for the construction of these institutions' capital facilities by meeting the debt service requirements for the Tobacco Settlement revenue bonds issued by the Buckeye Tobacco Settlement Financing Authority, the Higher Education Capital Facilities general obligation bonds issued by the Ohio Public Facilities Commission (OPFC), and 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 2010 expenses that were included in the “Higher Education Support” function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga	\$61,257	\$19,873	\$81,130
Jefferson	5,113	767	5,880
Lakeland	20,709	814	21,523
Lorain County	27,102	3,360	30,462
Rio Grande	5,792	-	5,792
Sinclair	52,123	2,879	55,002
Total Local Community Colleges	<u>172,096</u>	<u>27,693</u>	<u>199,789</u>
Technical Colleges:			
Belmont	6,093	-	6,093
Central Ohio	10,417	183	10,600
Hocking	16,658	1,519	18,177
James A. Rhodes	10,784	1,373	12,157
Marion	6,134	1,384	7,518
Zane	6,419	574	6,993
North Central	8,213	296	8,509
Stark	23,572	4,549	28,121
Total Technical Colleges	<u>88,290</u>	<u>9,878</u>	<u>98,168</u>
Total	<u>\$260,386</u>	<u>\$37,571</u>	<u>\$297,957</u>

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 2010, the State had the following related-party transactions with its related organizations:

- The General Fund reports \$214.8 million loans receivable balance due from the Ohio Housing Finance Agency. The State made the loans to finance and support the agency’s housing programs.
- The Ohio Department of Taxation paid the Ohio Turnpike Commission \$2.2 million from the 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.



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately \$4.6 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, 2010, \$6.6 million remains payable to the two districts as a result of these cases. A liability of \$6.6 million has been included as "Refund and Other Liabilities" for the General Fund in the governmental funds Balance Sheet and for governmental activities in the government-wide Statement of Net Assets.

Department of Commerce

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

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

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

A class action case was filed against BWC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC to repay to the class members all excessive premiums collected by BWC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008, the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

only. On January 6, 2009, the Governor signed the bill making it effective immediately. On January 7, 2009, BWC filed a motion to dissolve the preliminary injunction and in March 2009 the common pleas court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC has appealed.

BWC/IC is involved in litigation challenging policies related to lump sum advancements made to permanent total disability (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, \$30.3 million during fiscal year 2009, and \$9.4 million during fiscal year 2010.

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 2009 State of Ohio Single Audit (issued in June 2010), \$4.4 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for the questioned costs in the state's financial statements for the fiscal year ended June 30, 2010.

C. Loan Commitments

As of June 30, 2010, 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	<u>\$1,278</u>
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Local Infrastructure and Transportation

Ohio Public Works Commission:

State Capital Improvements Loans	78,761
Revolving Loans	<u>70,920</u>
	<u>149,681</u>

Total Nonmajor Governmental Funds	<u><u>\$150,959</u></u>
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NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

As of December 31, 2009, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan ...	\$584,464
Fresh Water	127,964
Drinking Water Assistance	152,868
Community Assistance	13,325
Rural Utility Services	3,292
Pure Water Refunding	310
Other Projects	10,971
Total	<u>\$893,194</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, 2010, the Ohio Department of Transportation had total contractual commitments of approximately \$2.56 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of \$1.64 billion, \$338.3 million, \$538.3 million and \$63.4 million, respectively.

As of June 30, 2010, 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/Developmental Disabilities	
Facilities Improvements	\$45,186
Parks and Recreation Improvements	15,852
Administrative Services	
Building Improvements	18,261
Youth Services Building Improvements	19,211
Adult Correctional Building Improvements	33,848
Highway Safety Building Improvements	184
Ohio Parks and Natural Resources	8,211
Total	<u>\$140,753</u>
<u>Major Component Units</u>	
Ohio State University	\$270,161
University of Cincinnati	334,981

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).



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

While BTSFA's share of the total base payments to the states through 2052 will not change over time, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in BTSFA receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State's annual payments.

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

During fiscal year 2010, Ohio received \$305.5 million, which is approximately \$68.8 million or 18.4 percent less than the pre-adjusted base payment for the year.

As of June 30, 2010, the estimated tobacco settlement receivable in the amount of \$311.4 million is included in "Other Receivables" reported for the governmental funds. The receivable includes \$61.2 million for payments withheld from BTSFA beginning fiscal year 2008 and \$73.9 million for payments withheld from the State for fiscal years 2006 and 2007. These amounts were withheld by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. The monies are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. Both the Authority and the State contend that they have met their obligations under the MSA and are due the payments withheld.

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

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

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



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-Adjusted Payments from the Strategic Contribution Fund	Total
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.....	371,684	24,486	396,170
2016-2020.....	2,066,091	49,887	2,115,978
2021-2025.....	2,287,980	—	2,287,980
2026-2030.....	2,440,318	—	2,440,318
2031-2035.....	2,607,356	—	2,607,356
2036-2040.....	2,777,330	—	2,777,330
2041-2045.....	2,956,978	—	2,956,978
2046-2050.....	3,146,926	—	3,146,926
2051-2052.....	1,316,177	—	1,316,177
Total	<u>\$21,417,531</u>	<u>\$169,681</u>	<u>\$21,587,212</u>

F. Pollution Remediation Activities

During fiscal year 2010, 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 (in general, projects with a liability of less than \$100 thousand at June 30 are not listed):

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

- As a result of the imminent danger to public health, EPA has assumed responsibility for operating and maintaining the collection and treatment system at the Lincoln Fields contaminated water system in Mansfield. The liability at June 30 is estimated at \$1.2 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 of the State regarding scrap tires, the EPA continues its progress in the cleanup of scrap tire sites across the State. As of June 30, 2010, the estimated cost of remediation activities currently in progress and any additional activities planned is approximately \$150 thousand. These costs were estimated by the EPA site coordinators using inventory counts and current market costs for tire removal and disposal.
- As a result of the imminent danger to public health and the laws of the State regarding construction and demolition debris landfills, the EPA continues its progress in the cleanup of construction and demolition debris landfill sites across the State. As of June 30, 2010, the estimated cost of remediation activities currently in progress and any additional activities planned is approximately \$128 thousand. Cost was estimated by the EPA site coordinator using actual invoices to date.

In accordance with Resource Conservation Recovery Act (RCRA) regulations, the Ohio Department of Natural Resources (DNR) continues monitoring and maintenance activities of pollution at the closed Cowan Lake S. P. Wood Treatment Plant at an estimated cost of \$222 thousand. Cost was estimated by DNR using previous invoices to date and projecting the costs over the remaining 20 year commitment of testing the site for contamination.



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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

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 liability at June 30 is estimated at \$300 thousand and DYS expects that same 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 seven sites owned by the agency. The pollution at six 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, the June 30 liability to eliminate the pollution and continue monitoring activities is estimated to be \$3.8 million. Cost was estimated by the onsite coordinators using actual invoices to date.

The amounts of liabilities described above are included within the "Other Noncurrent Liabilities-Due in One Year" and "Other Noncurrent Liabilities-Due in More Than One Year" accounts 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 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, 2010, no capital assets were 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, 2010, in the amount of approximately \$17.88 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 \$1.93 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.



NOTE 20 RISK FINANCING (Continued)

Benefits payable and the compensation adjustment expenses liability have been discounted at 4 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled \$32.20 billion, as of June 30, 2010, and \$33.70 billion, as of June 30, 2009. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2010.

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

Primary Government		
Changes in Workers' Compensation Benefits Payable and Compensation Adjustment Expenses Liability		
Last Two Fiscal Years		
<i>(dollars in millions)</i>		
	Fiscal Year 2010	Fiscal year 2009
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	\$19,246	\$19,435
Incurring Compensation and Compensation Adjustment Benefits.....	2,737	2,133
Incurring Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,179)	(2,322)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	<u>\$19,804</u>	<u>\$19,246</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.



NOTE 20 RISK FINANCING (Continued)

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, 2010, approximately \$96.6 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for the Ohio Med Health Plan. Changes in the balance of claims liabilities for the plan during the past two fiscal years were as follows (dollars in thousands):

Ohio Med Health Plan		
	Fiscal Year 2010	Fiscal Year 2009
Claims Liabilities, as of July 1	\$ 31,214	\$ 33,835
Incurred Claims	243,438	226,737
Claims Payments	(241,606)	(229,358)
Claims Liabilities, as of June 30	<u>\$ 33,046</u>	<u>\$ 31,214</u>

As of June 30, 2010, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately \$63.6 million, thereby resulting in a funding surplus. Eighty-five percent or \$54 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, 2010, 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 2010	Fiscal Year 2009
Claims Liabilities, as of July 1	\$ 7,887	\$ 11,122
Incurred Claims	69,200	67,842
Claims Payments	(68,505)	(71,077)
Claims Liabilities, as of June 30	<u>\$ 8,582</u>	<u>\$ 7,887</u>

As of June 30, 2010, the estimated claims liability exceeded resources on deposit in the Agency Fund for the United Healthcare Plan by approximately \$71.6 million, thereby resulting in a funding deficit. Eighty-five percent or \$60.9 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, 2010, approximately \$21.3 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 2010	Fiscal Year 2009
Claims Liabilities, as of July 1	\$ 12,729	\$ 9,108
Incurred Claims	75,350	89,329
Claims Payments	(77,950)	(85,708)
Claims Liabilities, as of June 30	<u>\$ 10,129</u>	<u>\$ 12,729</u>



NOTE 20 RISK FINANCING (Continued)

As of June 30, 2010, the resources on deposit in the Agency Fund for the Aetna Plan exceeded the estimated claims liability by approximately \$11.2 million, thereby resulting in a funding surplus. Eighty-five percent or \$9.5 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, 2010 (December 31, 2009, for the Ohio Water Development Authority), the State issued major debt as detailed in the following table:

Debt Issuances
Subsequent to June 30, 2010
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
<i>Ohio Public Facilities Commission-General Obligation Bonds:</i>			
Veterans Compensation, Series 2010.....	08/02/10	4.18%	\$50,000
Higher Education Capital Facilities, Refunding Series 2010C.....	09/29/10	2.55%	98,560
Common Schools Capital Facilities, Refunding Series 2010C.....	09/29/10	2.66%	129,340
Infrastructure Improvements, Refunding Series 2010D.....	09/29/10	2.31%	14,950
Conservation Projects, Refunding Series 2010A.....	09/29/10	2.13%	26,120
Third Frontier Research and Development-Tax Exempt, Series 2010A.....	10/20/10	0.99%	22,995
Third Frontier Research and Development-Taxable, Series 2010B.....	10/20/10	2.01%	52,005
Higher Education Capital Facilities-Taxable, Series 2010D.....	11/22/10	1.83%	4,535
Higher Education Capital Facilities-Taxable, Series 2010E.....	11/22/10	3.15%	295,465
Total General Obligation Bonds			<u>693,970</u>
<i>Treasurer of State-General Obligation Bonds:</i>			
Highway Capital Improvement-Tax Exempt, Series N	10/04/10	1.26%	29,825
Highway Capital Improvement-Taxable, Series O	10/04/10	2.32%	145,175
Highway Capital Improvement-Refunding Series P	10/04/10	1.29%	32,610
Total General Obligation Bonds			<u>207,610</u>
<i>Treasurer of State-Revenue Bonds:</i>			
Development Assistance-Taxable, Series 2010D	11/16/10	2.23%	15,970
State Infrastructure Project-Tax Exempt, Series 2010-3	12/08/10	2.56%	184,000
State Infrastructure Project-Taxable, Series 2010-4.....	12/08/10	2.56%	46,000
Development Assistance Bonds-Taxable, Series 2010C.....	12/09/10	5.00%	28,000
Total Revenue Bonds			<u>273,970</u>
<i>Ohio Building Authority-Special Obligation Bonds</i>			
State Facilities (Administrative Building), Refunding Series 2010C.....	08/17/10	2.77%	148,865
State Facilities (Adult Correctional Facility), Refunding Series 2010A.....	08/17/10	2.86%	79,325
Juvenile Correctional Facility, Series 2010D.....	08/17/10	2.96%	15,005
Total Special Obligation Bonds			<u>243,195</u>
Total Primary Government			<u>\$1,418,745</u>
Major Component Units:			
<i>Ohio Water Development Authority Debt:</i>			
WPCLF Revenue Bonds, Water Quality Series 2010.....	01/28/10	1.25% - 5.00%	\$366,290
WPCLF Bond Anticipation Notes, State Match Series 2010.....	05/12/10	5.00%	40,000
Fresh Water Commerical Paper, Series 2010A.....	05/18/10	0.38%	25,000
DWAF Revenue Bonds-Tax Exempt, Leverage Series 2010A.....	06/22/10	3.00% - 5.00%	6,205
DWAF Revenue Bonds-Taxable, Leverage Series 2010B.....	06/22/10	5.28% - 5.74%	44,530
DWAF Revenue Bonds, State Match Series 2010A.....	06/22/10	1.50% - 5.00%	19,255
Fresh Water Commerical Paper, Series 2010B.....	07/07/10	0.32%	25,000
Water Development Revenue Bonds-Tax Exempt, Series 2010A.....	07/13/10	2.00%	630
Water Development Revenue Bonds-Taxable, Series 2010B.....	07/13/10	3.25% - 6.15%	28,885
WPCLF Revenue Bonds-Tax Exempt, Water Quality Series 2010B-1.....	08/24/10	2.00% - 5.00%	30,035
WPCLF Revenue Bonds-Taxable, Water Quality Series 2010B-2.....	08/24/10	3.49% - 4.88%	429,125
Fresh Water Commerical Paper, Series 2010C.....	09/15/10	0.31%	25,000
Fresh Water Revenue Bonds-Tax Exempt, Series 2010A-1.....	09/21/10	1.50% - 4.00%	6,035
Fresh Water Revenue Bonds-Taxable, Series 2010A-2.....	09/21/10	3.59% - 4.92%	149,290
WPCLF Revenue Bonds, Refunding Water Quality Series 2010C.....	09/30/10	2.50% - 5.00%	73,200
DWAF Revenue Bonds, Refunding Leverage Series 2010C.....	10/07/10	1.50% - 5.00%	100,560
DWAF Revenue Bonds, Refunding State Match Series 2010B.....	10/07/10	3.00% - 5.00%	15,850
Total Ohio Water Development Authority			<u>\$1,384,890</u>



NOTE 21 SUBSEQUENT EVENTS (Continued)

Debt Issuances (Continued)
Subsequent to June 30, 2010
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Major Component Units:			
<i>The Ohio State University Debt:</i>			
General Receipts Bonds-Taxable, Series 2010C	09/15/10	4.91%	\$654,785
General Receipts Bonds-Tax Exempt, Series 2010D.....	09/15/10	3.25% - 5.00%	88,335
General Receipts Bonds, Series 2010E.....	10/05/10	Variable	150,000
Total The Ohio State University.....			<u>\$893,120</u>
<i>University of Cincinnati Debt:</i>			
<i>Bond Anticipation Notes (BANs):</i>			
Bond Anticipation Notes, Series 2010D	07/21/10	1.25%	\$19,610
Bond Anticipation Notes, Series 2010E.....	07/21/10	1.50%	10,490
Bond Anticipation Notes, Series 2010H.....	12/16/10	2.00%	34,610
Total Bond Anticipation Notes			<u>64,710</u>
<i>General Receipts Bonds:</i>			
General Receipts Bonds-Tax Exempt, Series 2010B	07/13/10	2.00% - 3.00%	3,460
General Receipts Bonds-Taxable, Series 2010C	07/13/10	3.24% - 6.48%	94,865
General Receipts Bonds-Tax Exempt, Series 2010F.....	11/09/10	2.00% - 5.00%	95,035
General Receipts Bonds-Taxable, Series 2010G.....	11/09/10	4.72% - 6.28%	14,880
Total General Receipts Bonds.....			<u>208,240</u>
Total University of Cincinnati			<u>\$272,950</u>

B. 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 for two tax years 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 remained 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)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 65-74		Poor PCR = Below 65		Total	
	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2009	8,662	66.98	2,948	22.80	1,066	8.24	256	1.98	12,932	100.00
2008	8,683	67.70	2,699	21.04	1,154	9.00	290	2.26	12,826	100.00
2007	8,457	66.50	2,752	21.63	1,120	8.81	389	3.06	12,718	100.00
2006	8,918	70.47	1,940	15.33	1,400	11.07	397	3.13	12,655	100.00
2005	8,581	68.65	1,962	15.69	1,505	12.04	452	3.62	12,500	100.00

General Subsystem

Calendar Year	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 55-74		Poor PCR = Below 55		Total	
	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2009	15,064	50.28	7,480	24.97	6,059	20.22	1,356	4.53	29,959	100.00
2008	15,037	50.14	6,793	22.65	6,745	22.49	1,416	4.72	29,991	100.00
2007	14,650	48.73	6,531	21.72	7,319	24.34	1,564	5.21	30,064	100.00
2006	14,757	49.00	6,650	22.08	8,249	27.39	462	1.53	30,118	100.00
2005	13,623	45.16	6,813	22.58	9,161	30.37	571	1.89	30,168	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

<u>Fiscal Year</u>	<u>Estimated</u>	<u>Actual</u>
2010	\$357,393	\$394,017
2009	352,644	407,564
2008	357,396	405,258
2007	403,067	418,936
2006	376,588	410,049

General Subsystem

<u>Fiscal Year</u>	<u>Estimated</u>	<u>Actual</u>
2010	\$209,775	\$299,450
2009	214,071	347,154
2008	178,252	237,050
2007	196,814	268,839
2006	214,826	312,105

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	%
2009	51,605	48.95	49,745	47.19	3,433	3.26	630	0.60	105,413	100.00
2008	50,383	48.05	50,554	48.22	3,239	3.09	676	0.64	104,852	100.00
2007	50,056	48.09	50,484	48.50	3,493	3.36	51	.05	104,084	100.00
2006	43,942	52.03	38,104	45.12	2,396	2.84	5	.01	84,447	100.00
2005	46,071	55.21	35,091	42.05	2,274	2.73	7	.01	83,443	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
2010	\$330,580	\$330,262
2009	308,655	360,451
2008	288,329	313,801
2007	290,732	313,272
2006	246,095	262,027

**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, 2010**

FEDERAL AGENCY

U.S. Department of Health and Human Services.....	\$13,376,878,027
U.S. Department of Labor.....	6,024,020,308
U.S. Department of Agriculture.....	3,563,676,995
U.S. Department of Education.....	2,582,732,196
U.S. Department of Transportation.....	1,325,748,180
U.S. Environmental Protection Agency.....	525,898,255
U.S. Department of Housing and Urban Development.....	109,994,676
U.S. Department of Energy.....	95,322,817
Social Security Administration.....	94,432,456
U.S. Department of Justice.....	59,343,417
U.S. Department of Homeland Security.....	58,275,726
U.S. Department of Defense.....	40,578,743
U.S. Department of the Interior.....	33,320,208
U.S. Department of Veterans Affairs.....	22,074,924
U.S. Department of Commerce.....	17,582,342
Corporation for National and Community Service.....	7,418,037
National Endowment for the Arts.....	5,948,614
U.S. Small Business Administration.....	4,149,617
U.S. Equal Employment Opportunity Commission.....	2,563,183
Election Assistance Commission.....	2,270,812
U.S. Appalachian Regional Commission.....	648,784
General Services Administration.....	92,386
TOTAL EXPENDITURES.....	<u><u>\$27,952,970,703</u></u>

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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, 2010**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Agriculture

SNAP Cluster:

10.551	Supplemental Nutrition Assistance Program.....	\$2,641,949,469
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.....	126,098,651
10.561	ARRA -- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.....	6,688,736
	Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.....	132,787,387
	<i>Total SNAP Cluster.....</i>	<i>2,774,736,856</i>

Child Nutrition Cluster:

10.553	School Breakfast Program.....	84,577,087
10.555***	National School Lunch Program.....	331,903,046
10.556	Special Milk Program for Children.....	488,035
10.559	Summer Food Service Program for Children.....	10,325,630
	<i>Total Child Nutrition Cluster.....</i>	<i>427,293,798</i>

Emergency Food Assistance Cluster:

10.568	Emergency Food Assistance Program (Administrative Costs).....	1,757,043
10.568	ARRA -- Emergency Food Assistance Program (Administrative Costs).....	1,613,022
	Total Emergency Food Assistance Program (Administrative Costs).....	3,370,065
	<i>Total Emergency Food Assistance Cluster.....</i>	<i>3,370,065</i>

Schools and Roads Cluster:

10.665	Schools and Roads -- Grants to States.....	395,239
	<i>Total Schools and Roads Cluster.....</i>	<i>395,239</i>

10.001	* Agricultural Research -- Basic and Applied Research.....	12,792
10.025	Plant and Animal Disease, Pest Control, and Animal Care.....	1,312,985
10.086	ARRA -- Aquaculture Grants Program (AGP).....	63,202
10.156	Federal-State Marketing Improvement Program.....	4,690
10.163	Market Protection and Promotion.....	2,094,538
10.169	Specialty Crop Block Grant Program.....	141,061
10.170	Specialty Crop Block Grant Program -- Farm Bill.....	34,688
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection.....	4,315,854
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children.....	245,984,900
10.558	Child and Adult Care Food Program.....	86,463,958
10.560	State Administrative Expenses for Child Nutrition.....	3,810,153
10.565	Commodity Supplemental Food Program.....	935,336
10.572	WIC Farmers' Market Nutrition Program (FMNP).....	414,614
10.574	Team Nutrition Grants.....	261,678
10.576	Senior Farmers Market Nutrition Program.....	1,853,302
10.579	ARRA -- Child Nutrition Discretionary Grants Limited Availability.....	2,895,473
10.580	Special Nutrition Assistance Program, Outreach/Participation Program.....	115,562
10.582	Fresh Fruit and Vegetable Program.....	1,820,088
10.603	Emerging Markets Program.....	46,494
10.652	* Forestry Research.....	14,124
10.664	Cooperative Forestry Assistance.....	2,240,850
10.676	Forest Legacy Program.....	20,391
10.688	ARRA -- Recovery Act of 2009 -- Wildland Fire Management.....	1,912,460
10.902	Soil and Water Conservation.....	226,647
10.904	Watershed Protection & Flood Prevention.....	3,511

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Agriculture (Continued)

10.912	Environmental Quality Incentives Program.....	85,272
10.913	Farm and Ranch Lands Protection Program.....	796,414
	Total U.S. Department of Agriculture.....	\$3,563,676,995

U.S. Department of Commerce

11.407	Interjurisdictional Fisheries Act of 1986.....	\$12,229
11.419	Coastal Zone Management Administration Awards.....	2,916,706
11.420	Coastal Zone Management Estuarine Research Reserves.....	819,206
11.555	Public Safety Interoperable Communications Grant Program.....	9,234,304
11.558	ARRA -- State Broadband Data and Development Grant Program.....	392,963
11.611	Manufacturing Extension Partnership.....	4,206,934
	Total U.S. Department of Commerce.....	\$17,582,342

U.S. Department of Defense

12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllium Site.....	\$67,932
12.002	Procurement Technical Assistance for Business Firms.....	510,584
12.005	Donation of Federal Surplus Personal Property.....	6,727,423
12.112	Payments to States in Lieu of Real Estate Taxes.....	354,477
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services.....	680,105
12.400	Military Construction, National Guard.....	2,196,996
12.401	National Guard Military Operations and Maintenance (O&M) Projects.....	27,826,283
12.401	ARRA -- National Guard Military Operations and Maintenance (O&M) Projects.....	2,211,786
	Total National Guard Military Operations and Maintenance (O&M) Projects.....	30,038,069
12.630	Basic, Applied and Advanced Research in Science and Engineering.....	3,157
	Total U.S. Department of Defense.....	\$40,578,743

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.....	\$72,898,720
14.255	ARRA -- Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii (Recovery Act Funded).....	4,415,923
	Total CDBG -- State Administered Small Cities Program Cluster.....	77,314,643
14.231	Emergency Shelter Grants Program.....	2,937,178
14.235	Supportive Housing Program.....	179,131
14.239	Home Investment Partnerships Program.....	21,506,607
14.241	Housing Opportunities for Persons with AIDS.....	1,116,227
14.256	ARRA -- Neighborhood Stabilization (Recovery Act Funded).....	3,919
14.257	ARRA -- Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded).....	6,022,452
14.401	Fair Housing Assistance Program -- State and Local.....	914,519
	Total U.S. Department of Housing and Urban Development.....	\$109,994,676

U.S. Department of the Interior

Fish and Wildlife Cluster:

15.605	Sport Fish Restoration Program.....	\$13,431,253
15.611	Wildlife Restoration.....	4,976,987
	Total Fish and Wildlife Cluster.....	18,408,240

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of the Interior (Continued)

15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining.....	2,446,057
15.252	Abandoned Mine Land Reclamation (AMLR) Program.....	7,403,621
15.255	Applied Science Program -- Cooperative Agreements Related to Coal Mining and Reclamation.....	149,417
15.608	Fish and Wildlife Management Assistance.....	90,588
15.614	Coastal Wetlands Planning, Protection, and Restoration Act.....	19,009
15.615	Cooperative Endangered Species Conservation Fund.....	1,808,774
15.616	Clean Vessel Act.....	162,497
15.622	Sportfishing and Boating Safety Act.....	956,363
15.634	State Wildlife Grants.....	998,615
15.808	* U.S. Geological Survey -- Research and Data Collection.....	110,831
15.808	U.S. Geological Survey -- Research and Data Collection.....	53,280
15.809	National Spatial Data Infrastructure Cooperative Agreements Program.....	9,204
15.810	National Cooperative Geologic Mapping Program.....	75,496
15.814	National Geological and Geophysical Data Preservation Program.....	17,993
15.916	Outdoor Recreation -- Acquisition, Development and Planning.....	610,223
	Total U.S. Department of the Interior.....	\$33,320,208

U.S. Department of Justice

16.000	Equitable Sharing Program.....	\$47,046
16.2009-98	Domestic Cannabis Eradication Program.....	458,906
16.2010-103	Domestic Cannabis Eradication Program.....	906
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry).....	145,816
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM).....	86,894
16.321	Anti-terrorism Emergency Reserve.....	77,472
16.523	Juvenile Accountability Block Grants.....	1,271,235
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life.....	34,482
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States.....	1,945,510
16.548	Title V -- Delinquency Prevention Program.....	29,685
16.550	* State Justice Statistics Program for Statistical Analysis Centers.....	42,990
16.554	National Criminal History Improvement Program (NCHIP).....	44,688
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants.....	440,741
16.575	Crime Victim Assistance.....	11,867,249
16.576	Crime Victim Compensation.....	6,204,167
16.579	Edward Byrne Memorial Formula Grant Program.....	906,316
16.580	* Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program.....	6,820
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program.....	683,001
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants.....	5,966,957
16.588	Violence Against Women Formula Grants.....	3,410,734
16.588	ARRA -- Violence Against Women Formula Grants.....	1,515,117
	Total Violence Against Women Formula Grants.....	4,925,851
16.593	Residential Substance Abuse Treatment for State Prisoners.....	384,850
16.606	State Criminal Alien Assistance Program.....	600,126
16.607	Bulletproof Vest Partnership Program.....	23,332
16.609	Project Safe Neighborhoods.....	489,449

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U.S. Department of Justice (Continued)

16.710	Public Safety Partnership and Community Policing Grants.....	945,170
16.727	Enforcing Underage Drinking Laws Program.....	358,679
16.734	* Special Data Collections and Statistical Studies.....	6,148
16.738	* Edward Byrne Memorial Justice Assistance Grant Program.....	137,177
16.738	Edward Byrne Memorial Justice Assistance Grant Program.....	6,008,970
16.740	Statewide Automated Victim Information Notification (SAVIN) Program.....	24,968
16.741	Forensic DNA Backlog Reduction Program.....	1,094,322
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program.....	441,272
16.744	Anti-Gang Initiative.....	758,128
16.801	ARRA -- Recovery Act -- State Victim Assistance Formula Grant Program.....	959,437
16.802	ARRA -- Recovery Act -- State Victim Compensation Formula Grant Program.....	2,100,627
16.803	* ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories.....	92,790
16.803	ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories.....	9,284,159
16.804	ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government.....	11,900
16.808	ARRA -- Recovery Act -- Edward Byrne Memorial Competitive Grant Program.....	264,712
16.810	ARRA -- Recovery Act -- Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program.....	170,469
	Total U.S. Department of Justice.....	\$59,343,417

U.S. Department of Labor

Employment Service Cluster:

17.207	Employment Service/Wagner-Peyser Funded Activities.....	\$21,846,808
17.207	ARRA -- Employment Service/Wagner-Peyser Funded Activities.....	9,154,349
	Total Employment Service/Wagner-Peyser Funded Activities.....	31,001,157
17.801	Disabled Veterans' Outreach Program (DVOP).....	5,349,679
17.804	Local Veterans' Employment Representative Program.....	725,192
	<i>Total Employment Service Cluster.....</i>	<i>37,076,028</i>

WIA Cluster:

17.258	WIA Adult Program.....	49,378,193
17.258	ARRA -- WIA Adult Program.....	18,412,359
	Total WIA Adult Program.....	67,790,552
17.259	WIA Youth Activities.....	47,551,760
17.259	ARRA -- WIA Youth Activities.....	41,818,387
	Total WIA Youth Activities.....	89,370,147
17.260	WIA Dislocated Workers.....	52,021,230
17.260	ARRA -- WIA Dislocated Workers.....	40,421,738
	Total WIA Dislocated Workers.....	92,442,968
	<i>Total WIA Cluster.....</i>	<i>249,603,667</i>
17.002	Labor Force Statistics.....	2,163,704
17.005	Compensation and Working Conditions.....	49,283
17.225	Unemployment Insurance.....	3,023,915,915
17.225	ARRA -- Unemployment Insurance.....	2,669,386,569
	Total Unemployment Insurance.....	5,693,302,484

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U.S. Department of Labor (Continued)

17.235	Senior Community Service Employment Program.....	5,062,854
17.235	ARRA -- Senior Community Service Employment Program.....	827,475
	Total Senior Community Service Employment Program.....	5,890,329
17.245	Trade Adjustment Assistance.....	28,770,773
17.261	WIA Pilots, Demonstrations, and Research Projects.....	659,034
17.266	Work Incentive Grants.....	384,160
17.267	* Incentive Grants -- WIA Section 503.....	1,035,860
17.268	H-1B Job Training Grants.....	2,417,279
17.270	Reintegration of Ex-Offenders.....	44,190
17.271	Work Opportunity Tax Credit Program (WOTC)	786,493
17.273	Temporary Labor Certification for Foreign Workers.....	225,637
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors.....	4,803
17.504	Consultation Agreements.....	1,532,040
17.600	Mine Health and Safety Grants.....	74,544
	Total U.S. Department of Labor.....	\$6,024,020,308

U.S. Department of Transportation

*Highway Planning and Construction Cluster:***

20.205	* Highway Planning and Construction.....	\$3,466,429
20.205	Highway Planning and Construction.....	1,035,875,194
20.205	ARRA -- Highway Planning and Construction.....	204,047,103
	Total Highway Planning and Construction.....	1,243,388,726
20.219	Recreational Trails Program.....	1,144,894
23.003	Appalachian Development Highway System.....	1,839,634
	<i>Total Highway Planning and Construction Cluster.....</i>	<i>1,246,373,254</i>

Federal Transit Cluster:

20.500	Federal Transit -- Capital Improvement Grants.....	740,491
20.507	Federal Transit -- Formula Grants.....	1,541,873
20.507	ARRA -- Federal Transit -- Formula Grants.....	6,677,179
	Total Federal Transit -- Formula Grants.....	8,219,052
	<i>Total Federal Transit Cluster.....</i>	<i>8,959,543</i>

Transit Services Programs Cluster:

20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities.....	3,273,349
	<i>Total Transit Services Programs Cluster.....</i>	<i>3,273,349</i>

Highway Safety Cluster:

20.600	State and Community Highway Safety.....	28,181,246
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I.....	1,666,403
20.610	State Traffic Safety Information System Improvement Grants.....	1,084,025
20.612	Incentive Grant Program to Increase Motorcyclist Safety.....	133,797
	<i>Total Highway Safety Cluster.....</i>	<i>31,065,471</i>
20.106	Airport Improvement Program.....	50,004
20.218	National Motor Carrier Safety	6,669,961
20.232	Commercial Driver's License Program Improvement Grant.....	25,082
20.234	Safety Data Improvement Program.....	159,077
20.237	Commercial Vehicle Information Systems and Networks.....	692,275
20.238	Commercial Driver's License Information System (CDLIS) Modernization Grants.....	186,494
20.317	Capital Assistance to States -- Intercity Passenger Rail Service.....	31,239

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U.S. Department of Transportation (Continued)

20.505	Metropolitan Transportation Planning.....	1,151,039
20.509	Formula Grants for Other Than Urbanized Areas.....	24,917,831
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated.....	966,357
20.700	Pipeline Safety Program Base Grants.....	579,614
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants.....	587,592
20.GG-2009-SA-00-00-00425-02	Breath Test Pilot.....	59,998
	Total U.S. Department of Transportation.....	\$1,325,748,180

U.S. Appalachian Regional Commission

23.002	Appalachian Area Development.....	\$495,833
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects.....	152,951
	Total U.S. Appalachian Regional Commission.....	\$648,784

U.S. Equal Employment Opportunity Commission

30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts.....	\$2,563,183
	Total U.S. Equal Employment Opportunity Commission.....	\$2,563,183

General Services Administration

39.003	Donation of Federal Surplus Personal Property.....	\$92,386
	Total General Services Administration.....	\$92,386

National Endowment for the Arts

45.025	Promotion of the Arts -- Partnership Agreements.....	\$371,500
45.025	ARRA -- Promotion of the Arts -- Partnership Agreements.....	277,400
	Total Promotion of the Arts -- Partnership Agreements.....	648,900
45.310	Grants to States.....	5,276,209
45.312	National Leadership Grants.....	23,505
	Total National Endowment for the Arts.....	\$5,948,614

U.S. Small Business Administration

59.037	Small Business Development Centers.....	\$4,149,617
	Total U.S. Small Business Administration.....	\$4,149,617

U.S. Department of Veterans Affairs

64.005	Grants to States for Construction of State Home Facilities.....	\$1,724,079
64.005	ARRA -- Grants to States for Construction of State Home Facilities.....	23,849
	Total Grants to States for Construction of State Home Facilities.....	1,747,928
64.014	Veterans State Domiciliary Care.....	2,341,433
64.015	Veterans State Nursing Home Care.....	17,636,365
64.124	All-Volunteer Force Educational Assistance.....	349,198
	Total U.S. Department of Veterans Affairs.....	\$22,074,924

U.S. Environmental Protection Agency

66.001	Air Pollution Control Program Support.....	\$4,357,117
66.032	State Indoor Radon Grants.....	371,413
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act.....	977,836
66.039	ARRA -- National Clean Diesel Emissions Reduction Program.....	455,115

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U.S. Environmental Protection Agency (Continued)

66.040	State Clean Diesel Grant Program.....	62,189
66.040	ARRA -- State Clean Diesel Grant Program.....	549,467
	State Clean Diesel Grant Program.....	611,656
66.419	Water Pollution Control State, Interstate, and Tribal Program Support.....	4,043,004
66.432	State Public Water System Supervision.....	2,350,222
66.433	State Underground Water Source Protection.....	178,773
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements -- Section 104(b)(3) of the Clean Water Act.....	11,230
66.454	Water Quality Management Planning.....	158,742
66.454	ARRA -- Water Quality Management Planning.....	690,617
	Total Water Quality Management Planning.....	849,359
66.458	Capitalization Grants for Clean Water State Revolving Funds.....	264,002,794
66.458	ARRA -- Capitalization Grants for Clean Water State Revolving Funds.....	91,436,317
	Total Capitalization Grants for Clean Water State Revolving Funds.....	355,439,111
66.460	Nonpoint Source Implementation Grants.....	5,085,110
66.461	Regional Wetland Program Development Grants.....	102,047
66.468	Capitalization Grants for Drinking Water State Revolving Funds.....	94,698,070
66.468	ARRA -- Capitalization Grants for Drinking Water State Revolving Funds.....	46,034,669
	Total Capitalization Grants for Drinking Water State Revolving Funds.....	140,732,739
66.469	Great Lakes Program.....	488,034
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs.....	88,343
66.472	Beach Monitoring and Notification Program Implementation Grants.....	255,430
66.474	Water Protection Grants to the States.....	153,094
66.605	Performance Partnership Grants.....	532,276
66.608	Environmental Information Exchange Network Grant Program and Related Assistance.....	245,115
66.609	Protection of Children and Older Adults (Elderly) from Environmental Health Risks.....	29,577
66.700	Consolidated Pesticide Enforcement Cooperative Agreements.....	25,060
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals.....	273,283
66.709	Multi-media Capacity Building Grants for States and Tribes.....	20,000
66.801	Hazardous Waste Management State Program Support.....	3,932,038
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements.....	831,850
66.804	Underground Storage Tank Prevention, Detection and Compliance Program.....	528,422
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program.....	1,583,895
66.805	ARRA -- Leaking Underground Storage Tank Trust Fund Corrective Action Program.....	218,072
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program.....	1,801,967
66.817	State and Tribal Response Program Grants.....	864,807
66.818	Brownfield Assessments and Cleanup Cooperative Agreements.....	264,227
	Total U.S. Environmental Protection Agency.....	\$525,898,255

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U.S. Department of Energy

81	Petroleum Violation Escrow Funds.....	\$684,575
81.000	Cost Recovery Grants -- Environmental Research.....	752,299
81.041	* State Energy Program.....	150,162
81.041	State Energy Program.....	796,329
81.041	ARRA -- State Energy Program.....	907,743
	Total State Energy Program.....	1,854,234
81.042	Weatherization Assistance for Low-Income Persons.....	2,732,240
81.042	ARRA -- Weatherization Assistance for Low-Income Persons.....	82,174,722
	Total Weatherization Assistance for Low-Income Persons.....	84,906,962
81.087	Renewable Energy Research and Development.....	44,753
81.089	* Fossil Energy Research and Development.....	24,782
81.105	National Industrial Competitiveness through Energy, Environment and Economics.....	65,855
81.119	State Energy Program Special Projects.....	380,813
81.122	ARRA -- Electricity Delivery and Energy Reliability, Research, Development and Analysis.....	128,630
81.127	ARRA -- State Energy Efficient Appliance Rebate Program (EEARP).....	6,182,317
81.128	ARRA -- Energy Efficiency and Conservation Block Grant Program (EECBG).....	297,597
	Total U.S. Department of Energy.....	\$95,322,817

U.S. Department of Education

Title I -- Part A Cluster:

84.010	Title I Grants to Local Educational Agencies.....	\$539,982,691
84.389	ARRA -- Title I Grants to Local Educational Agencies, Recovery Act.....	141,670,482
	<i>Total Title I -- Part A Cluster.....</i>	<i>681,653,173</i>

Special Education Cluster:

84.027	Special Education -- Grants to States.....	422,885,793
84.391	ARRA -- Special Education -- Grants to States, Recovery Act.....	210,595,206
84.173	Special Education -- Preschool Grants.....	12,012,560
84.392	ARRA -- Special Education -- Preschool Grants, Recovery Act.....	6,071,322
	<i>Total Special Education Cluster.....</i>	<i>651,564,881</i>

Vocational Rehabilitation Cluster:

84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States.....	98,015,423
84.390	ARRA -- Rehabilitation Services -- Vocational Rehabilitation Grants to States, Recovery Act.....	5,792,402
	<i>Total Vocational Rehabilitation Cluster.....</i>	<i>103,807,825</i>

Early Intervention Services (IDEA) Cluster:

84.181	Special Education -- Grants for Infants and Families.....	13,967,869
84.393	ARRA -- Special Education -- Grants for Infants and Families, Recovery Act.....	6,441,112
	<i>Total Early Intervention Services (IDEA) Cluster.....</i>	<i>20,408,981</i>

Educational Technology State Grants Cluster:

84.318	Education Technology State Grants.....	9,454,811
84.386	ARRA -- Education Technology State Grants, Recovery Act.....	3,480,015
	<i>Total Educational Technology State Grants Cluster.....</i>	<i>12,934,826</i>

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U.S. Department of Education (Continued)

State Fiscal Stabilization Fund Cluster:

84.394	ARRA -- State Fiscal Stabilization Fund (SFSF) -- Education State Grants, Recovery Act.....	697,405,999
84.397	ARRA -- State Fiscal Stabilization Fund (SFSF) -- Government Services, Recovery Act.....	111,177,531
	<i>Total State Fiscal Stabilization Fund Cluster.....</i>	<u>808,583,530</u>

Independent Living State Grants Cluster:

84.169	Independent Living -- State Grants.....	600,996
84.398	ARRA -- Independent Living -- State Grants, Recovery Act.....	74,946
	<i>Total Independent Living State Grants Cluster.....</i>	<u>675,942</u>

Independent Living Services for Older Individuals Who are Blind Cluster:

84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who are Blind.....	1,061,395
84.399	ARRA -- Independent Living Services for Older Individuals Who are Blind, Recovery Act.....	486,820
	<i>Total Independent Living Services for Older Individuals Who are Blind Cluster.....</i>	<u>1,548,215</u>

Education of Homeless Children and Youth Cluster:

84.196	Education for Homeless Children and Youth.....	1,978,828
84.387	ARRA -- Education for Homeless Children and Youth, Recovery Act.....	632,093
	<i>Total Education of Homeless Children and Youth Cluster.....</i>	<u>2,610,921</u>

Statewide Data Systems Cluster:

84.372	Statewide Data Systems.....	855,382
	<i>Total Statewide Data Systems Cluster.....</i>	<u>855,382</u>

Teacher Incentive Fund Cluster:

84.374	Teacher Incentive Fund.....	4,374,021
	<i>Total Teacher Incentive Fund Cluster.....</i>	<u>4,374,021</u>

School Improvement Grants Cluster:

84.377	School Improvement Grants.....	6,372,108
	<i>Total School Improvement Grants Cluster.....</i>	<u>6,372,108</u>
84.000	Consolidated Administrative Fund.....	7,673,767
84.002	* Adult Education -- Basic Grants to States.....	110,000
84.002	Adult Education -- Basic Grants to States.....	14,039,330
84.011	Migrant Education -- State Grant Program.....	2,393,159
84.013	Title I State Agency Program for Neglected and Delinquent Children.....	956,068
84.048	Career and Technical Education -- Basic Grants to States.....	39,885,262
84.069	Leveraging Educational Assistance Partnership.....	1,239,567
84.144	Migrant Education -- Coordination Program.....	48,288
84.161	Rehabilitation Services -- Client Assistance Program.....	343,569
84.185	Byrd Honors Scholarships.....	1,579,853
84.186	Safe and Drug-Free Schools and Communities -- State Grants.....	9,529,948
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities.....	880,862
84.203	* Star Schools.....	424,067
84.206	Javits Gifted and Talented Students Education Grant Program.....	258,184
84.213	Even Start -- State Educational Agencies.....	2,369,739
84.215	Fund for the Improvement of Education.....	377,171
84.235	Rehabilitation Services -- Demonstrations and Training Programs.....	494,180
84.240	Program of Protection and Advocacy of Individual Rights.....	592,963

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U.S. Department of Education (Continued)

84.243	Tech-Prep Education.....	4,060,132
84.265	Rehabilitation Training -- State Vocational Rehabilitation Unit In-Service Training.....	100,695
84.282	Charter Schools.....	9,804,282
84.287	Twenty-First Century Community Learning Centers.....	34,797,634
84.293	Foreign Language Assistance.....	78,184
84.298	State Grants for Innovative Programs.....	595,875
84.323	Special Education -- State Personnel Development.....	907,403
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants).....	256,177
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals.....	1,371,269
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs.....	3,202,924
84.343	Assistive Technology -- State Grants for Protection and Advocacy.....	110,893
84.357	Reading First State Grants.....	17,809,670
84.358	Rural Education.....	1,811,020
84.365	English Language Acquisition Grants.....	7,581,026
84.366	Mathematics and Science Partnerships.....	4,716,100
84.367	Improving Teacher Quality State Grants.....	102,182,064
84.369	Grants for State Assessments and Related Activities.....	8,617,597
84.371	Striving Readers.....	2,450,927
84.373	Special Education Technical Assistance on State Data Collection.....	1,442,294
84.378	College Access Challenge Grant Program.....	2,250,248
	Total U.S. Department of Education.....	\$2,582,732,196

Election Assistance Commission

90.400	Help America Vote Act College Program.....	\$555,575
90.401	Help America Vote Act Requirements Payments.....	1,715,237
	Total Election Assistance Commission.....	\$2,270,812

U.S. Department of Health and Human Services

Aging Cluster:

93.044	Special Programs for the Aging -- Title III, Part B -- Grants for Supportive Services and Senior Centers.....	\$15,304,427
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services.....	23,785,616
93.053	Nutrition Services Incentive Program.....	4,628,054
93.705	ARRA -- Aging Home-Delivered Nutrition Services for States.....	1,032,739
93.707	ARRA -- Aging Congregate Nutrition Services for States.....	1,925,226
	<i>Total Aging Cluster.....</i>	<i>46,676,062</i>

Immunization Cluster:

93.268	Immunization Grants.....	6,528,569
93.712	ARRA -- Immunization.....	84,682
	<i>Total Immunization Cluster.....</i>	<i>6,613,251</i>

TANF Cluster:

93.558	Temporary Assistance for Needy Families.....	636,332,648
93.558	ARRA -- Temporary Assistance for Needy Families.....	58,110,467
	Total Temporary Assistance for Needy Families.....	694,443,115
93.714	ARRA -- Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program.....	102,342,921
	<i>Total TANF Cluster.....</i>	<i>796,786,036</i>

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

CSBG Cluster:

93.569	Community Services Block Grant.....	24,681,258
93.710	ARRA -- Community Services Block Grant.....	17,928,495
	<i>Total CSBG Cluster.....</i>	<u>42,609,753</u>

CCDF Cluster:

93.575	Child Care and Development Block Grant.....	73,702,135
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund.....	95,997,693
93.713	ARRA -- Child Care and Development Block Grant.....	57,679,250
	<i>Total CCDF Cluster.....</i>	<u>227,379,078</u>

Head Start Cluster:

93.600	Head Start.....	199,486
	<i>Total Head Start Cluster.....</i>	<u>199,486</u>

Medicaid Cluster:

93.775	State Medicaid Fraud Control Units.....	3,517,851
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVII) Medicare.....	26,859,111
93.778	Medical Assistance Program (Medicaid).....	9,277,465,935
93.778	ARRA - Medical Assistance Program (Medicaid).....	1,455,342,016
	<i>Total Medical Assistance Program (Medicaid).....</i>	<u>10,732,807,951</u>
	<i>Total Medicaid Cluster.....</i>	<u>10,763,184,913</u>

93	SEOW -- Subcontract.....	26,820
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program.....	146,851
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation.....	196,364
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals.....	576,784
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services.....	790,806
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects.....	572,161
93.051	Alzheimer's Disease Demonstration -- Grants to States.....	198,431
93.052	National Family Caregiver Support, Title III, Part E.....	5,901,662
93.069****	Public Health Emergency Preparedness.....	101,960,350
93.071	Medicare Enrollment Assistance Program.....	283,794
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants.....	502,170
93.110	Maternal and Child Health Federal Consolidated Programs.....	192,094
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity.....	348,222
93.127	Emergency Medical Services for Children.....	110,691
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices.....	257,592
93.136	* Injury Prevention and Control Research and State and Community Based Programs.....	2,414
93.136	Injury Prevention and Control Research and State and Community Based Programs.....	149,072
93.138	Protection and Advocacy for Individuals with Mental Illness.....	1,176,932
93.150	Projects for Assistance in Transition from Homelessness (PATH).....	1,956,993
93.165	Grants to State for Loan Repayment Program.....	287,709

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

93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children.....	1,230,665
93.217	Family Planning -- Services.....	3,903,341
93.234	Traumatic Brain Injury -- State Demonstration Grant Program.....	176,438
93.236	Grants for Dental Public Health Residency Training.....	275,779
93.240	State Capacity Building.....	442,110
93.241	State Rural Hospital Flexibility Program.....	330,532
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance.....	3,311,686
93.251	Universal Newborn Hearing Screening.....	256,802
93.267	State Grants for Protections and Advocacy Services.....	80,481
93.275	Substance Abuse and Mental Health Services -- Access to Recovery.....	7,156,604
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance.....	13,411,355
93.301	Small Rural Hospital Improvement Grant Program.....	310,320
93.414	ARRA -- State Primary Care Offices.....	24,267
93.448	Food Safety and Security Monitoring Project.....	690,263
93.556	Promoting Safe and Stable Families.....	12,266,418
93.563	Child Support Enforcement.....	110,842,852
93.563	ARRA -- Child Support Enforcement.....	37,905,947
	Total Child Support Enforcement.....	148,748,799
93.564	* Child Support Enforcement Research.....	104,000
93.566	Refugee and Entrant Assistance -- State Administered Programs.....	6,926,011
93.568	Low-Income Home Energy Assistance.....	193,652,197
93.576	Refugee and Entrant Assistance -- Discretionary Grants.....	461,338
93.585	Empowerment Zones Program.....	134,313
93.586	State Court Improvement Program.....	674,394
93.590	Community-Based Child Abuse Prevention Grants.....	274,779
93.597	Grants to States for Access and Visitation Programs.....	300,654
93.599	Chafee Education and Training Vouchers Program (ETV).....	1,534,007
93.617	Voting Access for Individuals with Disabilities -- Grants to States.....	462,007
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems.....	92,557
93.630	Developmental Disabilities Basic Support and Advocacy Grants.....	4,382,412
93.643	Children's Justice Grants to States.....	753,810
93.645	Child Welfare Services -- State Grants.....	12,421,013
93.658	Foster Care -- Title IV-E.....	184,914,695
93.658	ARRA -- Foster Care -- Title IV-E.....	6,050,422
	Total Foster Care -- Title IV-E.....	190,965,117
93.659	Adoption Assistance.....	181,917,363
93.659	ARRA -- Adoption Assistance.....	7,275,165
	Total Adoption Assistance.....	189,192,528
93.667	Social Services Block Grant.....	125,807,066
93.669	Child Abuse and Neglect State Grants.....	443,096
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes.....	2,577,308
93.674	Chafee Foster Care Independence Program.....	3,710,272
93.717	ARRA -- Preventing Healthcare -- Associated Infections.....	15,377

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.723	ARRA -- Prevention and Wellness-State, Territories and Pacific Islands.....	2,653
93.725	ARRA -- Communities Putting Prevention to Work -- Chronic Disease Self-Management Program.....	395
93.767	Children's Health Insurance Program.....	261,695,934
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities.....	625,158
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations.....	1,938,084
93.791	Money Follows the Person Rebalancing Demonstration.....	16,116,186
93.793	Medicaid Transformation Grants.....	815,443
93.887	* Health Care and Other Facilities.....	2,113,629
93.889	National Bioterrorism Hospital Preparedness Program.....	18,328,194
93.913	Grants to States for Operation of Offices of Rural Health.....	223,216
93.917	HIV Care Formula Grants.....	26,514,639
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems.....	558,710
93.940	HIV Prevention Activities -- Health Department Based.....	5,918,226
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance.....	359,471
93.945	Assistance Programs for Chronic Disease Prevention and Control.....	3,020
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiatives Programs.....	116,887
93.958	Block Grants for Community Mental Health Services.....	13,405,154
93.959	Block Grants for Prevention and Treatment of Substance Abuse.....	69,593,310
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services.....	593,305
93.975	National All Schedules Prescription Electronic Reporting Grant.....	1,020
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants.....	2,879,617
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems.....	27,718
93.991	Preventative Health and Health Services Block Grant.....	4,229,361
93.994	Maternal and Child Health Services Block Grant to the States.....	22,753,204
93.A-89-06-0321	Important Health Problems Children's Trust Fund.....	163,756
93.A-89-07-0289	Immunization Registry.....	940,636
93.A-89-07-0403	Ohio Family Health Survey.....	44,066
93.A-89-17-0705	Refugee Health.....	8,673
93.HHSF223200840102C	Mammography Quality Standard Act Inspection.....	313,932
93.T.DOH01	ARRA -- Student/Resident Experiences and Rotations in Community Health (SEARCH).....	7,823
	Total U.S. Department of Health and Human Services.....	\$13,376,878,027

Corporation for National and Community Service

94.003	State Commissions.....	\$413,328
94.004	Learn and Serve America -- School and Community Based Programs.....	663,837
94.006	AmeriCorps.....	5,067,978
94.006	ARRA -- AmeriCorps.....	1,129,998
	Total AmeriCorps.....	6,197,976
94.007	Program Development and Innovation Grants.....	44,891
94.009	Training and Technical Assistance.....	98,005
	Total Corporation for National and Community Service.....	\$7,418,037

**STATE OF OHIO
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 BY FEDERAL AGENCY AND FEDERAL PROGRAM
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

Social Security Administration

Disability Insurance/SSI Cluster:

96.001	Social Security -- Disability Insurance.....	\$85,696,520
	<i>Total Disability Insurance/SSI Cluster.....</i>	<i>85,696,520</i>
96.000	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program.....	7,702,889
96.008	Social Security -- Work Incentives Planning and Assistance Program.....	320,385
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries.....	224,665
96.SS00-08-60053	Enumeration at Birth.....	485,641
96.200-2009-M-29348	National Death Index.....	2,356
	Total Social Security Administration.....	\$94,432,456

U.S. Department of Homeland Security

Homeland Security Cluster:

97.067	Homeland Security Grant Program.....	\$26,805,808
	<i>Total Homeland Security Cluster.....</i>	<i>26,805,808</i>
97.004	State Domestic Preparedness Equipment Support Program.....	50,935
97.008	Non-Profit Security Program.....	20,835
97.012	Boating Safety Financial Assistance.....	4,585,723
97.023	Community Assistance Program -- State Support Services Element (CAP-SSSE).....	223,225
97.029	Flood Mitigation Assistance.....	141,076
97.036	Disaster Grants -- Public Assistance (Presidentially Declared Disasters).....	10,543,709
97.039	Hazard Mitigation Grant.....	3,546,909
97.041	National Dam Safety Program.....	119,350
97.042	Emergency Management Performance Grants.....	7,442,947
97.047	Pre-Disaster Mitigation.....	322,695
97.053	Citizens Corp.....	270
97.055	Interoperable Emergency Communications.....	394,713
97.070	Map Modernization Management Support.....	163,181
97.073	State Homeland Security Program (SHSP).....	158,967
97.075	Rail and Transit Security Grant Program.....	1,157,005
97.078	Buffer Zone Protection Program (BZPP).....	744,985
97.089	Driver's License Security Grant Program.....	786,483
97.091	Homeland Security Biowatch Program.....	806,297
97.092	Repetitive Flood Claims.....	154,963
97.110	Severe Loss Repetitive Program.....	105,650
	Total U.S. Department of Homeland Security.....	\$58,275,726
	TOTAL EXPENDITURES.....	\$27,952,970,703

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

** This cluster encompasses two different federal agency programs, the U.S. Department of Transportation's federal programs CFDA# 20.205 and CFDA# 20.219 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.

*** This includes donated food of \$27,366,920.

**** This includes H1N1 vaccines of \$36,341,755.



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. 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, 2010**

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

- *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.

Other Discretely Presented Component Units:

Ohio Air Quality Development Authority

- *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.

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.

- *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.

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.

- *Public Health Emergency Preparedness (CFDA# 93.069)*

A portion of the federal assistance for this program represents the value of H1N1 vaccines the State distributes to subrecipients during the fiscal year. The U.S. Department of Health and Human Services assigns the prices at which the State values the vaccine.

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).

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



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 CAPITALIZATION GRANTS FOR REVOLVING LOAN FUNDS

In fiscal year 2010, 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, 2010, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately \$1.186 billion.

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

Capitalization Grant Loan Balance, as of 6/30/09.....	\$1,012,106,624
Loans without Compliance Requirements.....	(610,791,545)
Loans transferred without Compliance Requirements.....	<u>(82,715,899)</u>
Net Loan Balance (Loans with Compliance Requirements).....	<u>318,599,180</u>
New Loans Disbursed.....	189,580,245
Net Principal Repayments Received	(16,230,911)
Capitalized Interest Earned	<u>677,861</u>
Current Loan Activity.....	174,027,195
Ending Loan Balance (Loans with Compliance Requirements).....	492,626,375

Administrative Costs	1,971,772
Small System Technical Assistant Costs	582,687
Wellhead Costs	992,313
ARRA Account Interest Earned.....	(7)
Administrative Interest Earned	(187)
Loan Account Interest Earned.....	(1,087)
Wellhead Interest Earned	<u>(16)</u>
Total Federal Assistance for FY 2010....	<u>\$496,171,850</u>

The total federal assistance for fiscal year 2010, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were \$355,439,111 and \$140,732,739 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2010, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/10
10.555	National School Lunch Program.....	\$7,887,639
12.005	Donation of Federal Surplus Personal Property	6,727,423
39.003	Donation of Federal Surplus Personal Property	92,386
93.069	Public Health Emergency Preparedness.....	<u>3,765,015*</u>
	Total.....	<u>\$18,472,463</u>

* - This represents the value of H1N1 vaccines allocated to Ohio but stored at McKesson Corporation under the control of the Centers for Disease Control.



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

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
10.001	Agricultural Research – Basic and Applied Research.....	\$12,792
10.652	Forestry Research.....	14,124
15.808	U.S. Geological Survey – Research and Data Collection.....	110,831
16.550	State Justice Statistics Programs for Analysis Centers.....	42,990
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program.....	6,820
16.734	Special Data Collections and Statistical Studies.....	6,148
16.738	Edward Byrne Memorial Justice Assistance Grant Program.....	137,177
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories.....	92,790
17.267	Incentive Grants – WIA Section 503.....	1,035,860
20.205	Highway Planning and Construction.....	3,466,429
81.041	State Energy Program.....	150,162
81.089	Fossil Energy Research and Development.....	24,782
84.002	Adult Education – Basic Grants to States.....	110,000
84.203	Star Schools.....	424,067
93.136	Injury Prevention and Control Research and State and Community Based Programs.....	2,414
93.564	Child Support Enforcement Research.....	104,000
93.887	Health Care and Other Facilities.....	2,113,629
	Total Research and Development Cluster.....	<u>\$7,855,015</u>

NOTE 5 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2010, the State made allowable transfers of approximately \$35.5 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 \$694.4 million on the Temporary Assistance for Needy Families program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program. The amount transferred to the Social Services Block Grant program is included in the federal program expenditures for this program. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2010 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families.....	\$729,952,904
Social Services Block Grant.....	(35,509,789)
Total Temporary Assistance for Needy Families	<u>\$694,443,115</u>



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

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
10.086	ARRA – Aquaculture Grants Program (AGP)	\$63,202
10.561	ARRA – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	6,688,736
10.568	ARRA – Emergency Food Assistance Program (Administrative Costs)	1,613,022
10.579	ARRA – Child Nutrition Discretionary Grants Limited Availability	2,895,473
10.688	ARRA – Recovery Act of 2009 – Wildland Fire Management.....	1,912,460
11.558	ARRA – State Broadband Data and Development Grant Program.....	392,963
12.401	ARRA – National Guard Military Operations and Maintenance (O&M) Projects	2,211,786
14.255	ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	4,415,923
14.256	ARRA – Neighborhood Stabilization Program (Recovery Act Funded)	3,919
14.257	ARRA – Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) ...	6,022,452
16.588	ARRA – Violence Against Women Formula Grants.....	1,515,117
16.801	ARRA – Recovery Act – State Victim Assistance Formula Grant Program	959,437
16.802	ARRA – Recovery Act – State Victim Compensation Formula Grant Program.....	2,100,627
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories.....	9,376,949
16.804	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government.....	11,900
16.808	ARRA – Recovery Act – Edward Byrne Memorial Competitive Grant Program	264,712
16.810	ARRA – Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program.....	170,469
17.207	ARRA – Employment Service/Wagner-Peyser Funded Activities	9,154,349
17.225	ARRA – Unemployment Insurance	2,669,386,569
17.235	ARRA – Senior Community Service Employment Program.....	827,475
17.258	ARRA – WIA Adult Program.....	18,412,359
17.259	ARRA – WIA Youth Activities	41,818,387
17.260	ARRA – WIA Dislocated Workers.....	40,421,738
20.205	ARRA – Highway Planning and Construction.....	204,047,103
20.507	ARRA – Federal Transit – Formula Grants	6,677,179
45.025	ARRA – Promotion of the Arts – Partnership Agreements	277,400
64.005	ARRA – Grants to States for Construction of State Home Facilities	23,849
66.039	ARRA – National Clean Diesel Emissions Reduction Program	455,115
66.040	ARRA – State Clean Diesel Grant Program	549,467
66.454	ARRA – Water Quality Management Planning	690,617
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	91,436,317
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds.....	46,034,669
66.805	ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program	218,072
81.041	ARRA – State Energy Program	907,743
81.042	ARRA – Weatherization Assistance for Low-Income Persons.....	82,174,722
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	128,630
81.127	ARRA – State Energy Efficient Appliance Rebate Program (EEARP)	6,182,317
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	297,597
84.386	ARRA – Education Technology State Grants, Recovery Act.....	3,480,015
84.387	ARRA – Education for Homeless Children and Youth, Recovery Act	632,093
84.389	ARRA – Title I Grants to Local Educational Agencies, Recovery Act.....	141,670,482
84.390	ARRA – Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act.....	5,792,402
84.391	ARRA – Special Education – Grants to States, Recovery Act.....	210,595,206
84.392	ARRA – Special Education – Preschool Grants, Recovery Act	6,071,322



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

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

CFDA#	Program	Amount
84.393	ARRA – Special Education – Grants for Infants and Families, Recovery Act	6,441,112
84.394	ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	697,405,999
84.397	ARRA – State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	111,177,531
84.398	ARRA – Independent Living State Grants, Recovery Act	74,946
84.399	ARRA – Independent Living Services for Older Individuals Who are Blind, Recovery Act	486,820
93.414	ARRA – State Primary Care Offices	24,267
93.558	ARRA – Temporary Assistance for Needy Families.....	58,110,467
93.563	ARRA – Child Support Enforcement.....	37,905,947
93.658	ARRA – Foster Care – Title IV-E	6,050,422
93.659	ARRA – Adoption Assistance.....	7,275,165
93.705	ARRA – Aging Home-Delivered Nutrition Services for States	1,032,739
93.707	ARRA – Aging Congregate Nutrition Services for States	1,925,226
93.710	ARRA – Community Services Block Grant.....	17,928,495
93.712	ARRA – Immunization	84,682
93.713	ARRA – Child Care and Development Block Grant	57,679,250
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program.....	102,342,921
93.717	ARRA – Preventing Healthcare – Associated Infections	15,377
93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands.....	2,653
93.725	ARRA – Communities Putting Prevention to Work – Chronic Disease Self-Management Program	395
93.778	ARRA – Medical Assistance Program (Medicaid).....	1,455,342,016
93.T.DOHO1	ARRA – Student/Resident Experiences and Rotations in Community Health (SEARCH).....	7,823
94.006	ARRA – AmeriCorps.....	1,129,998
	Total ARRA Grants	\$6,191,426,592

Supplemental Nutrition Assistance Program (CFDA# 10.551) – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households’ income, deductions and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, the State of Ohio cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA’s total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

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



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
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 FOR THE YEAR ENDED JUNE 30, 2010**

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

Borrower	DUNS	Amount
Adams County	138255455	\$54,740
Akron	944269851	1,595,449
Allen County.....	077566644	824,864
Ansonia	610797396	205,519
Ashtabula County.....	926038696	150,475
Athens County	627954449	30,961
Aurora	085762748	143,174
Avon Lake.....	076899087	359,269
Ayersville Water and Sewer District.....	832475651	2,196,907
Barberton.....	060421351	596,719
Barnesville.....	170472021	27,035
Blanchester	097925671	653,894
Bradner.....	094807120	224,088
Brook Park.....	060425006	2,116,609
Brown County.....	074718255	34,699
Butler County.....	964995737	1,479,973
Byesville.....	105810431	1,720,909
Canal Fulton	089899066	188,705
Carey.....	155753742	121,578
Carroll County	060602849	56,065
Chardon	082328154	498,338
Chickasaw	833095438	138,676
Clark County.....	191305176	167,508
Columbiana County	020636569	250,748
Columbus.....	198549776	2,783,612
Columbus and Franklin County Metropolitan Park District	040813883	940,001
Coshocton County.....	097545826	898,036
Crawford County	074549189	1,575,291
Creston	017284225	285,957
Dayton.....	004478194	71,572
Defiance	042755751	2,499,121
Delphos	084558956	817,812
East Palestine.....	619136799	56,714
Edon	026474452	4,615
Fairborn	074694613	51,742
Fairfield County.....	085581937	43,172
Fayette.....	960622702	9,990
Fayette County.....	055636146	28,206
Findlay.....	084561695	132,930
Franklin County	046430641	294,003
Frazeysburg	173376877	85,869
Fremont	087051215	667,657
Fulton County	077559896	7,860
Gahanna.....	079440335	45,000
Galion.....	058276551	13,852
Gallia County.....	121986228	374,818
Geauga County	076760610	326,489
Geneva.....	074557620	418,634
Gibsonburg.....	032370231	477,319
Green Springs	046349098	1,079,983
Greene County	068948348	257,422
Greenfield.....	038719662	34,850
Greenwich	046827788	95,578



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

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

Borrower	DUNS	Amount
Hamilton.....	026889191	602,641
Hamilton County.....	099864738	315,446
Harrisburg.....	005412189	611,948
Helena.....	097231575	548,712
Hillsboro.....	043936988	2,331,980
Hocking County.....	089429781	57,517
Holmes County.....	961934346	4,500
Ironton.....	081279739	4,304,565
Jackson Center.....	170250112	43,001
Jackson County.....	142371348	88,569
Kent.....	092622042	220,685
Kirtland.....	626954767	30,573
Lake County.....	071125090	89,730
Lakewood.....	020629093	157,144
Lancaster.....	079417861	478,423
Lawrence County.....	075004713	361,556
Lima.....	081207169	283,815
Little Miami, Inc.....	101011810	60,000
Lorain.....	083321083	1,684,556
Lorain County.....	079802542	217,439
Lowellville.....	028759595	74,498
Lucas County.....	068104322	266,912
Lynchburg.....	036807311	856,564
Madison County.....	027146240	21,225
Malinta.....	088595603	810,484
Mansfield.....	127367048	575,090
Marion County.....	830431263	28,106
Marshallville.....	945375129	746,049
Marysville.....	831740134	810,198
McComb.....	944369669	661,967
Meigs County.....	092163401	30,901
Mercer County.....	077568798	875,349
Miami County.....	068944164	1,830,631
Middleport.....	142370365	181,402
Montgomery County.....	071277115	1,231,123
Montpelier.....	038705844	2,008,500
Moreland Hills.....	044315604	156,843
Morgan County.....	081309718	69,845
Morrow County.....	111504374	28,493
Mount Gilead.....	170092241	127,524
Muskingum County.....	079435137	1,439,580
Muskingum Watershed Conservancy District.....	068906452	31,210
New Richmond.....	030963029	15,609
New Vienna.....	610939840	16,250
Newark.....	070551965	5,000,000
Newton Falls.....	145187733	69,773
Ney.....	052361917	1,382,431
Nobel County.....	154171375	407,274
North Canton.....	037288404	224,520
North Royalton.....	007790199	13,047
Northeast Ohio Regional Sewer District.....	074554098	5,697,550
Northwestern Water and Sewer District.....	136244519	536,634
Osgood.....	797718004	358,683



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

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

Borrower	DUNS	Amount
Parma	081779829	770,950
Pataskala.....	055652762	56,665
Paulding County.....	020267332	20,552
Payne.....	079041864	696,432
Pemberville.....	944231919	239,593
Pike County	617490615	82,781
Pitsburg	009026035	1,632,649
Port Clinton	077573640	623,125
Portsmouth.....	092155043	1,133,868
Put-In-Bay	960896843	1,111,329
Richfield	081778292	600,380
Richland County	076904812	363,904
Roaming Shores	119286532	19,669
Rocky River.....	077765964	492,405
Roseville.....	032126596	29,363
Ross County.....	075033183	16,215
Sandusky County	077568376	99,752
Scioto County	079438891	117,371
Sebring	016073884	1,299,397
Seneca County	020647723	39,286
Sherwood.....	079068156	240,180
Shiloh	026974972	122,852
Stark County	079800751	865,124
Struthers	092626506	312,513
Summit County	147483465	132,055
Swanton.....	828650676	587,626
Timberlake.....	038090734	58,140
Toledo	099962052	694,484
Toronto.....	052508645	204,991
Tri-Cities North Regional Wastewater Authority	949854939	954,906
Trumbull County.....	070757943	259,602
Tuppers Plains Regional Sewer District	063584049	158,221
Twin City Water and Sewer District	166978481	193,214
Twinsburg.....	023816031	395,185
Uhrichsville	946424710	78,420
Van Wert County	077573087	602,024
Vandalia	063983456	99,751
Versailles	101504421	4,473,196
Vinton County	780723326	92,589
Walnut Creek Sewer District	832672554	212,866
Warren.....	010848216	274,307
Washington County.....	005059535	70,143
Wellington	094492113	248,787
Wharton.....	047212683	310,167
Wickliffe.....	081776676	74,091
Williams County	020284691	712,311
Williamsburg	781411517	271,897
Xenia	092824150	264,448
Yellow Springs	077430825	580,942
Youngstown.....	080156839	943,155
Zanesville	606631562	210,379
Total		<u>\$91,436,324</u>



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

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

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

Borrower	DUNS	Amount
Athens	081281289	\$320,000
Bellaire	041063793	644,000
Belmont County	068800937	1,270,117
Bowling Green	077569754	2,966,791
Brewster	049349020	75,103
Buckeye Lake	049843816	4,974,642
Buckeye Water District	030552512	2,634,726
Burr Oak Regional Water District.....	012191628	5,000,000
Butler County.....	964995737	436,992
Byesville.....	105810431	105,983
Canton Local School District.....	008232340	27,500
Cardington	781411210	359,689
Cleveland.....	961940913	3,759,274
Coal Grove.....	099278330	361,124
Columbus Grove	831315841	153,412
Crooksville	055056840	602,100
Cumberland	004090741	826,528
Danville	053337515	160,592
Deshler	020278529	367,708
Dresden	040815839	730,232
Enon	960772564	110,530
Findlay.....	084561695	34,992
Fostoria.....	045698941	372,240
Franklin County	046430641	229,378
Fulton County	077559896	3,120,000
Hamden	602020518	1,216,486
Harrisburg.....	005412189	174,404
Jackson	079427316	329,233
Jackson County Water Company, Inc.	121979991	1,136,773
Mahoning Valley Sanitary District.....	077751105	395,975
Manchester Farms Homeowner’s Association.....	832298470	96,645
McConnelsville.....	047451455	87,500
Middleport	142370365	1,946,518
Milford	099862591	80,000
Millersport	155743537	250,000
Murray City	022704126	665,000
Muskingum Watershed Conservancy District.....	068906452	100,000
Old Straitsville Water Association.....	962205555	749,321
Pike Water, Inc.	071647150	525,000
Pomeroy	137347167	188,430
Portsmouth.....	092155043	49,582
Powhatan Point	058014762	320,000
Rayland	008946886	506,690
Rockford.....	794107305	903,279
Roseville.....	032126596	180,648
Scioto Water, Inc.	097539597	212,956



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

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

Borrower	DUNS	Amount
Shawnee	053429341	268,465
Sidney.....	074724295	3,129,897
South Solon	800062163	162,173
Southwest Licking Community Water & Sewer District.....	833001605	173,485
Tri-County Rural Water and Sewer District	090662966	442,695
Tuppers Plains – Chester Water District.....	063584049	165,770
Wellston	828463773	197,960
Woodsfield	042132860	103,113
Woodville	020263067	121,646
Zanesville	606631562	1,501,538
Total		<u>\$46,024,835</u>

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



Dave Yost • Auditor of State

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

The Honorable John Kasich, Governor
State of Ohio
Columbus, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of State of Ohio (the State) as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements, and have issued our report thereon dated January 21, 2011, except for our report on the Federal Awards Expenditure Schedule, for which the date is July 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *State Auditing Standards*. We did not audit the financial statements of the following organizations:

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

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

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	93%	36%
Aggregate Discretely Presented Component Units	92%	97%
Aggregate Remaining Fund Information	94%	24%
Workers' Compensation	97%	100%

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings listed in the table below, identified in the summary of findings and questioned costs on page 195, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Job & Family Services	2010-JFS15-030 through 2010-JFS19-34, and 2010-JFS22-037

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings listed in the table below, identified in the summary of findings and questioned costs on page 195, and described in the accompanying schedule of findings and questioned costs to be to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Commerce	2010-COM01-001
Ohio Administrative Knowledge System	2010-OAKS01-002
Ohio Department of Job & Family Services	2010-JFS27-042

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the State's management in a separate letter dated January 21, 2011.

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 federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 21, 2011, except for our report on the Federal Awards Expenditure Schedule, for which the date is July 15, 2013.

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Dave Yost • Auditor of State

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

The Honorable John Kasich, Governor
State of Ohio
Columbus, Ohio

Compliance

We have audited the compliance of the State of Ohio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the State of Ohio's major federal programs for the year ended June 30, 2010. 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 Colleges and Universities, which received approximately \$3.3 billion in federal awards that is not included in the State of Ohio's Federal Awards Expenditure Schedule for the year ended June 30, 2010. Our audit of Federal awards, described below, did not include the operations of State Colleges and Universities because the component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133.

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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Ohio's compliance with those requirements.

As described in finding 2010-JFS01-016 in the accompanying schedule of findings and questioned costs, the State of Ohio did not comply with requirements regarding Period of Availability applicable to its Child Support Enforcement, Foster Care, and Adoption Assistance major federal programs. Compliance with this requirement is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. These instances of noncompliance are listed in the table below, identified in the summary of findings and questioned costs on pages 194 and 195, and described in the accompanying schedule of findings and questioned costs.

State Agency	Noncompliance Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2010-ADA01-003 and 2010-ADA02-004
Ohio Department of Development	2010-DEV01-005
Ohio Department of Health	2010-DOH01-009 through 2010-DOH04-012
Ohio Department of Job & Family Services	2010-JFS01-016 through 2010-JFS14-029
Ohio Department of Mental Health	2010-DMH01-043

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the State of Ohio's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 194 and 195, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2010-ADA01-003
Ohio Department of Development	2010-DEV01-005
Ohio Department of Education	2010-EDU01-007 and 2010-EDU02-008
Ohio Department of Health	2010-DOH02-010, 2010-DOH03-011, 2010-DOH05-013, and 2010-DOH06-014
Ohio Department of Job & Family Services	2010-JFS04-019, 2010-JFS06-021, 2010-JFS09-024 through 2010-JFS11-026, and 2010-JFS15-030 through 2010-JFS23-038
Ohio Department of Mental Health	2010-DMH02-044

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 194 and 195, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2010-ADA02-004
Ohio Department of Developmental Disabilities	2010-DDD01-006
Ohio Department of Health	2010-DOH07-015
Ohio Department of Job & Family Services	2010-JFS05-020, 2010-JFS12-027, 2010-JFS13-028, and 2010-JFS24-039 through 2010-JFS27-042
Ohio Department of Mental Health	2010-DMH01-043

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report that we reported to the State of Ohio's management in separate letters.

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 the audit committee, management, the State Legislature, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
 Auditor of State

March 22, 2011

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**STATE OF OHIO
JULY 1, 2009 THROUGH JUNE 30, 2010
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)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified and Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	See pages 189 through 193
(d)(1)(viii)	Dollar Threshold: Type A \ Risk Assessed Type B Programs	A: >\$41,929,456 B: >\$ 8,385,891
(d)(1)(ix)	Low Risk Auditee?	No

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

OHIO DEPARTMENT OF COMMERCE

1. IT - CHANGE MANAGEMENT

<i>Finding Number</i>	2010-COM01-001
<i>State Agency</i>	Ohio Department of Commerce

SIGNIFICANT DEFICIENCY

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

The Ohio Department of Commerce uses the Point of Sale system to maintain inventory and pricing information, and to track and process liquor purchase and sales data received from interfacing systems at state-licensed liquor agents. During fiscal year 2010, the Department processed over \$702.6 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

STATE OF OHIO
JULY 1, 2009 THROUGH JUNE 30, 2010
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

1. IT - CHANGE MANAGEMENT (Continued)

changes to the mainframe programs. However, testing related to this process performed for the period by the Office of Budget and Management's Office of Internal Audit and reviewed as part of our testing indicated controls were not in place to ensure changes were authorized, tracked, or tested prior to being moved into the live environment, as noted below:

- The Department does not have a common set of standards for approval and documentation of changes. Issues which could generate a change request may arise from three separate systems - Help Desk, Change Maintenance and the Work Request System.
- Of the 188 program changes made during the period, only minimal documentation was available for the 20 tested change requests. None of the requests contained documented approval, prioritization, or tracking. In addition, testing documentation was not retained, and there was no evidence of ITG or user testing prior to migration of the changes into production.
- Documented procedures were not in place for the processing of emergency program changes.
- 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.

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. Tracking application issues in three separate systems without a common set of standards for approval or documentation makes it difficult to assess the volume of changes, the types of changes made or the controls used to manage changes. In addition, the integrity of the applications may be affected if emergency program changes are not properly controlled.

The Department's management indicated they believed manual controls operating in the financial balancing process would detect any unauthorized or erroneous program changes and thus these manual controls compensated for the lack of program change procedures, documentation and approvals, and segregation of duties within the change management process. In addition, management indicated the informal change process was a long-standing procedure in the department and felt there were not sufficient financial or personnel resources to implement a formal change process.

Although balancing procedures may provide some detective control for certain programming errors, they may not identify all errors or unauthorized program changes that may impact data or system integrity. In addition, balancing procedures would not prevent down time resulting from programming errors or consider the additional costs necessary to assess and correct such errors.

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. Procedures to facilitate emergency changes within all agency applications should also be developed, documented and implemented. 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.

**STATE OF OHIO
JULY 1, 2009 THROUGH JUNE 30, 2010
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1. IT - CHANGE MANAGEMENT (Continued)

Official's Response and Corrective Action Plan

Commerce management disagreed with this being a significant deficiency and the OBM OIA auditor in a number of different ways.

- *AOS audits prior to 2009 found no issues with the change management process and separation of duties. Commerce has since instituted three ways in which changes can be requested and tracked. All were previously lauded as improvements, now OBM OIA deems them to be problematic.*
- *Documentation, even though minimal, was succinct and was considered as adequate given the type of changes being requested.*
- *Not all changes required end user testing because of the type of change being made.*
- *The statement that; "the department...felt there were not sufficient financial or personnel resources to implement a formal change process." is not entirely correct. The agency could apply additional resources to managing change, however it will do so in a manner that is more efficient than that which was suggested by the auditor.*

A specific corrective action plan will be determined once budgetary mechanics are understood with the transfer of Liquor Control to JobsOhio and the direction of modernization or restructuring of the Division of Liquor Control's inventory systems is decided upon. In the meantime:

- *A project manager has been hired to explore and develop potential improvements in the change management process.*
- *Additional documentation is already being collected by all of those involved in the process.*
- *Computer operators have been reclassified.*

Anticipated Completion Date for Corrective Action

Final form of change management process to be determined based upon potential modernization options chosen by management. Other changes mentioned above have already been made.

Contact Person Responsible for Corrective Action

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

Auditor of State's Conclusion

We are required by professional standards to categorize control deficiencies based on the potential impact of the weakness. We believe the control failures noted by OBM's Office of Internal Audit 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 OBM's Office of Internal Audit conducted the audit of the general computer controls at Liquor Control for fiscal year 2010, the Auditor of State's Office verified the work performed and results reported to Commerce management. These results are similar to those for fiscal year 2009 where the Auditor of State performed this testing. We should also note that no testing of this process was required in relation to our audits of the State of Ohio for fiscal years 2005 through 2008, and the similarities in the internal controls or the evidence presented related to the general computer controls at Liquor Control examined in fiscal year 2004 may have been significantly different. Therefore, the finding will remain as stated above.

**STATE OF OHIO
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OHIO ADMINISTRATIVE KNOWLEDGE SYSTEM

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

<i>Finding Number</i>	2010-OAKS01-002
<i>State Agency</i>	All Agencies

SIGNIFICANT DEFICIENCY

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

The OAKS application processed approximately \$56.2 billion in revenue and \$57.6 billion in total expenditures (\$53.3 billion non-payroll and \$4.3 billion payroll) during fiscal year (FY) 2010. Logical access to the OAKS Financial (FIN) and Human Capital Management (HCM) data was controlled through the database servers and the use of roles and permissions. There were six of 83 user accounts (7.2%) with access to the FIN production databases that did not require the access, as follows:

- Four user accounts no longer required access to the FIN production database due to the users rolling off OAKS.
- Two user accounts had greater role permissions assigned than what their job duties required.

There were two of 67 user accounts (3%) with access to the HCM production databases that did not require the access. These two user accounts had greater role permissions assigned than what their job duties required.

In addition, the following user accesses to update OAKS FIN or HCM application access security rights were invalid:

- Two of the 12 (16.7%) users with the role/permissions combination of access to OH_EX_TRAVEL_ADMINISTRATOR/OH_EX_EPEX9000 no longer required this access and should have been removed. Assignment of this role/permission combination enabled the user to update FIN workflows and redirect work to employees.
- Four of the 16 (25%) users with the role/permissions combination of access to OH_FIN_HD_USER/OH_FIN_HD_USER no longer required this access and should have been removed. This role/permission combination is assigned to helpdesk personnel and enables the user to reset FIN passwords.
- One of the eight (12.5%) users with the role/permissions combination of access to OH_WORKFLOW_ADMINISTRATOR/OH_WORKFLOW_ADMINISTRATOR no longer required this access and should have been removed. This role/permission combination is used for role maintenance to clean up access of terminated employees' access.
- Three of the 16 (18.7%) users with the role/permissions combination of access to OH_OAKS_HELPDESK/OH_SECURITY_SWAT_TEAM no longer required this access and should have been removed. This role/permission combination is assigned to helpdesk personnel and enables the user to reset HCM passwords.

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

Without effective appropriate security access controls in place, the risk is increased that unauthorized users have inappropriate access to data files. Unauthorized access could result in inappropriate alteration of data files that could be a misuse or fraudulent misappropriation of state resources or federal program monies. Inappropriate read access may result in unnecessary disclosure of personal information or other sensitive data.

Management indicated the individuals with access to the FIN and HCM production database were not rolled off appropriately. Although forms were submitted requesting the roll off, all permissions were not removed and the accounts were not placed in the locked status. The two individuals with elevated permissions were authorized to have access, but not write access, only read access in these environments. Management believed this was simply a mistake in the roll on process. For the invalid OAKS FIN and HCM application access security rights, management believed that these issues were caused by a breakdown in the off boarding process.

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

Official's Response and Corrective Action Plan

While DAS agrees with the factual accuracy of the exceptions identified by the AOS, DAS disagrees that these exceptions represent a significant deficiency for the following reasons:

DAS utilizes a layered approach to IT security.

Data Base Access

In order to have access to the OAKS databases identified above, the user must have either physical access to the state network or have VPN access. Without these, the four users identified by the AOS can not access the data bases identified by the AOS for which on boarding / off boarding issues occurred.

Application Access

While the employees with access to HCM / FIN applications retained their roles and retained both physical and VPN access, their need for those roles within their existing positions changed. Since they did not leave the agency or change position, the risk of fraud or misuse is not higher as they would still fall under agency policies and procedures for access and data handling. Had they left the agency or assumed another position, their access would have been removed automatically.

OIT will evaluate how to better manage access level reviews for individuals that remain in their current positions but whose specific data base role permissions may be greater than their job duties require or whose HCM / FIN access needs may have changed due to changing responsibilities.

Anticipated Completion Date for Corrective Action

March 31, 2011

Contact Person Responsible for Corrective Action

David Shaw, Chief Information Security Officer, 30 East Broad Street, 40th Floor, Columbus, Ohio 43215, Phone: (614) 644-9389, E-Mail: david.shaw@das.state.oh.us

**STATE OF OHIO
JULY 1, 2009 THROUGH JUNE 30, 2010
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1. IT – OHIO ADMINISTRATIVE KNOWLEDGE SYSTEM (OAKS) IT SECURITY (Continued)

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 regarding the failure to remove production database access for separated employees represents a significant deficiency in the operating effectiveness of the internal controls and the potential exists for unauthorized access to production data when on boarding /off boarding policies and procedures are not properly followed. Physical security and VPN documentation was not provided to help reduce the risk for the four personnel with inadequate FIN database access. In addition, the two users with inappropriate access to both the FIN and HCM production databases were still current members of the OAKS project during the audit period.

Furthermore, there were two employees with inappropriate access to both the HCM and FIN applications based on their job responsibilities. The risk of inappropriate access or misuse of data, whether intentional or accidental, is not greatly reduced because those with the inappropriate access are still current employees. The combination of these factors represents a significant risk; therefore, this finding will remain as stated above.

<i>Finding Number</i>	2010-JFS15-030
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MATERIAL WEAKNESS

See federal finding # 2010-JFS15-030 on page 264; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2010-JFS16-031
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MATERIAL WEAKNESS

See federal finding # 2010-JFS16-031 on page 267; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2010-JFS17-032
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MATERIAL WEAKNESS

See federal finding # 2010-JFS17-032 on page 269; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2010-JFS18-033
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MATERIAL WEAKNESS

See federal finding # 2010-JFS18-033 on page 270; this finding is also required to be reported in accordance with GAGAS.

**STATE OF OHIO
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<i>Finding Number</i>	2010-JFS19-034
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MATERIAL WEAKNESS

See federal finding # 2010-JFS19-034 on page 272; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2010-JFS22-037
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MATERIAL WEAKNESS

See federal finding # 2010-JFS22-037 on page 279; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2010-JFS27-042
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SIGNIFICANT DEFICIENCY

See federal finding # 2010-JFS27-042 on page 289; this finding is also required to be reported in accordance with GAGAS.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The findings and questioned costs are summarized by state agency and type on pages 194 and 195.

The questioned costs are summarized by federal agency, program, and amount on page 196.

The findings and questioned costs are detailed by state agency on pages 197 through 295.

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STATE OF OHIO
 JULY 1, 2009 THROUGH JUNE 30, 2010
 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>Supplemental Nutrition Assistance Program Cluster</u>			
10.551/10.561	Ohio Department of Job & Family Services	\$2,774,309,175	
	Other Agencies (Not Tested as a Major Program)	427,681	
	Total SNAP Cluster	\$2,774,736,856	9.93%
<u>Child Nutrition Cluster</u>			
10.553/10.555/10.556/10.559	Ohio Department of Education	\$423,941,332	
	Other Agencies (Not Tested as a Major Program)	3,352,466	
	Total Child Nutrition Cluster	\$427,293,798	1.53%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	\$245,984,900	
	Total CFDA # 10.557	\$245,984,900	0.88%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	\$86,463,958	
	Total CFDA # 10.558	\$86,463,958	0.31%
<u>U.S. Department of Housing and Urban Development</u>			
<u>Community Development Block Grant Cluster</u>			
14.228/14.255	Ohio Department of Development	\$77,314,643	
	Total CDBG Cluster	\$77,314,643	0.28%
<u>U.S. Department of Labor</u>			
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	\$5,693,302,484	
	Total CFDA # 17.225	\$5,693,302,484	20.37%
<u>Workforce Investment Act (WIA) Cluster</u>			
17.258/17.259/17.260	Ohio Department of Job & Family Services	\$239,436,523	
	Other Agencies (Not Tested as a Major Program)	10,167,144	
	Total WIA Cluster	\$249,603,667	0.89%

**STATE OF OHIO
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MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
<u>U.S. Department of Transportation</u>			
<u>Highway Planning and Construction Cluster</u>			
20.205/23.003/20.219			
	Ohio Department of Transportation	\$1,244,908,729	
	Other Agencies (Not Tested as a Major Program)	1,464,525	
	Total Highway Planning and Construction Cluster	<u>\$1,246,373,254</u>	<u>4.46%</u>
<u>U.S. Environmental Protection Agency</u>			
66.458	CAP Grants for Clean Water State Revolving Funds		
	Ohio Environmental Protection Agency	\$355,439,111	
	Total CFDA# 66.458	<u>\$355,439,111</u>	<u>1.27%</u>
66.468	CAP Grants for Drinking Water State Revolving Funds		
	Ohio Environmental Protection Agency	\$140,732,739	
	Total CFDA# 66.468	<u>\$140,732,739</u>	<u>0.50%</u>
<u>U.S. Department of Energy</u>			
81.042	Weatherization Assistance for Low-Income Persons		
	Ohio Department of Development	\$84,906,962	
	Total CFDA# 81.042	<u>\$84,906,962</u>	<u>0.30%</u>
<u>U.S. Department of Education</u>			
<u>Title I - Part A Cluster</u>			
84.010/84.389			
	Ohio Department of Education	\$680,611,463	
	Other Agencies (Not Tested as a Major Program)	1,041,710	
	Total CFDA # 84.010	<u>\$681,653,173</u>	<u>2.44%</u>
<u>Special Education Cluster</u>			
84.027/84.173/84.391/84.392			
	Ohio Department of Education	\$646,230,045	
	Other Agencies (Not Tested as a Major Program)	5,334,836	
	Total Special Education Cluster	<u>\$651,564,881</u>	<u>2.33%</u>
<u>Vocational Rehabilitation Cluster</u>			
84.126/84.390			
	Ohio Rehabilitation Services Commission	\$103,561,008	
	Other Agencies (Not Tested as a Major Program)	246,827	
	Total Rehabilitation Services Cluster	<u>\$103,807,835</u>	<u>0.37%</u>

**STATE OF OHIO
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MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	\$101,469,607	
	Other Agencies (Not Tested as a Major Program)	712,457	
	Total CFDA # 84.367	<u>\$102,182,064</u>	<u>0.37%</u>
<u>State Fiscal Stabilization Fund Cluster</u>			
84.394/84.397			
	Ohio Department of Education	\$417,567,146	
	Ohio Board of Regents	281,022,236	
	Ohio Department of Rehabilitation and Correction	109,994,148	
	Total State Fiscal Stabilization Fund Cluster	<u>\$808,583,530</u>	<u>2.89%</u>
<u>U.S. Department of Health and Human Services</u>			
<u>Aging Cluster</u>			
93.044/93.045/93.053/93.705/93.707			
	Ohio Department of Aging	\$46,676,062	
	Total Aging Cluster	<u>\$46,676,062</u>	<u>0.17%</u>
93.069	Public Health Emergency Preparedness		
	Ohio Department of Health	\$101,960,350	
	Total CFDA # 93.069	<u>\$101,960,350</u>	<u>0.36%</u>
<u>Temporary Assistance for Needy Families Cluster</u>			
93.558/93.714			
	Ohio Department of Job & Family Services	\$793,878,864	
	Other Agencies (Not Tested as a Major Program)	2,907,172	
	Total TANF Cluster	<u>\$796,786,036</u>	<u>2.85%</u>
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	\$148,748,799	
	Total CFDA # 93.563	<u>\$148,748,799</u>	<u>0.53%</u>
93.568	Low-Income Home Energy Assistance		
	Ohio Department of Development	\$193,397,029	
	Other Agencies (Not Tested as a Major Program)	255,168	
	Total CFDA # 93.568	<u>\$193,652,197</u>	<u>0.69%</u>
<u>Community Services Block Grant Cluster</u>			
93.569/93.710			
	Ohio Department of Development	\$42,609,753	
	Total CSBG Cluster	<u>\$42,609,753</u>	<u>0.15%</u>

**STATE OF OHIO
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MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
<u>Child Care and Development Fund Cluster</u>			
93.575/93.596/93.713	Ohio Department of Job & Family Services	\$225,628,217	
	Other Agencies (Not Tested as a Major Program)	1,750,861	
	Total CCDF Cluster	<u>\$227,379,078</u>	<u>0.81%</u>
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	\$185,219,115	
	Other Agencies (Not Tested as a Major Program)	5,746,002	
	Total CFDA # 93.658	<u>\$190,965,117</u>	<u>0.68%</u>
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	\$189,192,528	
	Total CFDA # 93.659	<u>\$189,192,528</u>	<u>0.68%</u>
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	\$108,333,811	
	Ohio Department of Mental Health	8,154,006	
	Other Agencies (Not Tested as a Major Program)	9,319,249	
	Total CFDA # 93.667	<u>\$125,807,066</u>	<u>0.45%</u>
93.767	Children's Health Insurance Program		
	Ohio Department of Job & Family Services	\$226,675,533	
	Ohio Department of Mental Health	28,039,582	
	Other Agencies (Not Tested as a Major Program)	6,980,819	
	Total CFDA # 93.767	<u>\$261,695,934</u>	<u>0.94%</u>
<u>Medicaid Cluster</u>			
93.775/93.777/93.778	Ohio Department of Job & Family Services	\$8,942,913,793	
	Ohio Department of Developmental Disabilities	\$970,852,086	
	Ohio Department of Mental Health	384,727,535	
	Other Agencies (Not Tested as a Major Program)	464,691,499	
	Total Medicaid Cluster	<u>\$10,763,184,913</u>	<u>38.50%</u>
93.917	HIV Care Formula Grants		
	Ohio Department of Health	\$26,514,639	
	Total CFDA # 93.917	<u>\$26,514,639</u>	<u>0.09%</u>
93.959	Block Grants for Prevent and Treatment of Substance Abuse		
	Ohio Department of Alcohol and Drug Addiction Services	\$69,593,310	
	Total CFDA #93.959	<u>\$69,593,310</u>	<u>0.25%</u>

STATE OF OHIO
 JULY 1, 2009 THROUGH JUNE 30, 2010
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.994	Maternal and Child Health Services Block Grant to the States Ohio Department of Health	\$22,753,204	
	Total CFDA # 93.994	<u>\$22,753,204</u>	<u>0.08%</u>
<u>Social Security Administration</u>			
<u>Disability Insurance/SSI Cluster</u>			
96.001	Social Security - Disability Insurance Ohio Rehabilitation Services Commission	\$85,696,520	
	Total SSI Cluster	<u>\$85,696,520</u>	<u>0.31%</u>
Total Major Federal Programs		<u>\$27,023,159,361</u>	<u>96.67%</u>
Other Federal Programs		<u>929,811,342</u>	<u>3.33%</u>
Total Federal Awards Expenditures		<u>\$27,952,970,703</u>	<u>100.00%</u>

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**STATE OF OHIO
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SUMMARY OF FINDINGS AND QUESTIONED COSTS**

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

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Alcohol and Drug Addiction Services (ADA)			
1. SAPT - Board Assurances	2010-ADA01-003	Noncompliance/ Material Weakness	197
2. SAPT- Level of Effort	2010-ADA02-004	Noncompliance/ Significant Deficiency	198
Ohio Department of Development (DEV)			
1. Federal Reporting – CSBG	2010-DEV01-005	Noncompliance/ Material Weakness	201
Ohio Department of Developmental Disabilities (DDD)			
1. Medicaid - Medical Billing System Changes	2010-DDD01-006	Significant Deficiency	203
Ohio Department of Education (EDU)			
1. Schedule Of Expenditures of Federal Awards	2010-EDU01-007	Material Weakness	205
2. Child Nutrition Cluster – Reporting Internal Controls	2010-EDU02-008	Material Weakness	207
Ohio Department of Health (DOH)			
1. Public Health Emergency Preparedness - POA	2010-DOH01-009	Questioned Costs	209
2. Subrecipient Monitoring - Various Programs	2010-DOH02-010	Noncompliance/ Material Weakness	211
3. Cash Management	2010-DOH03-011	Noncompliance/ Material Weakness	214
4. Maintenance of Effort - HIV	2010-DOH04-012	Noncompliance	217
5. Lack of Monitoring Controls - LOE and Earmarking	2010-DOH05-013	Material Weakness	220
6. Federal Reporting - MCH	2010-DOH06-014	Material Weakness	222
7. IT - Program Change Controls	2010-DOH07-015	Significant Deficiency	224
Ohio Department of Job & Family Services (JFS)			
1. Various Programs - Period of Availability	2010-JFS01-016	Questioned Costs	226
2. MMIS - Claims Reimbursed in Excess of OAC Limits	2010-JFS02-017	Questioned Costs	230
3. County Subrecipient Agreements / Payments	2010-JFS03-018	Questioned Costs	233
4. Medicaid/CHIP/TANF - Missing Doc. - Various Counties	2010-JFS04-019	Questioned Costs/ Material Weakness	237
5. Medicaid/CHIP - Third Party Liability	2010-JFS05-020	Questioned Costs/ Significant Deficiency	241
6. CHIP - Ineligible Recipient	2010-JFS06-021	Questioned Costs/ Material Weakness	244
7. Medicaid - Ineligible Recipients	2010-JFS07-022	Questioned Costs	246
8. Child Care Cluster - Cash Management	2010-JFS08-023	Questioned Costs	248
9. IEVS - Alert Resolution/Inadequate Documentation	2010-JFS09-024	Questioned Costs/ Material Weakness	250
10. IEVS – Due Dates	2010-JFS10-025	Noncompliance/ Material Weakness	253
11. Medicaid/CHIP - Provider Eligibility	2010-JFS11-026	Noncompliance/ Material Weakness	255
12. IEVS - IRS Information Unprotected	2010-JFS12-027	Noncompliance/ Significant Deficiency	258
13. Various Programs - Cash Management	2010-JFS13-028	Noncompliance/ Significant Deficiency	260
14. Federal Financial Reports	2010-JFS14-029	Noncompliance	262

**STATE OF OHIO
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AGENCY/COMMENTS	NUMBER	FINDING	REFERENCE
Ohio Department of Job & Family Services (JFS) (Continued)			
15. All Applications-Lack of Internal Testing/Automated Controls	2010-JFS15-030	Material Weakness	264
16. IT - CSRs/Overrides of CRIS-E	2010-JFS16-031	Material Weakness	267
17. Federal Revenue Controls	2010-JFS17-032	Material Weakness	269
18. IT-MMIS Eligibility-PDD & Provider Charge Code Changes	2010-JFS18-033	Material Weakness	270
19. IT-MMIS Eligibility-PMF Code Changes	2010-JFS19-034	Material Weakness	272
20. Various Prog-County Finance Documentation & Procedures	2010-JFS20-035	Material Weakness	274
21. Medicaid/CHIP – Managed Care	2010-JFS21-036	Material Weakness	277
22. IT – OJI - Lack of Control Totals	2010-JFS22-037	Material Weakness	279
23. Unemployment Insurance - Reporting	2010-JFS23-038	Material Weakness	280
24. Medicaid - Drug Rebate Monitoring	2010-JFS24-039	Significant Deficiency	282
25. Medicaid/Chip-Claims Processing & Recon. Int. Controls	2010-JFS25-040	Significant Deficiency	284
26. TANF – Internal Control Deficiencies – Various Counties	2010-JFS26-041	Significant Deficiency	285
27. Unemployment Insurance - Tax Contrib.– Evidence/Controls	2010-JFS27-042	Significant Deficiency	289
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2010-DMH01-043	Noncompliance/ Significant Deficiency	291
2. SSBG - Community Mental Health Board Assurances	2010-DMH02-044	Material Weakness	293

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 Job & Family Services (JFS)			
15. All Applications-Lack of Internal Testing/Automated Controls	2010-JFS15-030	Material Weakness	264
16. IT - CSRs/Overrides of CRIS-E	2010-JFS16-031	Material Weakness	267
17. Federal Revenue Controls	2010-JFS17-032	Material Weakness	269
18. IT-MMIS Eligibility-PDD & Provider Charge Code Changes	2010-JFS18-033	Material Weakness	270
19. IT-MMIS Eligibility-PMF Code Changes	2010-JFS19-034	Material Weakness	272
22. IT - OJI - Lack of Control Totals	2010-JFS22-037	Material Weakness	279
27. Unemployment Insurance - Tax Contrib.– Evidence/Controls	2010-JFS27-042	Significant Deficiency	289

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

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Commerce (COM)			
1. IT - CHANGE MANAGEMENT	2010-COM01-001	Significant Deficiency	181
Ohio Administrative Knowledge System (OAKS) *			
1. IT - OAKS IT SECURITY	2010-OAKS01-002	Significant Deficiency	184

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

**STATE OF OHIO
 JULY 1, 2009 THROUGH JUNE 30, 2010
 SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM**

<u>FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE</u>	<u>PAGE NUMBER(S)</u>	<u>QUESTIONED COSTS</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
10.551/10.561 – Supplemental Nutrition Assistance Program Cluster	226, 250*	\$2,841,726
Total U.S. Department of Agriculture		\$2,841,726
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
93.069 – Public Health Emergency Preparedness	209	\$16,151
93.558/93.714 – Temporary Assistance for Needy Families Cluster	233, 237, 250*	21,581
93.563 – Child Support Enforcement	226	30,791,812
93.575/93.596/93.713 – CCDF Cluster	248*	undetermined
93.658 – Foster Care	226	18,943,542
93.659 – Adoption Assistance	226	50,369,315
93.667 – Social Services Block Grant	226, 233	83,573
93.767 – Children’s Health Insurance Program	230, 233, 237 241, 244, 250*	26,498
93.775/93.777/93.778 – Medicaid Cluster	230, 233, 237 241, 246, 250*	1,877,278
Total U.S. Department of Health and Human Services		\$102,129,750
TOTAL QUESTIONED COSTS - STATE OF OHIO		\$104,971,476

Note: * Finding numbers 2010-JFS08-023 on page 248 and 2010-JFS09-024 on page 250 reported questioned costs for which the amounts could not be determined.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OHIO DEPARTMENT OF ALCOHOL AND DRUG ADDICTION SERVICES

1. SAPT – BOARD ASSURANCES

<i>Finding Number</i>	2010-ADA01-003
<i>CFDA Number and Title</i>	93.959 – Substance Abuse Prevention and Treatment
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed; Suspension and Debarment

NONCOMPLIANCE AND MATERIAL WEAKNESS

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

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

...

(b) Collecting a certification from that person;...

...

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

During the audit period, the Department disbursed approximately \$65.6 million in Substance Abuse Prevention and Treatment (SAPT) funding to the Alcohol and Drug Addiction (ADA) Boards. Biennially, the ADA board prepares and submits a funding application and signed assurances, which evidences the Board’s agreement to abide by applicable federal laws and regulations pertaining to SAPT and suspension and debarment requirements, specified in 2 CFR part 180. The Department reviews and approves the funding application and sends an award letter to the Board. However, three of 10 (30%; with a greater potential impact to the population) board assurances selected could not be located by the Department. Therefore, we could not determine whether the Board agreed to adhere to applicable laws and regulations and suspension and debarment requirements.

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

The Department indicated they were unable to locate these board assurances and this appears to be an oversight.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF ALCOHOL AND DRUG ADDICTION SERVICES

1. SAPT – BOARD ASSURANCES (Continued)

Official’s Response and Corrective Action Plan

ODADAS is to implement a tracking process for the receipt of assurances from the ADAS/ADAMHS Boards (example tracking sheet provided). The process will include contact with each Board that has not submitted signed Board Assurances by July 1 and end with the implementation of withholding of funds pursuant to OAC 3793:6-1-01.

Anticipated Completion Date for Corrective Action

SFY 2012

Contact Person Responsible for Corrective Action

James Lapczynski, Chief Legal, Ohio Department of Alcohol and Drug Addiction Services, 280 North High Street, 12th Floor, Columbus, OH 43215, Phone: (614) 728-5599, E-Mail: lapczynski@ada.ohio.gov

2. SAPT – LEVEL OF EFFORT

<i>Finding Number</i>	2010-ADA02-004
<i>CFDA Number and Title</i>	93.959 – Substance Abuse Prevention and Treatment
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Level of Effort

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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

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

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

During the audit period, the Department disbursed approximately \$69.6 million in Substance Abuse Prevention and Treatment (SAPT) funding. A majority of these funds are passed through to the 50 County Alcohol and Drug Addiction (ADA) Boards for program purposes. Biennially, the ADA board prepares and submits a funding application, which includes a budget indicating how the funds will be spent. The Department is to review and approve the funding application and send an award letter to the Board. However, the Department had limited policies and procedures in place to ensure that level of effort requirements, as specified in 45 CFR 96.127(c), were met. The Department did not have any additional procedures in place to ensure compliance with these requirements. In addition, the Department did not maintain documentation to support the average level of tuberculosis (TB) expenditures maintained by the State for the two-year period preceding the first fiscal year of receipt of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF ALCOHOL AND DRUG ADDICTION SERVICES

2. SAPT – LEVEL OF EFFORT (Continued)

the SAPT grant and, therefore, could not support the calculation of the base amount used to determine compliance with level of effort requirements. The base amount used to determine compliance with level of effort requirements was \$26,000 (obtained and tested within previous audit documentation) and would be the amount the Department was required to spend on TB services in order to comply with federal regulations. However, the Department did not make any State disbursements for TB services during fiscal year 2010. Therefore, the compliance requirement was not met.

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

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

We recommend the Department establish policies and procedures to ensure internal control procedures are consistently performed and adequately documented to reasonably ensure the Department is meeting all level of effort requirements. Specifically, we recommend the Department research prior tuberculosis statistics to ensure the accuracy of the base amount. The statistical information and documentation to support the satisfaction of requirements should be maintained in accordance with state and federal records retention policies. We also recommend the Department devise a process to track the TB Maintenance of Effort payments and demonstrate how they are complying with the established requirements.

Official's Response and Corrective Action Plan

The following response was accepted by SAMHSA in their review of ODADAS' SAPT Block Grant:

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

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

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

By Ohio statute, County Commissioners are responsible for funding for TB treatment services. However, there is not method for determining how much was spent in any of the counties. There is no reporting requirement in statute that directs County Commissioners to share anything about who they contract with, how much they contracted, or what the source of funds is.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF ALCOHOL AND DRUG ADDICTION SERVICES

2. SAPT – LEVEL OF EFFORT (Continued)

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

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

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

Anticipated Completion Date for Corrective Action

Corrective action would entail a change in Ohio Revised Code to develop a reporting mechanism for County Commissioners to identify and report to the state who they contract with, how much they contracted, and what the source of funds is. Alternatively, the Department will seek to collect this information from each Board of Commissioners on a voluntary basis.

Contact Person Responsible for Corrective Action

Sanford Starr, Chief, Division of Planning Outcomes and Research, Ohio Department of Alcohol and Drug Addiction Services, 280 North High Street, 12th Floor, Columbus, OH 43215, Phone: (614) 644-8316, E-Mail: sstarr@ada.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENT

1. FEDERAL REPORTING – CSBG

<i>Finding Number</i>	2010-DEV01-005
<i>CFDA Number and Title</i>	93.569/93.710 – Community Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Reporting

NONCOMPLIANCE AND MATERIAL WEAKNESS

45 CFR 92 contains the Department of Health and Human Services uniform administrative requirements for grants to state governments. 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 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.

During fiscal year 2010, the Ohio Department of Development spent approximately \$24.6 million in non-ARRA (American Recovery and Reinvestment Act) funds and \$17.9 million in ARRA funds from the Community Services Block Grant (CSBG) federal program. One of the internal controls the Department established over its 269A federal financial report preparation and submission process required the Chief Financial Officer or Assistant Chief Financial Officer review the reports for completeness and accuracy, evidenced by signature, before submitting them to the federal government. The 269A report is normally an annual report due within a designated time after the specified reporting period. The Department submitted two annual 269A reports for two different non-ARRA awards and four quarterly 269A reports for the one ARRA award during fiscal year 2010. However, the Department could not locate either of the reports for the non-ARRA awards in their records. They were subsequently able to retrieve both reports from the federal grantor agency, which allowed us to test the control point and to verify the accuracy and completeness of the financial data in the reports and its timely submission. Nevertheless, the Department did not maintain copies of the reports, as required.

Without consistent performance and documentation of internal controls, and the maintenance of required records to support the administration of the federal program, the risk exists that transactions for the federal programs may not be processed accurately, recorded in a timely manner, or in compliance with federal requirements. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate and submitted timely. This also increases the risk that internal controls may not be working in a manner intended by management. Department management stated the 269A reports were created and submitted but were misplaced.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENT

1. FEDERAL REPORTING – CSBG (Continued)

We recommend DEV management evaluate their current processes and procedures related to the federal financial report process and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis to reasonably ensure copies of all reports submitted are retained. The Department should revise, as needed, its written policies and procedures to address all significant aspects in the report 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.
- Requiring records, such as the federal 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 report 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

The Department of Development agrees with the audit finding that the report package could not be located within the files of the Finance Office. As stated in the finding, copies of the report were obtained from the Federal government, evidencing the submission of the report.

To alleviate this issue, the Department of Development will make use of the Federal government's ACF On-Line Data Collection (OLDC) system. This will allow the department to maintain and file information electronically, eliminating paper copies that may become misplaced.

Anticipated Completion Date for Corrective Action

6/30/2011

Contact Person Responsible for Corrective Action

Glendara Clayton, Accounting Supervisor, Ohio Department of Development, 77 South High Street, 27th Floor, Columbus, OH 43215, Phone: (614) 466-5943, E-Mail: glendara.clayton@development.ohio.com

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OHIO DEPARTMENT OF DEVELOPMENTAL DISABILITIES

1. MEDICAID – MEDICAL BILLING SYSTEM CHANGES

<i>Finding Number</i>	2010-DDD01-006
<i>CFDA Number and Title</i>	93.778 – Medical Assistance Program
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles

SIGNIFICANT DEFICIENCY

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

The Department disbursed approximately \$604.5 million to Medicaid providers during the fiscal year. When a licensed medical provider is deemed an eligible Medicaid provider by the Department, an authorization letter is sent to the provider to notify them that they have been approved to provide services to eligible Medicaid recipients with developmental disabilities. The letter outlines the specific allowable Medicaid service areas for which the provider may bill the Department. Also, providers submit forms to the Department to update their business information, such as address, phone number, etc. An Account Examiner uses the authorization letters and forms to enter and/or update the providers' information and approved service area codes in the Medicaid Billing System (MBS). Providers utilize MBS to submit on-line payment requests for services provided, and MBS performs edit checks to ensure there are no invalid service area codes entered for the provider. MBS then interfaces with the State's Medicaid Management Information System (MMIS) at the Ohio Department of Job and Family Services, which performs edit checks to ensure only services to eligible recipients were being paid to the providers. However, during fiscal year 2010, the Department did not have a process in place to approve additions or changes to provider data before the information was entered into MBS by the Account Examiner. Furthermore, there was no periodic reconciliation of additions or changes made to coding in MBS.

By not reviewing and approving the changes made to provider information prior to entry into MBS, the Department increases the risk that payments will be made for ineligible services and/or inaccurate rates. Without proper controls in place to reconcile changes made, the Department heightens the risk that errors could occur during the change process that, again, could result in incorrect payments.

The Department indicated that, due to staffing issues, a formalized approval process was not established.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OHIO DEPARTMENT OF DEVELOPMENTAL DISABILITIES

1. MEDICAID – MEDICAL BILLING SYSTEM CHANGES (Continued)

Official's Response and Corrective Action Plan

At the time the audit was conducted, the process that was in place for additions or changes to provider data such as address changes, phone numbers, etc. was that the department requested that the providers complete the [OBM-5657](#) and return the form directly to the Ohio Department of Developmental Disabilities. The forms that were returned to the Department were checked by the staff in the Office of Provider Certification, updated in the PCS-Web database, and forwarded to the office of Claims Services in order to update MBS by the Account Examiner and to the Fiscal division to be updated with Shared Services. However, the form is a Shared Services form that is used to update any address and name changes of vendors doing business with the State of Ohio. The contact information on the form requests that the forms be returned directly to Shared Services. Human error and miscommunication between Shared Services and DODD can and has lead to inaccurate system information.

While we have put steps in action to ensure that the Office of Provider Certification always receives the OBM-5657 forms that are submitted directly to our Department, and we have communicated to providers who contact us directly about address changes, phone number changes, etc, the possibility of miscommunication remains. DODD would like to receive these forms directly to ensure that we have up-to-date and accurate information on record, without having to rely on Shared Services at times. In the short term, we are discussing this possibility (and the potential of update the form slightly) with Shared Services. We are also making it clear on our website that the OBM-5657 form should be submitted to Shared Services and DODD to ensure data accuracy between systems.

Over the long-term, we are developing a Provider Certification Wizard that will allow us to auto-populate the OBM-5657 form when there is a change in vendor information. When the provider submits the vendor changes, we will provide a copy of the form with instructions that indicate they will need to sign and return to Shared Services, while we will have the updated information request submitted to our office for review. A ticket will be created in system software that will send notification that there has been a change to vendor information that will require approval before the information change can be transferred to the Provider Database. This Provider database will act as the single-point of information for the Department pertaining to active certified providers. This new process will create a check-and-balance prior to the information being updated for providers. Communication with Shared Service will remain important, as some Providers may continue to go directly to Shared Services for information changes without notifying the Department however we believe, the Provider Certification wizard will improve the process. All DODD providers are required to sign into the Provider Certification Wizard in order to renew their certification (every 3 years minimally). The importance of updating personal information as relevant will also be prominently indicated in the Provider Certification wizard. While these steps will not eliminate all possibilities for error or miscommunication, we believe both our short term and long term strategies will help reduce this problem.

Anticipated Completion Date for Corrective Action

We currently are requesting providers submit all vendor changes through the Office of Provider Certification. We have placed instructions on our website asking that the provider submit these changes directly through the Department. The Provider Certification Wizard will be implemented by July 2011

Contact Person Responsible for Corrective Action

Angelia Morgan, Provider Certification Manager, Ohio Department of Developmental Disabilities, 30 E. Broad Street, 13th Floor, Columbus, Ohio 43215, Phone: (614) 995-4844, E-Mail: Angelia.Morgan@dodd.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<i>Finding Number</i>	2010-EDU01-007
<i>CFDA Number and Title</i>	10.555 – National School Lunch Program 84.394 – State Fiscal Stabilization Fund
<i>Federal Agency</i>	Department of Education
<i>Compliance Requirement</i>	Schedule of Expenditures of Federal Awards

MATERIAL WEAKNESS

OMB Circular A-133 §__.310 states, in part:

...

(b) Schedule of Expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditure of Federal awards . . . At a minimum, the schedule shall:

...

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

It is management’s responsibility to implement internal control procedures which provide reasonable assurance that the Department’s portion of the Schedule of Expenditures of Federal Awards (the Schedule) submitted to the Office of Budget and Management (OBM) is complete and accurate. Sound internal controls require a review of the Schedule be performed and documented in some manner, prior to submission, to verify the information reported by the Department is complete and accurate, and that all transactions and adjustments are appropriately reflected in the State’s accounting system.

OBM provides each State agency that receives federal funds a reporting package that contains a template of the Schedule to be used, along with detailed instructions and various attachments containing the agency’s data from the Ohio Administrative Knowledge System (OAKS), the State’s accounting system. The OAKS information identifies transactions with various account ID’s which affect the amounts reported on the federal schedule. The Budget Analyst within the Office of Grants Management reviews the OAKS data for completeness and accuracy in order to identify any discrepancies on the preliminary Schedule and attachments. Then management is supposed to review the Schedule and attachments along with the noted discrepancies to reasonably ensure completeness and accuracy prior to submission to OBM. The original federal schedule submitted to OBM reported approximately \$2.52 billion in total federal award expenditures. However, this information was not complete and accurate, and the amount reported on the federal schedule was understated by \$27,331,747, as detailed below.

- CFDA 10.555 – The National School Lunch Program within the Child Nutrition Cluster was understated by \$27,366,920 representing 9% of total program expenditures and 6.8% of total cluster expenditures. Part of the Department’s program expenditures required to be reported on the Federal Schedule is the dollar value of food commodities received from the U.S. Department of Agriculture and then disbursed to local educational agencies. The Department incorrectly reported the commodities on the Schedule as the ending Food Inventory Balance of \$7,887,639 as opposed to the amount of commodities disbursed during the fiscal year, which totaled \$35,254,559. Total expenditures reported for CFDA 10.555 should have been \$329,848,590. Total expenditures reported for the Child Nutrition Cluster should have been \$427,293,798.
- CFDA 84.394 - State Fiscal Stabilization Fund was overstated by \$35,173. The Department did not report a refund for the fiscal year 2010 grant in the amount of \$35,173 representing less than 1% of total program expenditures. Total expenditures reported for CFDA 84.394 should have been \$417,531,972.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

These variances were brought to OBM's attention by the auditor and the State's Schedule was adjusted prior to submission to the federal government.

Without adequate management reviews and a consistent documented method for completing the Schedule, the Department cannot reasonably ensure that the information reported on the Schedule is accurate and complete. If all expenditures are not accurately reported on the Schedule, those using the report could be relying on inaccurate numbers. The failure to reflect all expenditures accurately on the Schedule also increases the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated. This could potentially result in a reduction in program funds and/or penalties from federal grantor agencies. According to management, the errors noted were due to an oversight during the preparation of the Schedule.

We recommend management strengthen existing controls to agree the Schedule to OAKS and ensure all required elements have been reported accurately prior to submitting the information to OBM. This review should be documented in some manner and the documentation should be maintained. We also recommend the Department develop written procedures to document the process for the compilation of the Schedule of Expenditures of Federal Awards to ensure the Schedule is being completed consistently from year to year as the issue noted above also occurred in the prior fiscal year. These procedures should be evaluated and updated periodically or as changes are made to the process.

Official's Response and Corrective Action Plan

- a. *The Department will document its internal process for completing and reviewing the Schedule of Expenditures of Federal Awards.*
- b. *The fiscal officer responsible for reporting National School Lunch Program information has been informed of the correct numbers to report.*
- c. *The Department will explore mechanisms to account for coding errors after system access has closed for the fiscal year.*

Anticipated Completion Date for Corrective Action

- a. *Processes will be documented by 07/31/11.*
- b. *The corrective action has been fully implemented. No further action is necessary.*
- c. *Mechanisms to account for coding errors after the system has closed will be identified by 06/30/11.*

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

2. CHILD NUTRITION CLUSTER – REPORTING INTERNAL CONTROLS

<i>Finding Number</i>	2010-EDU02-008
<i>CFDA Number and Title</i>	10.553/555/556/559 – Child Nutrition Cluster
<i>Federal Agency</i>	Department of Education
<i>Compliance Requirement</i>	Reporting

MATERIAL WEAKNESS

It is management's responsibility to establish and maintain a system of internal controls over reports sent to the federal government to provide reasonable assurance meals reimbursed by the Ohio Department of Education (EDU) are reported accurately and completely. To be effective, the performance of an internal control procedure must be evidenced in some manner to provide management with reasonable assurance that they are being performed timely, consistently, and as management intended. Management must also monitor these control procedures to help ensure they are operating effectively and as intended by management.

Sponsors of the School Lunch, Breakfast, and Special Milk Programs submit their monthly claims for meal reimbursement through the Claims Reimbursement Reporting System (CRRS). In SFY10, total meal reimbursements for the Child Nutrition Cluster were \$385,035,718. The 90 Day FNS-10 Report accounts for the actual number of meals reimbursed to a sponsor for the School Lunch, Breakfast, and Special Milk Programs and are automatically created in CRRS from the meal counts submitted monthly by every sponsor in the program. The CRRS system also creates backup reports of all the data used in the FNS-10 Report. The Account Clerk reconciles the total number of meals reported in each meal type for each program on the 90 Day FNS-10 Reports to the backup reports created by CRRS, as evidenced by their initials. However, for one of eight (12.5%; with a potential impact of greater than 18% of the population) 90-Day FNS-10 reports tested, the Account Clerk did not initial the report as evidence of the reconciliation of the FNS-10 report to the CRRS back-up reports.

Without consistently performing and documenting internal control procedures designed to detect and prevent errors, meals reimbursed could be reported inaccurately to the federal government. If the amount of claims does not agree to dollar amounts reported on the SF-269 financial reports, the Department could be required to pay the difference back to the federal government. This could lead to additional penalties imposed by the federal government for inaccurate reporting. Management stated the control procedure to ensure the accuracy of the report was performed, but this error represented an instance of the control procedure not being evidenced.

We recommend the Department enforce their current internal control policies over reports sent to the federal government to provide reasonable assurance they were properly processed and approved. These control procedures should be adequately documented to provide management assurance they are performed timely and consistently. In addition, management should periodically monitor these controls to help ensure they are operating effectively and as intended.

Official's Response and Corrective Action Plan

The Office for Child Nutrition will review the reports for the initials prior to entering into the federal reporting system and return any non-initialed report to the Account Clerk.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

2. CHILD NUTRITION CLUSTER – REPORTING INTERNAL CONTROLS (Continued)

Anticipated Completion Date for Corrective Action

The Corrective Action Plan will be implemented immediately, effective 03/16/11.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. PUBLIC HEALTH EMERGENCY PREPAREDNESS – PERIOD OF AVAILABILITY

<i>Finding Number</i>	2010-DOH01-009
<i>CFDA Number and Title</i>	93.069 – Public Health Emergency Preparedness
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Period of Availability

QUESTIONED COSTS AND SIGNIFICANT DEFICIENCY

\$61,151

45 CFR 92.23 relates to the period of availability of funds for federal funds provided by the U.S. Department of Health and Human Services (HHS), 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 received federal funds from HHS to administer the Public Health Emergency Preparedness (PHEP) federal program. Per the grant award, the period of availability (POA) for the PHEP program is one year. During state fiscal year 2010, the Department had two PHEP grants close; DOHF23P8 with a POA of 9/30/08 through 9/29/09, and DOHF24P8 with a POA of 8/10/08 through 8/9/09. While DOH did receive an extension for submitting its financial reports for the DOHF24P8 grant, no POA extensions were obtained for either grant.

For state fiscal year 2010, DOH processed a total of 1,964 PHEP vouchers, totaling \$61,116,768. Four vouchers totaling \$68,511 were for grant DOHF23P8, while 296 vouchers totaling \$4,521,962 were for grant DOHF24P8. However, DOH obligated and/or liquidated the following four transactions totaling \$61,151 from these two PHEP grants outside the period of availability, and no carryover of unobligated balances was permitted, resulting in questioned costs:

- Two transactions totaling \$60,336 for grant DOHF23P8 were liquidated outside the grant's 90-day liquidation period ending 12/28/09. These liquidations occurred on January 27, 2010.
- Two transactions totaling \$815 for grant DOHF24P8 were obligated outside the grant's POA ending date of 8/9/09. These obligations occurred in September of 2009.

If the Department does not obligate and liquidate its federal funds within the time limits established by federal regulations, they could be required to repay those funds to the federal government unless carryover of unobligated balances is permitted or an extension is obtained.

According to the Department's Chief of Federal Reporting, they were aware the payments for grant DOHF23P8 would not be liquidated prior to the required 90 day liquidation period. As a result, the Department included the expected payment amounts on the final Financial Status Report sent to HHS to ensure timely reporting. They felt this was the best course of action given the amounts were already obligated and the payments would be made in the near future. The Department indicated late obligations for grant DOHF24P8 were travel expense payments and appear to have just been oversights.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. PUBLIC HEALTH EMERGENCY PREPAREDNESS – PERIOD OF AVAILABILITY (Continued)

We 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 two transactions totaling \$60,336 for grant DOH23P8 were encumbered within the period of availability and were legitimate DOH23P8 transactions. The Department was awaiting the final invoice from one of the sub-grantees which did not arrive in time to liquidate the obligation within the 90 day liquidation period. As a result, the Department included the invoiced amount to the final financial report in order to submit the report in a timely manner.

The two transactions totaling \$815 were travel expenses that should have been charged to DOH24P9.

Given the \$60,336 was a legitimate DOH23P8 expense, the Department will await for guidance from the Centers for Disease and Control (CDC) to see how they want to address these transactions being disbursed outside of the 90 day liquidation period. The \$815 in travel expenses charged to DOH24P8 translates to a minimal percentage of the overall funding amount, the Department will await for guidance from the Centers for Disease and Control to see if they want us to revise the financial reports for DOH24P8 and DOH24P9.

The Department is currently distributing monthly reports containing a listing of all outstanding obligations to each respective program area. The reports cover at least last 3 months of the grants expenditures. Program staff has been charged with reviewing and working with vendors and/or sub-grantees to begin the liquidation of open encumbrances. A procedure has been drafted on how the Department will handle outstanding obligations and the need to request a final financial report extension in order to liquidate outstanding obligations. The Department will continue to review the current grant period and future grant periods to ensure costs are reported to the correct periods of award (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

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 CDC (within 30 days) regarding questioned costs. The Department will then await guidance from CDC.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. SUBRECIPIENT MONITORING – VARIOUS PROGRAMS

<i>Finding Number</i>	2010-DOH02-010
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.069 – Public Health Emergency Preparedness (PHEP) 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>	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Ohio Department of Health is responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them and that subrecipients administer federal awards in compliance with those requirements. These regulations are defined in Office of Management and Budget's Circular A-133, which states, in part:

**Subpart D—Federal Agencies and Pass-Through Entities
§ .400 Responsibilities.**

...

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the federal awards it makes:

...

3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
4. Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

...

§ __.405 Management Decision.

...

(d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. SUBRECIPIENT MONITORING – VARIOUS PROGRAMS (Continued)

During the fiscal year, the Department disbursed \$234,306,018, \$10,359,438, \$55,436,243 and \$4,994,898 in program costs to subrecipients in the WIC, MCH, PHEP, and HIV federal programs, respectively. The Department has established an audit requirement for all local agencies (subrecipients) that receive federal assistance from it, including WIC, MCH, PHEP, and HIV grants, regardless of whether they are required to have a single audit or a financial statement audit. However, some subrecipient audit reports were not received timely by the Department, as indicated in the table below.

Program	# of Exceptions / # Tested	Days Late
WIC	Eight out of 11 (72.7%)	From five to 149 days late
MCH	Six out of 10 (60.0%)	From one to 365 days late
PHEP	Eleven out of 16 (68.8%)	From four to 241 days late
HIV	One out of three (33.3%)	40 days late

In all, 26 out of 40 subrecipients selected for testing (with a potential impact to the population which may be higher than 65% considering sampling risk, or approximately \$153.3 million, \$6.7 million, \$36 million and \$3.2 million to the WIC, MCH, PHEP & HIV programs respectively) submitted their reports after the required date. The Department did not determine if these subrecipients received an extension for submission of the audit report to DOH in advance from the cognizant or oversight agency for audit. In addition, the Department did not have any documentation to indicate it had identified these reports as being late nor did it have a process in place to follow-up on untimely reports.

In addition, eight out of 40 subrecipients tested (20%, with a potential impact to the population of up to 30.5% based on sampling risk, or approximately \$71.4 million, \$3.1 million, \$16.9 million and \$1.5 million to the WIC, MCH, PHEP & HIV programs respectively) did not respond with a resolution to findings within 30 days of the management decision letter sent out by DOH, and DOH did not perform any follow up actions.

The Department also has multiple levels of subgrantee monitoring at the program level through periodic on-site programmatic reviews. The purpose of these programmatic reviews is to ensure that Federal award information and compliance requirements are identified to subgrantees and that subgrantee activities are monitored. However, during state fiscal year 2010, the Department did not perform any program monitoring over the Child and Family Health Services (CFHS) program, which represents \$8,744,881 of the \$10,359,438 provided to subrecipients from the Maternal and Child Care Health Services Block Grant.

If the Department does not receive subrecipients' audit reports and conduct monitoring reviews in a timely fashion, there is a greater risk that instances of subrecipient noncompliance will not be identified by the Department and corrective action may not be initiated within a reasonable period of time. Furthermore, if subrecipients do not respond to the Department's findings and/or initiate appropriate corrective action in timely manner, the Department is at risk for not complying with Federal subrecipient monitoring requirements. If the Department does not comply with subrecipient monitoring requirements, federal funding could be reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

According to the Department's Chief of Compliance and Accountability, the Department was short staffed during the fiscal year. Subrecipients continued to submit their audit reports late so the Department attempted to obtain the reports from the Auditor of State website, but this is a labor intensive process and not all reports are available. In addition, the CFHS program was also short staffed during the fiscal year. Due to hiring restrictions the Department was unable to fill vacant positions that were necessary in being able complete program monitoring.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. SUBRECIPIENT MONITORING – VARIOUS PROGRAMS (Continued)

We recommend the Department continue to review, develop, and improve its subrecipient policies and procedures to reasonably ensure compliance with the federal requirements, particularly for monitoring the receipt of subrecipient audit reports, rendering management decisions, and determining if subrecipients initiate corrective action; all on a timely basis. Specifically, we recommend the Department be more proactive in contacting the subrecipients, reminding them of the compliance requirements and the consequences of noncompliance, inquiring if difficulties in completing the audit have occurred, and recommending the subrecipients request an extension if the circumstances require. We recommend the Department pursue these actions, and document it doing so, before instances of noncompliance occur. If certain subrecipients continue to not comply with the federal audit provisions, we recommend the Department consider withholding future awards to subrecipients or other sanctions, as permitted by Circular A-133. Moreover, we recommend the Department apply their control procedures consistently and in a timely manner so as to achieve their intended purpose. Management should periodically monitor the established procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

On January 3, 2011, the Department hired a full-time, intermittent external auditor. This position is dedicated to completing independent audit reviews and provides for proper follow-up on a timely basis.

Effective immediately, we will be sending letters to subgrantees which will remind those agencies with audit periods ending June 30, 2010 that their audits are due (at the latest) by March 31, 2011. We will also be sending out friendly reminder letters 45-60 days in advance of future due dates. Based on the A-133 language for Single Audits, the audit shall be completed and the reporting package submitted within the earlier of:

- 30 days after receipt of the auditor's report, or*
- Nine months after the end of the audit period*

The currently stated plan should allow ODH to address the timeliness of single audit submissions.

On February 1, 2011, the Department uploaded on the Grants Management Information System (GMIS) bulletin board the audit requirements; along with an updated Frequently Asked Questions (FAQs) relating to audit submissions, and instructions on how to use the audit coversheet which becomes mandatory for audit submissions on or after April 1, 2011.

The Department is constantly evaluating the current processes in place and making changes needed to improve compliance with federal requirements.

We acknowledge that, currently, the Department does not have a reporting mechanism in place to identify non-compliant auditees, whether for late submission or failure to reply to follow-up questions. The Compliance and Accountability Unit (CAU) is currently maintaining an Access database to all of the Independent Audit (IA) information which ODH needs to monitor and enforce IA compliance. The Department will be working with the GMIS contractor to create reports that were available in GMIS 1.0 but are not available in the release of GMIS 2.0.

Through the compliance committee, the Department will recommend sanctions on non-compliant subrecipients which will include withholding future payments in current grant periods.

The development of the ODH Risk Assessment Plan, in addition to the Combined Application Review process, will provide the Department with additional tools to aid in the identification of auditees who are of a higher risk and in need of additional monitoring or sanctions. The timely submission of audit reports is one of the risk assessment criteria.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. SUBRECIPIENT MONITORING – VARIOUS PROGRAMS (Continued)

CFHS Program monitoring - It is the intent of the Child and Family Health Services program to provide an on site monitoring visit to each of our 70 sub grantees at least once every three years. Since early 2010, five additional CFHS consultants have been hired and trained. Because of the limited on site monitoring of the Child and Family Health Services Program in SFY10, 45 site visits have been made to CFHS sub grantees to date in SFY11. SFY12 is a competitive grant year and sub grantees will change as of July 1, 2011. A site visit schedule for SFY12-SFY15 will be available by August 1, 2011.

Anticipated Completion Date for Corrective Action

Access database updates and CAU notifications to sub grantees are current and on-going as of March 18, 2011.

GMIS updates and enhancements to better address sub grantee risk assessment will be completed upon hiring of the GMIS contractor (expected to be completed by end of March 2011) Coordination will be through the Grants Administration Unit. Anticipated completion July 31, 2011.

Contact Person Responsible for Corrective Action

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3. CASH MANAGEMENT

<i>Finding Number</i>	2010-DOH03-011
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.069 – Public Health Emergency Preparedness (PHEP) 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 Health and Human Services
<i>Compliance Requirement</i>	Cash Management

NONCOMPLIANCE AND MATERIAL WEAKNESS

U.S. Treasury regulations, 31 CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), require state recipients to enter into agreements which prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The WIC program is covered by such an agreement. The state fiscal year 2009 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 PHEP, HIV Care, and MCH Block Grant programs are covered by 31 CFR 205.32 Subpart B, which states, in part:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

3. CASH MANAGEMENT (Continued)

A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

During the fiscal year, DOH drew down \$180,496,917, \$100,161,014, \$29,693,938, and \$22,485,766 in federal funds for the WIC, PHEP, HIV, and MCH, federal programs, respectively. While the Department did have procedures in place to support subgrantee payment, payroll voucher, and WIC voucher draws for these programs, for the first nine months of state fiscal year 2010, there were no procedures in place to identify the specific accounts payable expenditures for which funds were being drawn for these programs. As such, the Department was unable to provide support documentation for accounts payable vouchers 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 the audit period, the Department was not printing or maintaining the documentation from OAKS to support the accounts payable expenditures at the transaction level. As a result, the Department was unable to document the specific accounts payable expenditures for which the money was being drawn or provide any other document to substantiate when the related expenditures were incurred. Therefore, we could not determine whether the timing of the Federal cash draws was in compliance with applicable regulations for the first three quarters of state fiscal year 2010.

It should be noted that DOH implemented procedures to address this issue in April of 2010. The Department now includes documentation to support accounts payable vouchers, and no exceptions were noted for transactions that occurring after April 2010. Accounts payable vouchers for the first three quarters of state fiscal year 2010 amounted to \$6,542,173 for the WIC program, \$4,735,464 for the PHEP program, \$11,941,052 for the HIV program, and \$3,047,200 for the MCH program.

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 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 maintain the detailed information for each expenditure to be included with the draw down request documentation. However, the Cash Management Supervisor did state the Department, as indicated above, has since changed their procedures to attach a copy of the disbursements from the OAKS system with the draw down as of April of 2010. They consider the issue to be resolved.

We recommend the Department continue to develop their revised system which 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

3. CASH MANAGEMENT (Continued)

Official's Response and Corrective Action Plan

Cash Management did have documentation to support the federal draw amounts requested for the following types of expenditures: GMIS (Sub-Grantee payments), WIC vouchers and Payroll for the entire fiscal year. During last year's Single Audit (SFY 2009), Auditors expressed concerns about the lack of documentation to support cumulative draws for Accounts Payable vouchers.

As of April 1, 2010, Accounts Payable staff began making two copies of the OAKS invoice voucher screen for payments being made using federal funds. Both copies are included in a packet that is given to the Cash Management Coordinator. One copy of the invoice OAKS voucher screen is kept and attached to the Federal Draw Worksheet as backup documentation to support Accounts Payable expenditures. Since this change was made in the last quarter of state fiscal year 2010, it was expected that we would run into similar challenges for the first three quarters of this year's Single Audit (SFY 2010).

Prior to implementing the additional process, the Cash Management Coordinator calculated the totals of Accounts Payable vouchers using federal funds for payment and simply added the total to the Federal Draw Worksheet. Cash Management believed that the use of this methodology allowed them to time the amount of the Federal Draw request as close as administratively feasible to the actual cash outlay for Accounts Payable voucher expenditures. To the best of my knowledge, **this methodology has not resulted in the department being out of compliance with CMIA or resulted in potential penalties. The department is not aware of ever being sanctioned with having to pay interest charges on Federal Draws.** However, where we can strengthen procedures and processes to reduce comments of noncompliance and material weaknesses, we believe it is prudent to do so. The Auditors did indicate in their comments that no exceptions were noted for transactions after the implementation of printing the OAKS invoice voucher screen as supporting documentation effective April 2010. Cash Management will continue this process of documentation to support the federal draw for Accounts Payable vouchers.

Cash Management agrees that it would be more cost effective and less labor intensive if it were able to capture the documentation in electronic form rather than printing paper. Accounts Payable invoices result in numerous vouchers being processed and there **currently is no available report that will give us a listing of pending vouchers by date range at the fund, grant and reporting level. Unfortunately, this means that we have to make copies and manually enter the data in an excel spreadsheet which still will be labor intensive.** It would be even more helpful if OAKS developed a cash report that captured lower level detail like the fund, grant and reporting categories along with the beginning cash balances, revenues, transfers, disbursements, open vouchers, payables, indirect cost and ending cash balances. This was a very useful report (Subsidiary Cash Daily Report) in CAS and allowed Cash Management to immediately identify when federal draws were needed. With the development of the Business Intelligence environment, we are hopeful that useful reports will be created to address some of the Cash Management needs in the future. Otherwise, we will investigate the feasibility of how we can make this process a little less labor intensive.

Anticipated Completion Date for Corrective Action

The correction was put in place on April 1, 2010.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

4. MAINTENANCE OF EFFORT – HIV

<i>Finding Number</i>	2010-DOH04-012
<i>CFDA Number and Title</i>	93.917 – HIV Care Formula Grants
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Matching, Level of Effort, and Earmarking

NONCOMPLIANCE

42 USC §300ff-27(b)(7)(E) states, in part:

...

(E) the State will maintain HIV-related activities at a level that is equal to not less than the level of such expenditures by the State for the 1-year period preceding the fiscal year for which the State is applying to receive a grant under section 300ff–21 of this title;

The Department of Health is the primary State of Ohio recipient of federal funds from HHS to administer the HIV Formula Care Grant. As part of the federal fiscal year 2010 Part B application, the Department was required to report statewide year-to-year HIV-related expenditures for the previous two completed fiscal years. According to the application, the overall statewide level of HIV-related expenditures for federal fiscal year 2008 totaled \$23,470,612, while during federal fiscal year 2009, the overall statewide level of HIV-related expenditures totaled \$19,104,151, resulting in a reduction of \$4,366,461. As a result, based on the amounts reported to the grantor agency the State of Ohio's required maintenance of effort for HIV-related expenditures was not met.

If the Department does not meet the required maintenance of effort requirements established by federal regulations, the Department could be at risk to lose federal funding or have federal funding reduced in future years.

The Chief of Federal Reporting indicated they just learned this year they were unable to include state match spending in their calculation of statewide HIV-related spending, so matching funds were excluded from the reported federal fiscal year 2009 expenditure amount, but not the 2008 amount. Also, statewide funding budgeted for HIV-related activities decreased during state fiscal year 2010, therefore, there were less funds expended for HIV-related activities. This information was communicated to the U.S. Department of Health and Human Services as part of the Department's federal fiscal year 2010 Title II/Part B application. However, no affirmative statement was received from the grantor agency waiving the maintenance of effort requirement as a result of the reduced funding.

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 maintenance of effort requirements. One way to do so would be to track the HIV-related maintenance of effort expenditures and periodically compare them to the established requirements. In the event of reduced federal funding, we recommend the Department request a waiver from the federal government to spend less state funds on HIV-related activities than the state expended for the 1-year period preceding the fiscal year for which the State is applying for Title II/Part B funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

4. MAINTENANCE OF EFFORT – HIV (Continued)

Official’s Response and Corrective Action Plan

The Ryan White Part B program recognizes the requirement to maintain non-federal funding for HIV-related activities at a level which is not less than expenditures for such activities during the fiscal year prior to receiving the grant (refer to Section 2617(b)(7)(E)).

The auditors review failed to recognize the change in methodology for MOE calculation and misinterpretation of data.

<i>Item No.</i>	<i>Agency or Department</i>	<i>FY2008 Amount</i>	<i>FY2009 Amount</i>	<i>Actual (A) or Estimate (E)</i>	<i>Expenses included</i>
1	Department of Health (ODH)	\$5,542,314	\$0*	A	AIDS Care, Prevention and Surveillance
2	Department of Rehabilitation and Correction (ODRC)	\$0	\$0**	A	AIDS-related medications (actual cost), medical staff (estimated cost) and lab data (estimated cost)
3	Department of Job and Family Services (Medicaid)	\$16,106,950	\$17,738,139	A	HIV-related Professional, Facility and Pharmacy Services
4	Department of Alcohol and Drug Addiction Services	\$1,821,348	\$1,366,012	A	HIV related services
5	Department of Youth Services	\$ 0	\$ 0***	A	HIV related medications
TOTALS		\$23,470,612	\$19,104,151		

* State funds spent by ODH on HIV/AIDS care are used as match and are therefore excluded from this table.

** State funds spent by ODRC on HIV/AIDS care are used as match and are therefore excluded from this table.

*** Efforts are still under way to obtain information from ODYS.

The above Maintenance of Effort (MOE) chart was submitted to HRSA in January 2011 as part of the federal application for the funding year that begins April 1, 2011. Five state agencies have been identified as potential sources of information to demonstrate match or MOE: Ohio Department of Health (ODH), Department of Rehabilitation and Correction (ODRC), Department of Job and Family Services (ODJFS) (includes Medicaid), Department of Alcohol and Drug Addiction Services (ODADAS) and Department of Youth Services (DYS).

The FY 2008 calculation of MOE includes ODH GRF dollars (5.5 million) used to meet the federal grant match requirements. Based on feedback received from the federal grant officer, ODH was instructed to change the methodology for MOE calculation, and not include dollars used for match purposes. Thus in FY 2009 calculation the ODH GRF amount of approximately \$5.5 million was removed from MOE calculation resulting in lower MOE amount reported for FY 2009.

The \$5,542,314 reported as MOE in FY 2008 was not subsequently reported as MOE in FY 2009 per instructions from the federal funder. In order to compare the FY 2008 and FY 2009 MOE requirement, the \$5,542,314 should be removed from the FY 2008 total. By removing the \$5,542,314 from the FY 2008 total, the adjusted FY 2008 MOE amount equals \$17,928,298, which indicates that Ohio spent \$1.1 million more in FY2009 than it did in FY 2008, and thus met the MOE requirements for FY 2009.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

4. MAINTENANCE OF EFFORT – HIV (Continued)

ODH is not sure if the MOE calculation methodology ever changed, but rather a discovery that we were not doing it right from the get go (regarding using Match dollars as MOE as well) lead to change in methodology for MOE calculations in FY 2009. We believe this discovery is more related to a more detailed review and subsequent understanding, that match should not also be MOE.

In fact when the change in methodology is considered (and 2008-2009 figures are equalized), ODH fully meets the MOE requirements.

This being the case, it is ODH's opinion that consideration be made to remove this finding from AOS report.

The corrective action plan for improving the responsiveness and timeliness of reporting the MOE expenditures will include that the request for HIV Care Services expenditure MOE data (from other agencies) will originate from the ODH Chief Finance Officer (CFO) in the Office of Financial Affairs (OFA) to the CFOs of the listed state agencies that provide MOE.

In addition the program will validate match, MOE, earmarking figures and verbiage (communicated to federal grantors or other stake holders) with division fiscal liaisons and Financial Reporting Unit.

Anticipated Completion Date for Corrective Action

Requests for HCS expenditure reports from the named state agencies will be made in the 2nd quarter of the SFY and reported in the federal grant application in January. A waiver will be requested if needed at that time.

Contact Person Responsible for Corrective Action

Jamie M. Blair, PHCNS-BC, Chief, Bureau of HIV/AIDS, STD and TB, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus, OH 43215, Phone: (614) 466-8933, E-Mail: Jamie.blair@odh.ohio.gov

Auditor of State's Conclusion

After noting the Department's concern that "the auditors review failed to recognize the change in methodology for MOE calculation and misinterpretation of data", we requested the Department provide the guidance they received from the federal grantor agency which indicated that state matching funds should not be included in the MOE calculation and led to the change in methodology. They did not provide any documentation, nor were we able to locate any such guidance in the applicable federal regulations. As a result, we were required to measure compliance with MOE based on the information included in the application submitted by the Department to the grantor agency. Therefore, the finding will remain as stated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

5. LACK OF MONITORING CONTROLS – LEVEL OF EFFORT, AND EARMARKING

<i>Finding Number</i>	2010-DOH05-013
<i>CFDA Number and Title</i>	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 Health and Human Services
<i>Compliance Requirement</i>	Matching, Level of Effort, and Earmarking

MATERIAL WEAKNESS

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 for the HIV and MCH programs, but has not established any formal monitoring procedures to determine whether it has met the earmarking or level of effort requirements for these programs during the award. The Department has the capacity to verify if it meets these requirements through its Business Intelligence Connection (BIC) system. The system provides direct downloads of multiple-year data from the Ohio Administrative Knowledge System (OAKS) that allow users to view information from both the current and previous years. However, during state fiscal year 2010, the Department did not maintain any evidence to document they used the BIC system to determine if it had met these requirements. Having the capacity to do something is not the same as actually performing a control periodically and documenting the performance of that control to demonstrate the Department is monitoring compliance with these requirements.

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.

The Chief of Financial Reporting and Chief of Budgeting stated the Department has placed priority on monitoring of matching requirements, as they are required to be reported as part of the final Financial Status Report for these programs. The Department was aware of the fact that maintenance of effort requirements may not have been met for the HIV program, as it was required to report this information to the federal government as part of their application process. Within the application the Department noted the amounts were at a level less than that of the prior year. However, the Department did not act on this fact, as noted in comment 2010-DOH04-012 above.

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 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 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

5. LACK OF MONITORING CONTROLS – LEVEL OF EFFORT, AND EARMARKING

Official's Response and Corrective Action Plan

*The Department **has documented and met all federal grants matching requirements.** The documentation is completed and included in financial status reports for each respective federal grant. Grant's budgets created by programs and Budget Unit, and grant spending reports shared with programs by Financial Reporting Unit provide capabilities for spending and matching requirements monitoring. Budgets and spending reports are monitored through BIC Cognos reports. There is no need for corrective action plan to address any matching issues.*

*The Department **has documented and met all required maintenance of effort requirements (MOE)** for Ryan White grant (HIV/AIDS Program) in FY 2009. The program statement (about the Ohio's decreased MOE) reviewed by the auditors, failed to acknowledge the change in MOE calculation methodology creating misunderstanding that Ohio did not meet MOE requirements. The review of the MOE expenses, based on the updated MOE calculation methodology (which makes the MOE calculation for FY 2008 and 2009 comparable), revealed that **Ohio actually met the MOE requirements** in FY 2009 by spending more than \$1.1 million more than in FY 2008. To avoid similar miscommunications in the future, we asked all programs to validate match, MOE, earmarking figures and verbiage (communicated to federal grantors or other stake holders) with respective fiscal liaisons and Financial Reporting Unit.*

*The Department **maintained the monitoring efforts and documentation for MCHBG earmarking purposes** by creating quarterly earmarking monitoring/tracking reports since 2007. Due to staff turnover and changing responsibilities the ODH staff was not able to present all of the reports to the auditors (even though they were completed and available).*

The 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. The filing methodology has been improved to make it more clear where the respective reports reside and which grant periods they address.

Anticipated Completion Date for Corrective Action

Corrective action to improve filing, storing and naming of the reports was taken in March of 2010 and will be on-going as required by federal law.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

After noting the Department's concern regarding the HIV program that the "program statement reviewed by the auditors failed to acknowledge the change in MOE calculation methodology creating misunderstanding that Ohio did not meet MOE requirements", we requested that the Department provide the guidance they received from the federal grantor agency which indicated that state matching funds should not be included in the MOE calculation and led to the change in methodology. They did not provide any documentation, nor were we able to locate any such guidance in the applicable federal regulations. As a result, we were required to measure compliance with MOE for the HIV program based on the information included in the application submitted by the Department to the grantor agency. However, this finding relates to controls related to MOE and earmarking which were not performed/evidenced for both the HIV and MCH programs. Therefore, the finding will remain as stated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

6. FEDERAL REPORTING – MCH

<i>Finding Number</i>	2010-DOH06-014
<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>	Federal Reporting

MATERIAL WEAKNESS

42 USC Section 706 states, in part:

(a) Annual reporting requirements; form, etc.

- (1) Each State shall prepare and submit to the Secretary annual reports on its activities under this subchapter. Each such report shall be prepared by, or in consultation with, the State maternal and child health agency. In order properly to evaluate and to compare the performance of different States assisted under this subchapter and to assure the proper expenditure of funds under this subchapter, such reports shall be in such standardized form and contain such information (including information described in paragraph (2)) as the Secretary determines (after consultation with the States) to be necessary (A) to secure an accurate description of those activities, (B) to secure a complete record of the purposes for which funds were spent, of the recipients of such funds, (C) to describe the extent to which the State has met the goals and objectives it set forth under section 705(a)(2)(B)(i) of this title and the national health objectives referred to in section 701(a) of this title, and (D) to determine the extent to which funds were expended consistent with the State's application transmitted under section 705(a) of this title. Copies of the report shall be provided, upon request, to any interested public agency, and each such agency may provide its views on these reports to the Congress.

During state fiscal year 2010, the Department submitted the federal fiscal year 2008 Annual Report for the MCH program with the federal fiscal year 2010 application. This report, the Maternal and Child Health Services Title V Block Grant Application for 2010 Annual Report, contained critical information about the number of individuals served, the type of services provided, and the proportion of health coverage by race, and included various supporting forms and schedules. However, the data contained in Form 7 and Form 8 of the report, detailing the number of individuals served under Title V, the classification of individuals and the percentage of Health coverage was not supported by the Department's internal records. Specifically, the Department could not provide any records to support the data on Form 8 of the Annual Report, while the following discrepancies were noted between the numbers reported on Form 7 and the support documentation provided:

- the number of pregnant women served was reported as 150,784, but support documentation was only provided for a total 22,695;
- the number of infants less than one year of age served was reported as 150,784, but support documentation was only provided for a total of 13,083;
- the number of children ages one to 22 was reported as 1,602,169, but support documentation was only provided for a total of 53,414;
- the number of children with special healthcare needs was reported as 308,948, but no support documentation was provided;

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

6. FEDERAL REPORTING – MCH (Continued)

- others served was reported as 77,384, but support documentation was only provided for a total of 66,863

The inaccuracies in the annual report could affect current and future funding received by the Department. The information contained within the Annual Report is used by the federal grantor agency in determining the types and amounts of funding to provide for each state. The inaccuracies could result in the State losing necessary funding to support specific activity types.

Management indicated the information contained in the report is derived from several different sources. The Department did not maintain support from each of the different sources, they simply added to the current reported amount each time further information was provided. The individual responsible for collecting data to be reported was no longer an employee of the Department at the time the audit was being conducted which may have resulted in the lack of documentation available for review.

We recommend the Department evaluate current procedures and implement additional policies and procedures as necessary to provide reasonable assurance the data being reported for the MCH program is reasonable and agrees to supporting documentation. DOH should maintain all necessary support documentation in accordance with state and federal records retention policies in order to substantiate the numbers reported.

Official's Response and Corrective Action Plan

Beginning with the FFY 2012 MCH BG Application, a data collection form will be used to collect the information to be reported in Form 7 and Form 8 that reflects the number of individuals served by any Title V program including; the type of services provided, the total number of deliveries in the state, the number of infants entitled to benefits and the proportion of health coverage by race. The data collection forms will report this information by Bureau (under the Division of Family and Community Health Services) and will list the specific program the data originated from, the data source used for reporting purposes, and the contact person responsible for reporting the data. The data collection forms will be filed on-line and identified staff will have access to pull this information when necessary e.g., for auditing purposes.

Anticipated Completion Date for Corrective Action

The process identified above began December 2010 when the FFY 2012 MCH BG data collection cycle began. This data collection process is currently on-going and will end on May 31, 2011. Data submitted in the MCHBG Application due to HRSA July 15, 2011 will have followed this process.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

7. IT – LACK OF PROGRAM CHANGE CONTROLS

<i>Finding Number</i>	2010-DOH07-015
<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>	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 \$245,984,900 in federal funds from the WIC federal program. Many of the activities and data associated with this program were automated within 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 five. However, the following weaknesses existed during fiscal year 2010 relating to program changes for the WIC application:

- 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 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.

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.

DOH indicated they had not made developing formal program change procedures a priority, based on their workload and other higher priority projects. DOH management did indicate they implemented change control procedures to address the WIC segregation in fiscal year 2011; however, testing related to changes outside the audit period was not performed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

7. IT – LACK OF PROGRAM CHANGE CONTROLS (Continued)

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process for all key agency applications. 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. 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.

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.

Official's Response and Corrective Action Plan

A limited number of staff supports the WIC system. In June 2009, to resolve prior audit comments regarding separation of duty, the Department's mainframe change control process was revised to insure mainframe production changes are implemented by the WIC IT Application Development Supervisor or, in exceptional situations, the Application Programmer with prior authorization/approval from the Office of Management Information Systems (OMIS) Chief or designee. Departmental release management/change control processes were documented and published to the OMIS SharePoint site prior the FY 10 audit period. WIC change control processes ensuring full SDLC coverage were also in place, documented and practiced within the FY 10 audit timeframe, however auditors determined the written documentation required a more formal approval process and that the updated WIC change control process had not been in place long enough to be fully tested. The WIC change control process has been published to a newly created ODH IT Enterprise Standards SharePoint Site. Documents published to this site represent approved OMIS policies/standards. A yearly review schedule has been implemented to insure policies and standards on this site are kept up to date.

The Department has determined that the WIC Production Mainframe environment cannot be changed to prevent developer access to ODH.WICPROD.SOURCE and ODH.WICPROD.OBJECT libraries without significant risk. The current security architecture has been in effect since the system was implemented in the early 90's; a change of this nature could affect production processes the Ohio WIC Program relies upon to serve participants and pay vendors for services. Plans are in place to move the application from the mainframe to a client server solution by December 31, 2011 in order to resolve this issue permanently. In the mean time, to further mitigate production change control risk and to demonstrate staff follows the defined procedures, the Department has implemented supervisory follow-up verification for production changes made by the Application Programmer (during exceptional situations) to ensure that only the authorized changes were migrated.

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 address/resolve the deficiencies sited.

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>	2010-JFS01-016
<i>CFDA Number and Title</i>	10.551/10.561 – Supplemental Nutrition Assistance Program 93.563 – Child Support Enforcement 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services
<i>Compliance Requirement</i>	Period of Availability

QUESTIONED COSTS

\$103,029,968

45 CFR 92.23 relates to the period of availability (POA) for federal funds provided by the U.S. Department of Health and Human Services (HHS), and states:

(a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

7 CFR 3016.23 contains similar language for federal funds provided by the U.S. Department of Agriculture (USDA). The Office of Management and Budget’s *Circular A-133 Compliance Supplement* contains more specific requirements for the following federal programs:

Child Support Enforcement, Foster Care, and Adoption Assistance

This program operates on a cash accounting basis and each year’s funding and accounting is discrete; i.e., there is no carry-forward of unobligated funds. To be eligible for Federal funding, claims must be submitted to ACF [Administration for Children and Families, a component of HHS] within two years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim for an adjustment to prior year costs or resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13, and 95.19).

Social Services Block Grant

SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year (42 USC1397a(c)). However, the funds made available under the additional FY 2006 allotment (Pub. L. No. 109-148) expire on September 30, 2009 (Pub. L. No. 110-28, Section 4702).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

The Department received federal funds from USDA to administer the Supplemental Nutrition Assistance Program federal program and from the HHS to administer the Child Support Enforcement, Foster Care, Adoption Assistance, and Social Services Block Grant federal programs. These federal programs award funds on a federal fiscal year (FFY), which begins October 1 and ends on the following September 30. As noted above, the POA requirement comprises three components: the timeframe to obligate, the timeframe to liquidate (make payment on) the funds, and the timeframe to claim the funds. However, since ODJFS draws down federal funds for these programs on a reimbursement basis rather than an advance basis, the claiming of the funds 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 January 1, 2009. Therefore, the point of liquidation occurs when the payment is processed by ODJFS (not the county subrecipients). Given this approach, the Department essentially liquidates its obligations at the same time or 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. However, management did indicate they have made an attempt to get clarification from the federal government on how transactions processed by the county subrecipients should be reflected in their records, which may have a related impact on the period of availability. No response has been received from the federal government.

ODJFS personnel identified the obligation and liquidation dates for each grant utilized in state fiscal year 2010. Using this information, the POA requirements specific to the federal programs tested, and an audit computer program, we analyzed all of the expenditure transactions listed in OAKS (*Ohio Administrative Knowledge System*) made by the Department during state fiscal year 2010. This analysis, a review of various documents, and discussions with Department personnel, identified several disbursements, totaling \$103,029,968 in state and federal funds, paid after the POA, as detailed below, resulting in questioned costs.

Supplemental Nutrition Assistance Program:

- *The Department disbursed (liquidated) \$2,841,726, related to 296 summarized expenditure groupings tested, from the FFY 2009 (JFSFF109, JFSFFB09, JFSFFB09S, JFSFFX09) grants after the stated obligation/liquidation date of the grant award;*

Child Support Enforcement:

- *The Department disbursed (liquidated) \$30,791,812, related to 711 summarized expenditure groupings tested, from the FFY 2009 (JFSFCS09, JFSFCS09S) grants after the stated obligation/liquidation date of the grant award;*

Adoption Assistance:

- *The Department disbursed (liquidated) \$50,369,315, related to 257 summarized expenditure groupings tested, from the FFY 2009 (JFSFAA09) grant after the stated obligation/liquidation date of the grant award;*

Foster Care:

- *The Department disbursed (liquidated) \$18,943,542, related to 214 summarized expenditure groupings tested, from the FFY 2009 (JFSFFC09) grant after the stated obligation/liquidation date of the grant award;*

Social Service Block Grant:

- *The Department disbursed (liquidated) \$83,573, related to two summarized expenditure groupings tested, from the FFY 2002 (JFSFM340) grant after the stated obligation/liquidation date of the grant award;*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

In addition, the Department's Chart of Accounts/Grants list, as of June 30, 2010, did not consistently and accurately reflect the obligation and liquidations dates for these federal programs. For example, the Chart of Accounts/Grants list indicated the obligation and liquidation date for FFY 2009 *JFSFCS09* award for the Child Support Enforcement program as October 30, 2009 and October 30, 2010, respectively.

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 that, from a practical standpoint, the drawdown and disbursement of federal funds did not allow strict adherence to the POA requirements for specific federal programs, especially the entitlement programs. The federal awarding agency often awarded funds on a quarterly basis, and the award was based on an estimate of what the Department's expenditures would be for the quarter. If actual expenditures exceeded estimated (awarded) expenditures for the quarter or if subrecipients requested reimbursement of expenditures after the quarter (or award year ended), the federal agency allowed the drawdown of the funds. ODJFS viewed this practice as tacit approval of the process by the federal agency. However, there is no transaction-level information submitted with the draw request which would allow the federal government to evaluate the timing of the payment, and as reported in comment # 2010-JFS15-030, the amounts included on the federal financial reports are currently not being reported in accordance with the written guidelines for county-related transactions. Therefore, we do not believe processing of the draw provides any additional federal approval. Although we were unable to efficiently analyze the nature of all transactions involved in the finding to determine if a pattern existed, we suspect this issues is related, at least in part, to the recognition of counties as subrecipients and the fact that no change in processes or procedures were implemented by ODJFS to accommodate for this new approach.

We recommend the Department continue their efforts to get clarification from the awarding agencies regarding the treatment of subrecipient transactions. Additional guidance should be requested specifically related to period of availability. ODJFS should seek to obtain an extension of the POA timeframe or a waiver from complying with the stated requirements from the federal government.

Until such time as an extension or waiver is received, we recommend ODJFS evaluate their current policies and procedures related to processing expenditure transactions and update as necessary to reasonably assure compliance with the POA requirements. This should include an evaluation of the county payment and closeout processes and a review of the grant coding prior to finalizing the information in the system to help ensure that items are coded to the proper award. We also recommend the Department review grant balances prior to the expiration of the available period to determine if any unpaid obligations exist and request documentation for all obligations made 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

Official's Response and Corrective Action Plan

ODJFS takes issue with the above finding for the following reasons:

Grant Reconciliation & Closeout – Reconciliation of federal grants can only occur after services have been rendered and costs incurred during the grant's period of availability and after expenditures have been reported to the State. Therefore ODJFS believes there must be a reasonable amount of time following the end of the grant whether the grant has a liquidation period or not that allows the State to properly reconcile cash and expenditures and close the grant. ODJFS reconciles closed grants during the quarter following a grant's period of availability to ensure that all expenditures and draws impacting the grant have been reported by local agencies. Consequently, federal draws affecting closed grants are apt to occur during this settlement period, but are necessary to properly reconcile and close these grants.

One option would be for ODJFS to require local agencies to report grant draws and expenditures one quarter prior to the end of the grant. For example, local agencies would be required to report all draws and expenditures by June 30 for federal pass-through grants that typically end on September 30. This would allow ODJFS to reconcile these grants by September 30. However, this option is not feasible for two reasons: (1) the grant funds would only be available for local agencies to draw and spend for nine months, and (2) three months (July – September) would exist wherein local agencies would not be able to provide services to their communities due to lack of funding since the new federal grant would not be available until October 1. Another option is to shorten the period allowed for local agencies to liquidate grants to less than 90 days. Theoretically, ODJFS can then complete the grant reconciliation prior to December 31. This option is also not feasible since the awarding agency requires ODJFS to report statistics and allocate indirect program costs on a quarterly basis.

In light of these considerations, ODJFS will seek clarification from the awarding agency regarding the period of availability for federal grants and communicate to the Auditor of State of Ohio the response received.

Anticipated Completion Date for Corrective Action

ODJFS will establish a timeline if any action deemed necessary is received from our federal grantors.

Contact Person Responsible for Corrective Action

Eric Mercy, County Finance and Technical Assistance Bureau Chief, Ohio Department of Job & Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 644-9512, E-Mail: Eric.Mercy@jfs.ohio.gov

Auditor of State's Conclusion

We understand the current process to reconcile county activity is somewhat cumbersome and time-consuming. As indicated, we encourage the Department to pursue a waiver or extension from the grantor agencies and take any other measures necessary to improve the timeliness of liquidation. However, we are required to perform our testing based on the written federal regulations and to report the results of that testing accordingly. Therefore, the finding will remain as stated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. IT - MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

<i>Finding Number</i>	2010-JFS02-017
<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

\$846,749

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. IT – 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 104 Medicaid procedure codes. As a result, Medicaid and CHIP providers were reimbursed in excess of the limits contained in the OAC in 8,248 instances. However, we were not able to separately determine the amounts that related to each program; therefore, the excess reimbursements for the 104 procedure codes totaling \$846,749 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	FY10 Range of Reimbursement Over OAC Limit	Total Questioned Cost	Total Count
1.	E0781: Ambulatory Infusion Pump	\$8.73 per day	\$10 - \$270.63 per day	\$170,253	1573
2.	B4224: Parental Nutrition Administration Kit	1 per day	2 - 57 per day	\$159,899	1502
3.	A4305: Drug Delivery System	1 per day	2 - 31 per day	\$88,975	1120
4.	A4353: Catheter	60 per month	62 - 600 per month	\$84,800	165
5.	A4222: Infusion Supplies	60 per month	61 - 211 per month	\$64,675	75
6.	B4220: Parenteral Nutrition Supply Kit	1 per day	2 - 57 per day	\$43,503	1405
7.	T4543: Incontinence Supplies	150 per month	152-304 per month	\$42,410	118
8.	E0791: Parenteral Infusion Pump	\$8.73 per day	\$17.46-\$270.63 per day	\$41,019	478
9.	B4088: Parenteral Nutrition Supplies	4 per year	5 – 60 per year	\$25,648	203
10.	E0604: Breast Pump	\$2.25 per day	\$4.50-202.50 per day	\$17,413	261

Certain or procedure codes have a one-unit-per-day or specified dollar amount per-day OAC limit. However, many of these claims were submitted on a weekly or monthly basis instead of daily, and the units submitted for the billing period were all listed under one date of service (such as seven units for one week, 30 units for one month). This process was contrary to the policy and could not provide assurance only one item was billed for each allowable day. There were 6,402 instances (representing 4,866 actual claims) in excess of the unit or dollar amount per-day limit, totaling \$532,924, 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. IT – 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 the MMIS edits designed to limit quantity and usage of DME procedure codes did not effectively prohibit the over-payment of the aforementioned codes. Over the last four years, OHP has continued to create, test, and implement additional edits in production based on audit findings. However, edits have not been implemented for all scenarios and some edits were implemented later during the fiscal year 2010 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 of a procedure code with a one-per-day OAC limit may only have one date of service listed on the claim for all seven units. In these cases, OHP management indicated it is reasonable to assume each of the seven units is used once per day. OHP management stated the quantity allowed will be based on the reasonableness of the units submitted for the time period, and on medical necessity as determined by the department. However, without individual claim dates of service for each of the maximum-limit units submitted, we could not verify all units were used according to the OAC limits.

We recommend ODJFS complete the update of their utilization and review edits within 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. Finally, for procedure codes with a one-unit per-day or specified dollar amount per-day limit, we recommend ODJFS propose a clarification in the OAC to stipulate acceptable billing methods.

Official's Response and Corrective Action Plan

AOS Questioned Payments Determined to be Valid by ODJFS' Office of Ohio Health Plans Bureau of Policy and Health Plan Services (BPHPS), Based Upon Type of Service and Payment Date.

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 \$151,597. 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 2010 data that the AOS reviewed. SURS did not separate the 2010 data, and it would take extensive man-hours to go back and isolate just the 2010 recoveries.

To follow-up previous prepayment system edit enhancements, on November 24, 2009, OHP implemented one more CSR for six Type of Service 1 DME procedure codes, in addition to previous CSRs to ensure that properly functioning limit parameters are implemented for the remaining DME procedure codes that lack such pre-payment edits. 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.

As noted previously, the Disability Medical Assistance program is funded entirely by the state of Ohio and ended effective October 31, 2009.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. IT – MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

ODJFS has drafted and proposed rule language in OAC rule 5101:3-10-03 to more clearly address the AOS concern regarding the "Program limit 1 a day."

Additionally, ODJFS will draft and propose rule language to OAC rule 5101:3-10-15 to better align the rental or purchase of transcutaneous electrical nerve stimulators (TENS) with the Department's general DME rent to purchase policy.

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.

Drafting the proposed rule language of OAC rule 5101:3-10-03- December 31, 2011

Drafting the proposed rule language of OAC rule 5101:3-10-15- December 31, 2012

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

The Department did not provide the analysis referenced above as part of our testing or subsequent follow-up, nor did they provide any supporting documentation which was not included in the electronic system used to make determinations about the allowability of the claims. Therefore, we cannot draw any conclusions about the accuracy or reliability of the additional analysis performed by the Department.

In addition, OMB Circular A-133 § .___ 510(a)(3) requires us to report known or projected questioned costs exceeding \$10,000. Therefore, we must report this finding, regardless of whether the questioned amount is \$151,597 or \$846,749.

3. COUNTY SUBRECIPIENT AGREEMENTS / PAYMENTS

<i>Finding Number</i>	2010-JFS03-018
<i>CFDA Number and Title</i>	93.558/93.714 – TANF Cluster 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

\$756,812

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:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. COUNTY SUBRECIPIENT AGREEMENTS / PAYMENTS (Continued)

Subpart D--Federal Agencies and Pass-Through Entities

§ __.400 Responsibilities.

...

- (d) **Pass-through entity responsibilities.** A pass-through entity shall perform the following for the federal awards it makes:
- (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 2010, the Department disbursed approximately \$110 million to 88 Ohio counties for administering the Medicaid Assistance Program and the Children's Health Insurance Program (CHIP); and approximately \$74.6 million 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:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. COUNTY SUBRECIPIENT AGREEMENTS / PAYMENTS (Continued)

- 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 \$35.5 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 31 of the counties tested. As such, the 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 \$756,812 in federal expenditures for the CHIP program during fiscal year 2010. 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 affected only the OAKS 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 total administrative expenditures were approximately \$14.6 million less than total draws for the Medicaid Cluster at June 30, 2010, we could not verify the overdrawn amount was accounted for in subsequent draw requests, resulting in questioned cost for the Medicaid Cluster of \$756,812.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. COUNTY SUBRECIPIENT AGREEMENTS / PAYMENTS (Continued)

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. Department personnel stated that they made changes in the agreements and coding for fiscal year 2011 to properly identify the correct CFDA numbers and programs and to distinguish the specific program as funds are drawn and disbursed to the county subrecipients.

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

Once the above matters were brought to our attention, the Department acted promptly in order to ensure that the county subrecipients were notified of the funds and programs they received and the laws and regulations to which they must adhere. The Department correctly identified both the CHIP program and the SSBG transfer funds, with correct CFDA number, on the Supplemental Addendums that were sent to the counties in July, 2010 for SFY 2011. Additionally, in April 2010, the Department communicated to the counties the proper treatment for reporting funding and issued an updated rule to accurately inform its county subrecipients. The rule effective April 9, 2010 includes the following new language; "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 CFDA number 93.667 on the county's schedule of expenditures of federal awards."

The Bureau of County Finance and Technical Assistance (BCFTA) now requests cash draws for Medicaid Admin and CHIP separately, which will prevent any variances between the expenditures and cash draws for these two Grants. Furthermore, the BCFTA will notify the cash draw area, of any adjustments that may be needed to the federal draws if a discrepancy between the requested draws and expenditures are discovered.

Anticipated Completion Date for Corrective Action

The corrective action was completed and in effect by July 1, 2010

Contact Person Responsible for Corrective Action

Eric Mercy, County Finance and Technical Assistance Bureau Chief, Ohio Department of Job & Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 644-9512, E-Mail: Eric.Mercy@jfs.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. MEDICAID, CHIP, TANF – MISSING DOCUMENTATION – VARIOUS COUNTIES

<i>Finding Number</i>	2010-JFS04-019
<i>CFDA Number and Title</i>	93.558/93.714 – TANF Cluster 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>	Eligibility

QUESTIONED COSTS AND MATERIAL WEAKNESS

\$225,180

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 subrecipients of ODJFS, the County Departments of Job & Family Services (CDJFS) are 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, Children’s Health Insurance (CHIP), and Temporary Assistance for Needy Families – Ohio Works First (TANF OWF) 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.

During state fiscal year 2010, ODJFS provided approximately \$11.5 billion in Medicaid, \$298 million in CHIP, and \$472 million in TANF OWF benefits to recipients based on information provided by the 88 CDJFS. However, testing of eligibility could not be performed for certain recipients from all five counties selected for testing because the case documentation was not available for review. The following missing documentation and/or control weaknesses were noted during our review, as detailed below:

Medicaid and TANF OWF:

- 12 of 120 (10%; with a potential impact to greater than 12.1% of the population) Medicaid and TANF OWF case files tested (five at Cuyahoga; three at Franklin; one at Hamilton; one at Lucas; and two at Montgomery) did not contain CRIS-E screen prints or caseworker’s notes in the CRIS-E ‘CLRC’ comment screen to evidence the caseworker’s verification of the recipient’s income.
- 11 of 120 (9.2%; with a potential impact to greater than 12.1% of the population) Medicaid and TANF OWF case files tested (two at Cuyahoga; five at Franklin; one at Hamilton; one at Lucas; and two at Montgomery) did not contain a JFS 7105 Application/Reapplication Verification Checklist or notes in the CRIS-E ‘CLRC’ comment screen to evidence the caseworker verified that all necessary documentation was received in order to determine eligibility.
- 16 of 120 (13.3%; with a greater potential impact to the population) Medicaid and TANF OWF case files tested (two at Cuyahoga, six at Franklin, two at Hamilton, four at Lucas; and two at Montgomery) did not contain a complete application or the application was dated after the payment date and, therefore, we couldn’t verify that all information was entered into CRIS-E correctly.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. MEDICAID, CHIP, TANF – MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

CHIP

- Five of 100 (5%; with a potential impact to 9.1% of the population) CHIP case files tested (two at Cuyahoga and three at Montgomery) did not contain a complete and/or applicant signed application and, therefore, we were not able to verify that all information from the application was accurately input into CRIS-E.
- Three of 100 (3%; with a potential impact to 6.6% of the population) CHIP case files tested (one at Hamilton and two at Montgomery) did not contain a JFS 7220 Healthy Start Checklist or a JFS 7105 Application/Reapplication Verification Checklist signed by the Caseworker to evidence that all necessary documents were received in order to determine eligibility.

The related CDJFS was not able to provide documentation from the case files to support the eligibility determinations made for 25 of the recipients noted above. Therefore, we will question the costs for all benefits paid to the 25 recipients during the ineligible period during fiscal year 2010, or \$225,180 (four CHIP recipients totaling \$5,371 – projected to be more than \$10,000, 14 Medicaid recipients totaling \$198,228, and seven TANF OWF recipients totaling \$21,581).

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining, maintaining or reviewing the required documentation on file, the Department may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients which could and did result in questionable benefit. According to the County management, the missing case files and other supporting documentation were due, in part, to the large number of case files maintained by the County. ODJFS management indicated that frequent trainings are offered for county personnel; however, there is a high turnover rate at the county which may account for the missing documentation within the case files.

We recommend ODJFS work with CDJFS management to ensure they have current policies and procedures and/or implement new control procedures to reasonably ensure all case files have adequate supporting documentation to support the benefit payments made to eligible recipients. ODJFS should communicate to County management and their staff the importance of these policies and procedures and ensure the procedures are carried out as intended. In addition, ODJFS management should perform periodic reviews of the case files to reasonably ensure established controls and record retention procedures are being followed by CDJFS personnel.

Official's Response and Corrective Action Plan

Note: A separate response was not received from ODJFS regarding state-level corrective actions.

Cuyahoga

Refresher training for all unit Supervisors and NFSC Managers on the case review process (Rushmore) is scheduled for May 2011. Following this refresher, each supervisor will be required to pull and review a minimum of one case / worker / month and complete a full review of the programs utilized for that case, inclusive of verifications and signatures. Any unsigned or incomplete application will be brought to the caseworker's attention so that a correction will occur.

These issues will also be discussed at future supervisory meetings. Joint Center Manager / Team Coordinator meetings are held monthly. Reminders will be placed on the agenda related to the need to check for case documentation, appropriate signatures and complete applications on a quarterly basis beginning in April, 2011. (Meeting currently scheduled for April 26th).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. MEDICAID, CHIP, TANF – MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Additionally, these issues will be discussed at each Neighborhood Family Service Center's all staff meetings. All-staff meetings are held within the NFSCs monthly. Reminders of the issues related to this CAP will be placed on the agenda quarterly beginning in May, 2011. Dates and times of all staff meetings vary from NFSC to NFSC. It will be reiterated to staff to enter appropriate documentation into CLRC. If it is determined that this is a widespread issue, additional trainings may occur.

Internal quality assurance (CURE) is currently conducting specialized reviews from each NFSC which can include Medicaid, and TANF. While the focus is not currently on these programs, they are captured in the review process.

Franklin

In order to come into compliance to insure measures are in place to prevent missing case files and documentation, Franklin County Department of Job and Family Services will be providing Content Manager (document repository and workflow system) refresher training which will reiterate the basics of the system from taxonomy to operations. Additionally, internal QR reports alert managers to missing documentation and supervisors will identify individuals needing remedial training. FCDJFS is in the midst of creating an ongoing training plan to address numerous targeted areas, of which CLRC documentation and proper techniques (such as issuing a JFS 7105 and scanning it to Content Manager) will be incorporated into the plan.

Hamilton

a) A re-emphasis of complete and thorough case dictation will occur at Casework Policy Meetings in April, 2011. Attendance rosters will be completed and maintained along with meeting agendas confirming this topic of discussion.

b) Hamilton County will continue with the commitment to an Electronic Case File Imaging system. The Imaging project is currently underway and will be complete by no later than 12/31/11, provided adequate funding remains. As such, records will soon be available electronically, resulting in greatly reduced chances of missing or mis-filed documentation.

c) To ensure consistency in the above, the Client Services Compliance Coordinator will perform random checks on no less than three (3) eligibility files and their supporting CRIS-E documentation per month and provide monthly updates to the Performance Improvement Section Chief noting areas of needed improvement or clarity. As areas of deficiency are identified, The Performance Improvement Section Chief will address the topic with the Chief Operations Officer as well as all Family and Adult Assistance Section Chiefs.

Lucas

Bullets 1 and 2 in the Medicaid pull refer to the same case. The circumstance of this case was likely due to worker oversight. OnBase imaging has been in place since 2006 and the imaging of this application was the responsibility of the worker. The case may have been incorrectly indexed, but since the documents have not been found there is no way to determine if that is the case.

At this time, QA is conducting a case pull to determine payment accuracy. Part of their case screening is to locate all documents and re-index all documents that are not indexed correctly. A directive was sent to the QA department on 3-11-2011 to re-index files. QA case reviews are in progress and will continue monthly. Workers have 4-5 cases reviewed on a monthly basis.

The three cases with partial PCIs are attributed to a misunderstanding of policy. Our internal Help Desk thought that scanning only the signature page was correct procedure. The Help Desk contacted ODJFS for policy clarification and determined that the entire PCI must be scanned into the case. Fortunately most workers have the entire PCI in the case because this is done automatically by OnBase virtual

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. MEDICAID, CHIP, TANF – MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

printing. However, three of the cases found did not follow our virtual printing process. A directive will be sent to the staff clarifying the policy and virtual print procedures to ensure the entire PCI is in the case in the future.

Montgomery

Montgomery County is undergoing an initiative to improve deficiencies among case work. A series of refresher training courses are being developed to address case preparation including proper documentation of CLRC / Running record comments, and determination of the beginning date of aid. Prior to the refresher training, supervisors will be required to perform an adjunct training on providing proper documentation (i.e. CRIS-E screen prints, and 7105 Application/Reapplication and Verification Checklists), dictation of CLRC screens to include verification of recipient's income, screening applications for completeness and determining the beginning date of aid based on the application during monthly unit meetings. In addition supervisors will be required to review 6 cases per worker monthly and provide feedback on cases with insufficient CRIS-E screen prints and CLRC dictation.

Agency will create and use an internal worker QA checklist sheet detailing each step (forms) required to accurately approve or deny a medical case. Checklist shall include all required steps and each shall be marked upon completion and scanned into case. Each step shall indicate the required document/forms needed indicated and the answer yes/no or n/a marked, signed/dated by worker as the final review step on each case worked. The completion of this form shall also require CLRC dictation and shall be scanned into the electronic case file.

Anticipated Completion Date for Corrective Action

Cuyahoga

December 31, 2011

Franklin

We anticipate this training will be completed by the end of the second quarter of FFY12 (03.31.2012).

Hamilton

- a) All casework staff will be trained on and/or reminded of the expectations by April 29th, 2011
- b) Full implementation will occur by 12/31/11.
- c) Random checks will begin with calendar month April, 2011 with the first report due to the Section Chief by May 15th, 2011.

Lucas

Monthly monitoring is in progress. Directive was sent to the QA staff on 3-11-2011 to re-index files that aren't imaged under the correct category or case number. Directive will be sent on 4-01-2011 to clarify the policy and virtual print procedures for PCI cases.

Montgomery

Supervisor training - May 31, 2011
Supervisor case reviews – April 1, 2011
Refresher Training – September 30, 2011
Create and use QA checklist- May 2, 2011

Contact Person Responsible for Corrective Action

Cuyahoga

Kit Newell, Regulatory Compliance Manager, Cuyahoga County Department of Job & Family Services, 1641 Payne Ave, Room 330, Cleveland, OH 44114, Phone: (216) 987-7017, E-Mail: newelk@odjfs.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. MEDICAID, CHIP, TANF – MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Franklin

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Hamilton

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Lucas

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Montgomery

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5. MEDICAID/CHIP – THIRD PARTY LIABILITY

<i>Finding Number</i>	2010-JFS05-020
<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>	Allowable Costs

QUESTIONED COSTS AND SIGNIFICANT DEFICIENCY \$78,043

42 CFR 433.138 states, in part:

- (a) Basic provisions. The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan.
- (b) Obtaining health insurance information: Initial application and redetermination processes for Medicaid eligibility. (1) If the Medicaid agency determines eligibility for Medicaid, it must, during the initial application and each redetermination process, obtain from the applicant or recipient such health insurance information as would be useful in identifying legally liable third party resources so that the agency may process claims under the third party liability payment procedures specified in §433.139 (b) through (f).

42 CFR 433.139 states, in part:

- (b) Probable liability is established at the time the claim is filed. . . (1) If the agency has established the probable existence of third party liability at the time the claim is filed, the agency must reject the claim and return it to the provider for a determination of the amount of liability. The establishment of third party liability takes place when the agency receives confirmation from the provider or a third party resource indicating the extent of third party liability.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

Under the current process, the County Departments of Job & Family Services (CDJFS) process the application and related information for initial Medicaid eligibility and eligibility redeterminations. During the initial application or redetermination process, the CDJFS' are responsible for identifying if the applicant has any third party insurance coverage and noting this in the CRIS-E system. If a potential Medicaid recipient states that they have third party insurance but has no proof or incomplete proof of insurance, the CDJFS is responsible for entering the information into CRIS-E, setting the system to cost avoid, and marking the record as "Client Statement". An insurance verification is automatically generated and sent to the insurance company to verify the information. The verifications are received and processed by the ODJFS Cost Avoidance Unit. If proof of the third party insurance is provided at the time of initial application or redetermination, including the policy name and number, dates of coverage, and insurance types, then the CDJFS enters the information as verified and sets the system to cost avoid. The system is set to cost avoid to ensure that any claims related to the third party insurance coverage are billed to that insurance company before billing Medicaid. The county-level third party liability information uploads from CRIS-E into a TPL database in MMIS to be used in claims processing. The Cost Avoidance Unit conducted monthly reviews of the third party liability records from various counties; however, during these reviews, Cost Avoidance Unit personnel verified information through applicable CRIS-E and MMIS screens only. These reviews did not include an examination of proofs of insurance for Medicaid recipients maintained at the county-level.

Of the 60 insurance verifications selected for testing from the 23,647 TPL cases entered into CRIS-E or MMIS during fiscal year 2010, 41 cases were identified where the information in the TPL database was not accurate, complete, and/or properly supported. Sixteen of these cases (10 Medicaid, six CHIP), all entered by a CDJFS, resulted in questioned costs totaling \$78,043 (\$75,426 for Medicaid; \$2,617 for CHIP), as detailed below:

- For five cases, the recipients had third party prescription drug coverage; however, the caseworker did not include this in CRIS-E. Therefore, any prescription drug claims paid during the audit period would be questionable.
- For 10 cases, the recipients' proof of insurance was not on file; therefore, we were unable to determine if the insurance information entered in CRIS-E was accurate and complete. Therefore, any claims paid during the audit period would be questionable.
- For one case, the caseworker incorrectly entered the policy number. Also per the proof of insurance, the recipient had third party prescription drug coverage; however, the caseworker did not include this on the CRIS-E system. Therefore, any claims paid during the audit period would be questionable.

The remaining 25 cases were instances in which the insurance coverage dates, the insurance coverage types, or the insurance company policy number was not entered correctly and completely into the system. This also included cases where the proof of insurance on file was not adequate to determine the proper insurance coverage dates or insurance coverage types. These discrepancies did not result in claims being incorrectly billed to Medicaid.

If third party insurance information is not accurately and completely entered into the State's systems, the risk is significantly increased that claims could be incorrectly billed to the related federal program when they were, in fact, covered by a third party insurance company. In addition, if the cost avoidance actions set up in the system are not properly supported, management may not be able to substantiate decisions to avoid Medicaid and/or CHIP claim costs which may result in disputes with insurance companies.

Management indicated there is a high level of employee turnover at the CDJFS and this may contribute to increased errors in performing cost avoidance at the county level. In addition, the county case workers are not properly following procedures which could also be contributed to the high turnover.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

We recommend the Cost Avoidance Unit strengthen policies and procedures related to county training. We recommend that management communicate to case workers the importance of entering data into the TPL Master File accurately and completely. ODJFS management should also perform frequent evaluations of TPL records created by the CDJFS from TPL Master File to evaluate whether the records were entered accurately and completely; this could be done on a sample basis. This review should also include a review of the proofs of insurance maintained at the county level for Medicaid recipients. These procedures should be performed timely, thoroughly documented and reviewed by the appropriate supervisory personnel. In addition, based on the extent of the errors noted at the CDJFS, management should also consider reducing the involvement of the CDJFS in the cost avoidance process.

Official's Response and Corrective Action Plan

The Department disagrees with the questioned cost of \$78,043; after completing our analysis and validation, we agree to a questioned cost of \$527.61. Documentation that supports the Departments calculations are available upon request (contains confidential personal information (CPI) for review by CMS or OBM).

Factors Mitigating the Questioned Status of Payments Cited by AOS

- 1) *Usual policy coverage determined by Carrier type: Medical, Pharmacy, Vision, Dental etc.*
- 2) *Policy holders covering biological children are not required to cover all members of a household.*
- 3) *The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan. AOS disregarded the Origin Date of third party liability (TPL) which is the date the county is notified of coverage by client.*
- 4) *OHP has in place strong internal controls by contracting with HMS for the identification and recovery of identified third party resources on a post payment basis.*

County generated records through the 6612 automation process were included in this year's audit.

The Cost Avoidance Unit (CAU) has initiated and annually completes intensive video conference trainings with the counties. These trainings consist of properly recognizing, identifying and coding of all insurance coverage types, effective dates and plan options. Specific focus is placed on the importance of entering complete and accurate data into CRIS-E AEMFC screen. The presentation was sent to each county for use as a training tool with new caseworkers.

We also present a TPL topic during the spring at the County Director's Annual Conference. This is another avenue we use to reach out and teach county case workers and supervisors.

As part of our ongoing planned corrective action, quality control checks of county generated records will continue; these began in 2009. In the check, CAU staff review TPL records entered by the counties for accuracy at random intervals. Feedback is provided to the counties via a spreadsheet.

Lastly, we plan to reduce the involvement of the CDJFS in the cost avoidance process as CAU gets more involved in carrier data matching. This process will allow us to use the most correct and current TPL information coming directly from the insurance carrier to cost avoid claims.

Note: ODJFS also provided a color-coded chart listing their rationale, as described above, by insurance carrier, which could not be included in this document, but is included in the working papers and can be obtained from the contact listed below.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

Anticipated Completion Date for Corrective Action

June 30, 2012

Contact Person Responsible for Corrective Action

Kristi Walker, Cost Avoidance Unit, Acct. Exam Supervisor, Ohio Department of Job & Family Services, 50 W Town St, 4th floor, B4030, Columbus, OH 43215, Phone: (614) 752-3775, E-Mail: Kristi.Walker@jfs.ohio.gov

Auditor of State’s Conclusion

ODJFS indicated the origin date of the insurance record in the TPL database was after the service date for certain claims and, therefore, the system did not cost avoid for the claim until the record was entered. However, the Department provided no evidence to indicate the claim was properly adjusted/cost avoided after the information was entered or explain why the third party record was not entered more timely. In addition, even when the third party information was entered, it was entered incorrectly or was not properly supported which could affect proper billing to third party insurance (68% error rate, as stated in the comment). The Department indicated that additional documentation to support that the claim type was not covered under the insurance type could be provided. However, this evidence was not provided to us during testing or during our follow-up. In addition, no additional information was provided to corroborate the policy holder’s household members would not have been covered by third party insurance. Lastly, we were not provided with any documentation to support that questionable claims were recovered on a post-payment basis. Therefore, the finding and questioned costs will remain as stated.

6. CHIP – INELIGIBLE RECIPIENT

<i>Finding Number</i>	2010-JFS06-021
<i>CFDA Number and Title</i>	93.767 – Children’s Health Insurance Program
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Eligibility

QUESTIONED COSTS AND MATERIAL WEAKNESS

\$18,510

42 CFR 457.320 states, in part:

(a) Eligibility Standards. To the extent consistent with title XXI of the Act and except as provided in paragraph (b) of this section, the State plan may adopt eligibility standards for one or more groups of children related to –

...

(2) Age (up to, but not including, age 19).

...

Ohio Admin. Code 5101:1-40-08 (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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

6. CHIP – INELIGIBLE RECIPIENT (Continued)

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 the Children's Health Insurance Program (CHIP), the individual must be less than 19 years old unless they meet specific exemption criteria. A CHIP recipient will remain eligible through the end of the month in which he or she turns 19. CRIS-E is designed to generate an alert notifying the county worker of an individual about to turn 19, at which time the worker is responsible to re-determine eligibility. However, there are no subsequent edits or monitoring procedures in place to verify the re-determination was performed timely. Five of 60 CHIP (8.3%; considering sampling risk, there is a possibility of up to a 15% actual exception rate in the population) recipients tested were not eligible to receive CHIP benefits on the date of service. Two of 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. Three of the recipients were eligible for Medicaid, not CHIP, as of the date of service per the Department's system. Therefore, we will question all costs associated with the services provided for these five individuals during the times they were ineligible, totaling \$18,510.

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 revise 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.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

6. CHIP – INELIGIBLE RECIPIENT (Continued)

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.

Anticipated Completion Date for Corrective Action

Video conference training will be completed by December 31, 2011 with all CDJFS offices.

Medicaid Matters Newsletter information will be available to all CDJFS offices by December 31, 2011.

Compilation of frequently asked questions will be completed by December 31, 2011.

Contact Person Responsible for Corrective Action

Shawn Lotts, Chief, County Technical Assistance and Compliance, Ohio Department of Job & Family Services, 50 W. Town St., 5th floor, Suite 400, Columbus, Ohio 43218-2709, Phone: (614) 752-3585, E-Mail: shawn.lotts@jfs.ohio.gov

7. MEDICAID – INELIGIBLE RECIPIENT

<i>Finding Number</i>	2010-JFS07-022x
<i>CFDA Number and Title</i>	93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Eligibility

QUESTIONED COSTS

\$63

42 CFR 435.10, State plan requirements, states:

A State plan must—

- (a) Provide that the requirements of this part are met; and
- (b) Specify the groups to whom Medicaid is provided, as specified in subparts B, C, and D of this part, and the conditions of eligibility for individuals in those groups.

The Department disbursed approximately \$11.7 billion in Medicaid funds to eligible recipients during state fiscal year 2010. Under the current process, the County Departments of Job & Family Services (CDJFS) are responsible for processing the application and related information for initial Medicaid eligibility and eligibility redeterminations and entering the information into the Client Registry Information System – Enhanced (CRIS-E). The CRIS-E system is programmed with State plan recipient eligibility requirements to determine whether the recipient is eligible to receive Medicaid. Once the determination is made, the CRIS-E system uploads the eligibility information to the Medicaid Management Information System (MMIS). The Department utilizes MMIS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. As medical claims are received from providers, they are uploaded in MMIS. The current process allows ODJFS personnel to enter information into MMIS which may affect the recipient's eligibility determination. However, the information isn't always exchanged with CRIS-E. Therefore, the eligibility determination in CRIS-E does not always match the information in MMIS. This appears to be the case for one of 90 Medicaid recipients tested where the recipient was not eligible to receive benefits on the date of service per CRIS-E. Because CRIS-E is the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

7. MEDICAID – INELIGIBLE RECIPIENT (Continued)

State's official eligibility determination system and no additional information was submitted to support the information entered into MMIS to substantiate eligibility, we will question costs for all claims paid for services rendered to this recipient during the period the recipient was ineligible, totaling \$63 (projected to be more than \$10,000).

Without ensuring CRIS-E is up to date and agrees to MMIS, there is an increased risk that Medicaid claims processed and paid will not be accurate or allowable. Payments on behalf of ineligible recipients may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. The Department indicated the recipient was eligible at the time of services and a glitch in the system was to blame.

We recommend the Department correct the system error which allowed benefit payments to this ineligible recipient. We also recommend the Department implement procedures to regularly evaluate a sample selection of Medicaid payments to verify the recipient's eligibility and that reimbursements are properly computed within MMIS based on CRIS-E's eligibility determination. Any problems noted should be promptly corrected to reduce the risk that payments will be made on behalf of ineligible individuals.

Official's Response and Corrective Action Plan

Ohio Health Plans (OHP) will provide video conference training to all CDJFS offices. Training will include: importance of working CRIS-E system alerts requiring case worker action on an individual's eligibility; Pre-termination Reviews; and, changes to eligibility policy. All training materials developed by OHP's County Technical Assistance Unit are posted to the Innerweb and available to CDJFS staff for further training needs, or to be used as desk aids.

OHP will provide information to all CDJFS offices through the Medicaid Matters Newsletter. This newsletter is published on a monthly basis and the target audience is CDJFS caseworkers. The information will include the importance of working CRIS-E system alerts; Pre-termination Reviews; and, changes to Medicaid eligibility policy.

Anticipated Completion Date for Corrective Action

Video conference training will be completed by December 31, 2011 with all CDJFS offices.

Medicaid Matters Newsletter information will be available to all CDJFS offices by December 31, 2011

Contact Person Responsible for Corrective Action

Shawn Lotts, Chief, County Technical Assistance and Compliance, Ohio Department of Job & Family Services, 50 W. Town St., 5th floor, Suite 400, Columbus, Ohio 43218-2709, Phone: (614) 752-3585, E-Mail: shawn.lotts@jfs.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

8. CCDF CLUSTER – CASH MANAGEMENT

<i>Finding Number</i>	2010-JFS08- 023
<i>CFDA Number and Title</i>	93.575/93.596/93.713 – 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 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) 2010, the Ohio Department of Job and Family Services (ODJFS) received reimbursements of \$207,389,434 related to the CCDF Cluster, \$97,313,572 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 2009 and 2010 grants exceeded corresponding expenditures for three 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, 2009, December 31, 2009, and March 31, 2009, nor at the end of the state fiscal year (June 30, 2010), since total draws exceeded total expenditures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

8. CCDF CLUSTER – CASH MANAGEMENT (Continued)

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	\$21,885,562	\$16,983,632	
		Matching Fund	-	1,438,420	
2009	JFSFCM09	September 30, 2009	21,885,562	18,422,052	3,463,510
		Mandatory Fund	27,602,159	27,239,131	
		Matching Fund	-	-	
2010	JFSFCM10	December 31, 2009	27,602,159	27,239,131	363,028
		Mandatory Fund	52,543,299	(18,908,268)	
		Matching Fund	-	-	
2010	JFSFCM10	March 31, 2010	52,543,299	(18,908,268)	71,451,567
		Mandatory Fund	(23,814,012)	21,204,382	
		Matching Fund	19,096,564	21,878,931	
2010	JFSFCM10	June 30, 2010	(4,717,448)	43,083,313	(47,800,761)
Totals			\$97,313,572	\$69,836,228	27,477,344

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 was not practical to separately identify and track the revenue and expenditure activity in OAKS for the mandatory or matching portions of the grant. They contend they could not be in noncompliance with the cash management provisions cited above because they had met the applicable matching requirements for this program, as a whole. They also stated they were unable to implement the necessary changes in SFY 2010 due to the lateness of them learning about the matter, but have implemented changes for SFY 2011. ODJFS management further stated this process has been taken over by the cash management department rather than allowing the counties to report the amounts which caused the problems noted in prior audits.

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

Effective 4/14/10, ODJFS applied for new Grant numbers for each component of the CCDF cluster. The Grant numbers assigned for SFY10 for the three components of the CCDF grant were JFSFCG10 (Matching), JFSFCM10 (Mandatory) and JFSFCD10 (Discretionary). Each new grant year the last two digits of the grant number shall reflect the corresponding SFY.

As recommended above, each component of the Child Care Funds now has its own unique Grant code, which will identify each portion of the revenue and expenditure by that specific grant number, which will further facilitate accurate draws and reporting of expenditures as required by applicable regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

8. CCDF CLUSTER – CASH MANAGEMENT (Continued)

Each one of the components of the CCDF cluster grant is now uploaded through OFIS into OAKS and the draws are based on the reports from OAKS as normal.

Anticipated Completion Date for Corrective Action

This corrective action is complete and in effect. The effective date was 10/1/10.

Contact Person Responsible for Corrective Action

Jim Holmes, Fiscal Officer 2, Ohio Department of Job & Family Services, 30 E Broad St, 37th Floor, Columbus, OH 43215, Phone: (614) 466-8473, E-Mail: james.holmes@jfs.ohio.gov

9. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION

<i>Finding Number</i>	2010-JFS09-024
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 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 MATERIAL WEAKNESS

Undetermined Amount

7 CFR 272.8(e) states:

Documentation. The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

7 CFR 273.2(f)(6) states:

Documentation. Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

45 CFR 205.56(a)(1)(iv) states, in part:

For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

9. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

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 high-priority IEVS alert matches tested for the five selected counties (Cuyahoga, Franklin, Hamilton, Lucas, and Montgomery):

- 48 impacted multiple programs. Seven of these 48 applicable matches (14.6% with a potential impact to 22.5% or approximately \$624 million, \$179 million, \$58 million, and \$2.4 billion for SNAP, TANF, CHIP, and Medicaid respectively) (all from Hamilton County) had not been resolved properly for all programs. As of 2/25/11, ODJFS advised Hamilton CDJFS to complete the outstanding IEVS matches, calculate any overpayments, and to enter any resulting claims into CRIS-E. Federal and State rules allow eight months to establish a claim. As of the date of this report, documentation of their results was not available; therefore, an undetermined amount is questioned for the TANF, Medicaid, CHIP, and SNAP programs.
- Nine of 60 matches (15% with a potential impact to 22.7% or approximately \$629 million, \$180 million, \$59 million, and \$2.4 billion for SNAP, TANF, CHIP, and Medicaid respectively) did not have proper result codes. Eight of the nine (all from Hamilton County) had no result code at all. The remaining one (from Montgomery County) was miscoded as "V" ("Couldn't Verify"), despite documentation available in CRIS-E that would support the use of a different code. These exceptions did not have an impact on eligibility or the benefit amounts.

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:

- A lack of cooperation and timely response from employers, which delays the receipt of information necessary to complete the alerts timely and accurately.
- The county case load size has increased which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.
- The Department is limited in the extent that control policies and procedures can be levied on the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

9. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the requirements. Specific training and more stringent monitoring should occur for Hamilton County since a significant number of exceptions were identified in their activities.

Official's Response and Corrective Action Plan

The Bureau of Program Integrity will work with Hamilton County to develop a supervisory review process for the resolution and documentation of IEVS alerts. IEVS training will be offered to the county to provide further guidance and instruction for best practices.

Currently IEVS matches are reviewed monthly as part of the quality control review process and a "county error" is cited when eligibility is affected because the county did not complete the match or did not complete it correctly. For FFY 2010, Hamilton County's error rate was 1.5% which is less than half of the state error rate of 3.2%. The current IEVS triennial review monitoring process is prescribed in OAC 5101:1-1-36 and is accepted by our Federal Grantor agency. The recommendation to further monitor the county subrecipients during the award period is not cost effective, feasible, or supported by law.

The subgrant agreement is intended to identify the basic expectations of ODJFS with regards to the county government as a subrecipient of the department (i.e., establish overall terms, conditions, and requirements governing the administration and use of the financial assistance received). The recommendation to explicitly identify the documentation requirements in the subgrant agreements and include appropriate ramifications for noncompliance is not feasible. The sheer number of programs and the underlying compliance requirements applicable to the county agency operations makes it impractical to require this level of detail and volume to be included in the subgrant agreement.

Anticipated Completion Date for Corrective Action

The training and technical assistance will be provided by October 31, 2011.

Contact Person Responsible for Corrective Action

Diana Skinner, Section Chief, Program Monitoring Section, Ohio Department of Job & Family Services, 30 E. Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 752-3146, E-Mail: diana.skinner@jfs.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. IEVS – DUE DATES

<i>Finding Number</i>	2010-JFS10-025
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 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 AND MATERIAL WEAKNESS

7 CFR 272.8(c)(2) states the following regarding SNAP (formerly Food Stamps) IEVS alerts:

State agencies must initiate and pursue the actions on recipient households specified in paragraph (c)(1) of this section so that the actions are completed within 45 days of receipt of the information items. Actions may be completed later than 45 days from the receipt of information if:

- (i) The only reason that the actions cannot be completed is the nonreceipt of verification requested from collateral contacts; and
- (ii) The actions are completed as specified in § 273.12 of this chapter when verification from a collateral contact is received or in conjunction with the next case action when such verification is not received, whichever is earlier.

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.

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 (i.e. collateral) sources. Information that does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

During the fiscal year 2010 audit, five 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, and Montgomery counties represented approximately 40% of the nearly 3.7 million IEVS high priority alerts issued in state fiscal year 2010. However, seven of 60 IEVS high priority alerts tested at these five counties (11.7% with a potential impact to 18.9% or approximately \$524 million, \$150 million, \$49 million, and \$2 billion for SNAP, TANF, CHIP, and Medicaid, respectively) were not resolved by the mandated timeframe and there was no documentation to indicate a third-party verification was pending. Unresolved alerts were found in all five counties tested.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. IEVS – DUE DATES (Continued)

Of the seven delinquent high priority alerts:

- Five were resolved one to 50 days beyond the due date.
- Two were resolved 51 to 500 days beyond the due date.

No additional recipient benefits appeared to be issued as a result of these errors.

Not completing the IEVS alerts within the established timelines increases the risk that benefits given to ineligible recipients or for inappropriate amounts will not be identified timely. This condition could adversely affect the Department's ability to comply with Special Tests and Provisions required by the federal programs. Failure to comply with the requirements related to IEVS could also result in federal sanctions or penalties.

ODJFS management indicated the alert resolution delinquencies were caused by:

- A lack of cooperation and timely response from employers which delays the receipt of information necessary to complete the alerts timely and accurately.
- An increase in the county case load size which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.
- The Department's limited ability to enforce control policies and procedures at the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

We recommend the Department work with the counties to implement control policies and procedures to reasonably ensure matches are completed by the due dates specified in the IEVS CRIS-E Alert Processing Instruction Guide. These procedures must include reviews by the County IEVS Coordinator or other supervisory personnel (through CRIS-E) to monitor the status of IEVS alerts. Such requirements should be explicitly identified in the sub-grant agreements with the counties and include appropriate ramifications for noncompliance with the stated requirements. We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the due date requirements.

Official's Response and Corrective Action Plan

The Bureau of Program Integrity (BPI) has been working with the counties and monitoring the timeliness of processing rates monthly. When a county falls below the acceptable 80% timeliness rate, the fraud control specialist contacts the county and provides technical assistance, as needed. BPI is in the process of requesting Continuous Improvement Plans (CIP) from any county that continues to be delinquent and does not show improvement.

The subgrant agreement is intended to identify the basic expectations of ODJFS with regards to the county government as a subrecipient of the department (e.g. establish overall terms, conditions, and requirements governing the administration and use of the financial assistance received). The recommendation to explicitly identify the documentation requirements in the subgrant agreements and include appropriate ramifications for noncompliance is not feasible. The sheer number of programs and the number of underlying compliance requirements applicable to the county agency operations makes it impractical to require this level of detail and volume to be included in the subgrant agreement.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. IEVS – DUE DATES (Continued)

We do find it to be cost effective to monitor the county subrecipients during the award period. The current IEVS triennial review monitoring process is prescribed in OAC 5101:1-1-36 and is accepted by our Federal Grantor agency. IEVS matches currently are reviewed monthly as part of the quality control review process and a “county error” is cited when eligibility is affected because the county did not complete the match or did not complete it correctly. The audit report cited “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.”

The most recent completed federal fiscal year, FFY 2010, error rate for the state is 3.19% which is less than the national average of 3.64%. This would indicate the processes currently in place are adequate to ensure the risks are minimal. The recommendation to further monitor the county subrecipients during the award period is not cost effective, feasible, or supported by law.

Anticipated Completion Date for Corrective Action

An approved CIP format will be established by June 30, 2011 and will be utilized for those counties who continuously fail to meet the timeliness requirement of 80% and do not appear to be making progress.

Contact Person Responsible for Corrective Action

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11. MEDICAID/CHIP – PROVIDER ELIGIBILITY

<i>Finding Number</i>	2010-JFS11-026
<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>	Special Tests and Provisions

NONCOMPLIANCE AND MATERIAL WEAKNESS

In order for a provider to enroll in the Medicaid program, they must comply with applicable laws and regulations pertaining to Medicaid, including Section 1902 of the Social Security Act; Title 42, Chapter IV, Parts 442, 482 through 489 of the Code of Federal Regulations; and Chapter 5101:3 of the Ohio Administrative Code. The Provider Enrollment Unit has created a Provider Enrollment Manual which combines all the requirements for a provider to be enrolled in the Medicaid program. It is imperative that management monitor and oversee the process of granting Medicaid eligibility to new providers to reasonably ensure compliance with applicable laws and regulations. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department disbursed approximately \$11.8 billion (\$11.5 billion for Medicaid; \$297.9 million for CHIP) to providers for Medicaid and CHIP during state fiscal year 2010. The Provider Enrollment Unit is responsible for enrolling providers in the Medicaid/CHIP programs. During state fiscal year 2010, the Unit enrolled 8,305 providers. To apply for enrollment in the program, each provider must complete and submit an application packet to the Provider Enrollment Unit for review and approval. The Provider Enrollment Unit maintains a Provider Enrollment Manual listing all documentation required for enrollment

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

11. MEDICAID/CHIP – PROVIDER ELIGIBILITY (Continued)

of each type of provider, as well as instructions for keying provider information in MMIS. Required documentation for enrollment and keying instructions for MMIS varies by the type of provider. Upon review of the application packet, the Provider Enrollment Unit ensures that all applicable requirements and documentation was submitted as specified in the Provider Enrollment Manual. Either the Provider Enrollment Unit Supervisor or the Lead Worker reviews a sample of applications and documentation to ensure the provider was appropriately approved and information was keyed correctly into MMIS. While the Department has established certain internal controls and practices to verify requirements are met, these controls were not consistently followed and were not always effective, as indicated below:

- The Provider Enrollment Manual did not always contain complete and accurate information. Specifically, the Provider Enrollment Manual did not contain separate documentation instructions for providers contracted with Managed Care Plans who are not also enrolled in the Fee-for-Service program and Non-Agency Personal Care Aide providers.
- While the Department pulled a sample of applications for review, there was no documentation to support which applications were selected and reviewed. Therefore, we could not ensure our population was complete and could not verify that all applications sampled were actually reviewed and evidenced.
- 13 of 59 (22%; when sampling risk is considered, there is a possibility of a greater actual exception rate in the population) providers were not approved by the Department as specified in the Provider Enrollment Manual. Ten files related to provider types for which the Provider Enrollment Manual was not accurate and complete, suggesting the lack of documentation instructions contributed to the missing information. In the remaining three instances, all the necessary documentation was not obtained, as indicated: (1) a W-9 was not on file; (2) there was no online verification of the applicant's pharmacy or Pharmacist license on file; and (3) there was no copy of the Nurse Anesthetist's Masters Degree in Nursing on file, as required by the manual for Certified Registered Nurse Anesthetist providers.
- 18 of 59 (30.5%; when sampling risk is considered, there is a possibility of a greater actual exception rate in the population) provider files were not correctly entered in MMIS. In 11 instances, an incorrect begin date was entered in MMIS. In the remaining instances, the end date, the provider's address, and/or the provider's license was incorrectly entered. The errors did not result in any ineligible payments to the providers and therefore, we will not question costs.
- Five of 59 (8.5%; when sampling risk is considered, there is a possibility of up to a 15% actual exception rate in the population) provider files did not contain evidence to support that the Provider Enrollment Unit verified the provider was not federally excluded.
- One of 59 (1.69%; when sampling risk is considered, there is a possibility of up to a 6.4% actual exception rate in the population) providers did not comply with the disclosure requirements of 42 CFR 455 subpart B.

Without proper documentation of management's review and approval, there is an increased risk that procedures may not be working as intended or may not be consistently applied. Without documented policies and procedures which are complete, accurate, and timely updated, the risk of error in provider eligibility determinations as well as errors in keying provider information into MMIS is increased. This could result in ineligible providers being paid with Medicaid funds, as well as providers having claims rejected incorrectly.

The client indicated the above issues occurred mainly due to the Provider Enrollment Manual not being up-to-date.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

11. MEDICAID/CHIP – PROVIDER ELIGIBILITY (Continued)

We recommend the Department implement and/or strengthen internal controls related to the review of provider application information. The method for selection of the provider applications to review should be formally documented so management can ensure that reviews are accurately and consistently performed. Evidence of the control procedures performed should be maintained to provide management with assurance the controls are operating consistently and effectively. In addition, we recommend the Department review and update their written policies and procedures relating to Provider Eligibility to include appropriate documentation requirements and data entry instructions for all provider types. These policies and procedures should be formally documented, complete, communicated to all employees, and re-evaluated and updated on a regular basis to address any necessary changes.

Official's Response and Corrective Action Plan

The Network Management Section of the Office of Ohio Health Plans continues to review and update the Provider Enrollment Manual. While much of the recent rewriting efforts have been focused on overall transitioning from the current MMIS based format to the upcoming Medicaid Information Technology System (MITS) format, we specifically updated all the provider types to a MITS based format. This new format was in place for the last part of SFY2010 because our original anticipated implementation date was December 2010. Various efforts were made to explain the rationale for the transition in the enrollment manual to the audit team. All provider services staff were informed of the transition process and both versions of the manual are made accessible to staff on the bureau's shared drive. Additionally, all provider staff have been directed to a single point of contact (the Compliance Manager) with any provider type questions that are not addressed within the scope of either manual. Policy clarifications and updates will be made to the provider enrollment manual periodically as we move closer to MITS implementation with the goal of having a complete up to date manual once implementation has taken place and the first phase of the system is fully operational.

Network Management section will continue to implement a quality control process where a random sample of 20 enrollment applications per week are reviewed for accuracy and sent back for correction. We will improve how we track the documentation for the random sampling of enrollment applications.

Anticipated Completion Date for Corrective Action

Provider enrollment manual will be updated periodically in conjunction with implementation of MITS in 2011 (actual release date is not available). The random sample quality checks of enrollment applications will continue as a separate process until MITS implementation. We will improve our internal controls for this process by establishing clearer tracking procedures so documentation can be more readily obtained and identified. We will do this in the interim period prior to MITS implementation. In the MITS environment, quality checks are incorporated in the workflow queues for every provider application. An application cannot progress to full enrollment unless all required information is entered and has been reviewed by a lead worker or supervisor.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

12. IEVS – IRS INFORMATION UNPROTECTED

<i>Finding Number</i>	2010-JFS12-027
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 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 AND SIGNIFICANT DEFICIENCY

26 USC § 6103 states, in part

- (a) General rule Returns and return information shall be confidential, and except as authorized by this title.
- (b) Definitions For purposes of this section:
 - (1) Return: The term "return" means any tax or information return, declaration of estimated tax, or claim for refund required by, or provided for or permitted under, the provisions of this title which is filed with the Secretary by, on behalf of, or with respect to any person, and any amendment or supplement there to, including supporting schedules, attachments, or lists which are supplemental to, or part of, the return so filed.
 - (2) Return information: The term "return information" means:
 - (A) a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions ,credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, over assessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Secretary with respect to a return or with respect to the determination of the existence, or possible existence, of liability (or the amount thereof) of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense.

The Income and Eligibility Verification System (IEVS), mandated by federal law, is a computerized system that matches recipient/beneficiary information from CRIS-E to other provider databases including those of the Social Security Administration (SSA), Internal Revenue Service (IRS), State Wage Information Collection Agency (SWICA), and Unemployment Insurance Benefits. The exchange of data is based on social security numbers and occurs at specified intervals for all applicants and recipients of TANF/OWF, SNAP, and Medicaid. The information received from the data sources is used in verifying eligibility for public assistance benefits in accordance with federal regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

12. IEVS – IRS INFORMATION UNPROTECTED (Continued)

Federal tax information delivered through the IEVS system must be carefully safeguarded. The information is to be used solely for the purpose of determining past, present, or future eligibility for public assistance benefits and services, and may be disclosed only to individuals who need it for this purpose. Staff must remain diligent to the "need-to-know" principle. This means that IEVS information must be secured from review by people whose jobs do not require them to have the information. In practice, this means that any time federal tax information (as defined by 26 USC § 6103) is transferred to paper, such as screen printing or the copying of data on scratch paper, post-it-notes, etc., that paper requires safeguarding. It also means that staff must remember not to display federal tax information on computer screens which can be viewed by non-secure employees, including the running record comments (CLRC) screen in CRIS-E. However, of the 60 IRS matches tested, four (6.7%) contained federal return information (i.e., specific income amount and/or source data) within CRIS-E's running record comments screens (CLRC).

Noncompliance with federal laws and regulations increases the risk of legal liability associated with the release of protected private information that is made accessible to the public.

According to the ODJFS, one of the primary reasons for finding FTI in CLRC is because county departments of job and family services have experienced reduced funding over the past three years and, as a result, hiring freezes have been instituted and in some cases, major lay-offs occurred. During the same period, public assistance caseloads have increased considerably, so less staff are working on much higher caseloads and many are responsible for new duties but have not received adequate training on FTI safeguarding.

We recommend ODJFS management take steps as necessary to ensure federal return information is not included in the case file or the running record comments (CLRC) screen in CRIS-E. This should include providing appropriate training or other tools necessary to their county subrecipients to help ensure they are aware of the regulations regarding this protected information. We also recommend ODJFS increase or otherwise modify their procedures to monitor the activities of the counties to reasonably ensure the established policies and procedures are being followed, to identify the need for additional training, and determine if any changes in procedures are necessary.

Official's Response and Corrective Action Plan

The Bureau of Program Integrity (BPI) provided Federal Tax Information (FTI) training to the counties on January 25, 2011 via video conference. A power point handout was provided for the training and counties could request a copy of the video conference for future training purposes. BPI also offers ongoing training in conjunction with other ODJFS offices as opportunities are presented and as issues are brought to the group's attention. Technical assistance is provided by BPI as well as specific counties as needed, or as requested regarding this subject.

The finding indicated ODJFS management should take steps as necessary to ensure federal return information (FTI) is not included in the case file or the running record comments (CLRC) screen in CRIS-E. The Bureau of Program Integrity believes appropriate steps have been taken to reasonably ensure FTI is not being used inappropriately. The current FTI triennial review monitoring process complies with the standards prescribed in IRC 6103(p) (4) (D), Section 6.3. The set standards provide reasonable assurance that the counties are following the guidelines.

The report offered the recommendation to increase or otherwise modify the procedures to monitor the activities of the counties to reasonable ensure the established policies and procedures are being followed. As stated previously, the set standards provide reasonable assurance that the counties are following the guidelines.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

12. IEVS – IRS INFORMATION UNPROTECTED (Continued)

The recommendations to further monitor the county subrecipients during the award period is not cost effective, feasible, or supported by law.

Anticipated Completion Date for Corrective Action

The Bureau of Program Integrity will continue to monitor FTI in the triennial reviews and report findings of FTI to the counties reviewed. FTI video training will be offered again in January 2012, to assist the counties with meeting the annual employee awareness requirement.

Contact Person Responsible for Corrective Action

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13. VARIOUS PROGRAMS – CASH MANAGEMENT

<i>Finding Number</i>	2010-JFS13-028
<i>CFDA Number and Title</i>	93.575/93.596/93.713 – Child Care Cluster 93.767 – Children’s Health Insurance Program
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Cash Management

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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 Child Care Cluster (CCDF) and Children’s Health Insurance Program (CHIP) programs are covered by such an agreement. The fiscal year 2010 CMIA Agreement between the State of Ohio and the United States Department of the Treasury specifically requires the State 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 and Actual Clearance, ZBA – ACH funding techniques, respectively:

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 State shall request funds such that they are deposited by ACH in a State account on the settlement date of payments issued by the State. 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 for the amount the funds that clear the State’s account on the settlement date. This funding technique is interest neutral.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

13. VARIOUS PROGRAMS – CASH MANAGEMENT (Continued)

During the fiscal year, ODJFS drew down \$226,019,336 and \$260,950,778 for the CCDF and CHIP federal programs, respectively. The Department applied the same drawdown 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. However, the Department did not comply with the designated funding techniques to be used for all the CCDF (Pre-Issuance) and CHIP (Actual Clearance) draws tested. Of 149 disbursements tested from 60 draws, 15 payments from eight draws were not disbursed within the designated timeframe of the receipt of the federal funds, as required by the CMIA agreement for these transactions. ODJFS disbursed the funds five to 20 days after the required disbursement date, with the average disbursement occurring nine days late.

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 various reasons originating in the sections that request the cash.

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

ODJFS requested information on the sample selected and tested, so that the agency could review the average days of cash on hand for the sample, but that information was not made available. Only the section of the sample considered as findings was available. We cannot fully respond to the finding as we don't have the spreadsheet showing the items considered within the cash management limits to see the overall compliance, cannot ascertain the methodology or why certain vouchers were selected and cannot ask the auditor that completed the work questions or the logic used as they are no longer with AOS.

Given the aforementioned issues, we have examined what was made available. There were 15 payments in question. Of those 15 payments, 13 were for items that likely rejected as they processed through the system. Rejections may happen due to budget issues, improper coding and the like. The cash must be drawn before the entire process for voucher approval is complete so that funding can be available once warrants are released. Vouchers usually reject for reasons that are easily remedied so it is appropriate not to adjust the cash so that the voucher can pay once remedied. In the future ODJFS will keep PDF files of the Voucher Error Record Report so that we can research reasons individually as OAKS overrides once the voucher is paid.

The other two items pertained to payments paid with an ODJFS pay card. Two of these payments were put through the system on July 7, 2009. They didn't pay because there were multiple budget issues as the state was operating under a continuing resolution budget. ODJFS had to remain ready to pay these vouchers once budget constraints were lifted.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

13. VARIOUS PROGRAMS – CASH MANAGEMENT (Continued)

Anticipated Completion Date for Corrective Action

ODJFS will begin keeping the Voucher Error Record Report in PDF form beginning April 1, 2011

Contact Person Responsible for Corrective Action

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Auditor of State’s Conclusion

The Department made a request to obtain the voucher numbers that were questioned in the comment. We provided them with a partial copy of the test sheet that identified all of the information we had on the exceptions, as well as a number of items tested that were not exceptions. The entire test sheet was available to the Department, but was not requested.

While we understand there may be budgetary and other issues mentioned by the Department that may delay the disbursements, we also recognize the CMIA agreement and federal requirements do not provide for the use of alternative timing schemes. We are required to base our test on the stated, pre-determined timelines contained in these documents. Therefore, the finding remains as stated.

14. FEDERAL FINANCIAL REPORTS

<i>Finding Number</i>	2010-JFS14-029
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 93.563 – Child Support Enforcement 93.575/93.596/93.713 – 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:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

14. FEDERAL FINANCIAL REPORTS (Continued)

- (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.

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 accordance 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 transactions processed at the county level for these nine federal programs within their individual county's single audit.

Although the change in recognition was effective January 1, 2009, ODJFS continued to prepare the federal financial reports during fiscal year 2010 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. As part of the Corrective Action Plan that ODJFS provided to this comment in the prior audit, the Department stated that it "would contact our federal awarding agencies to determine whether they consider a change in established reporting procedures to be necessary or desirable." The Department was not able to provide documentation that this contact took place.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

14. FEDERAL FINANCIAL REPORTS (Continued)

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. The reporting processes currently used within ODJFS allow for consistent treatment within our accounting structure and allow for the most accurate federal reporting of expenditures.

While the Auditor of State chooses to characterize the resulting situation as a lack of clarity as to whether ODJFS is in compliance with federal reporting requirements, it appears equally valid to conclude that no evidence has been adduced to support a conclusion that the department is not compliant with federal reporting requirements. The federal agencies review our federal reports and procedures and have accepted our reports.

In light of the uncertainty resulting from the audit finding, ODJFS will once again contact our federal awarding agencies to determine whether they consider a change in established reporting procedures to be necessary or desirable. Past responses from the cognizant federal awarding agencies have been somewhat inconsistent, but we have not been contacted to change our reporting process.

Anticipated Completion Date for Corrective Action

No anticipated completion date can be given at this time. Once the resolution is determined at the federal level, ODJFS will provide an update to AOS.

Contact Person Responsible for Corrective Action

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15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

<i>Finding Number</i>	2010-JFS15-030
<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

MATERIAL WEAKNESS

Federal regulations allow, and in some cases require, states to utilize computer systems for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and separate from the agency's regular financial system. Typical functions of complex computer systems may include evaluating applicant information and determining eligibility and/or benefit amounts;

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

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, FACSIS, SACWIS, CFIS, OFIS, OJI, WRS, and UC) to record and process eligibility and financial information for the SNAP (\$2.7 billion), Medicaid (\$11.5 billion), CHIP (\$295 million), TANF (\$691 million), Child Support (\$126 million), Foster Care (\$76 million), Adoption Assistance (\$99 million), WIA (\$232 million), and Unemployment Compensation (\$5 billion) major federal programs. However, during the audit period, the Department did not have any internal, independent individuals assigned to evaluate the ADP environment and provide assurance to management that the programs' objectives and requirements of 45 CFR 95.621 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

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 federal and state audit efforts, such as the state single audit, to validate and verify development/production applications.

We recommend ODJFS management implement a process for conducting internal, independent evaluations of the Department's significant computer systems (CRIS-E, MMIS, SETS, FACSIS, SACWIS, CFIS, OFIS, 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, if the internal evaluations are done external to OIA. 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, OIA, 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 Office of Internal Audits continues to provide these application review services to ODJFS. Any noted concerns are documented and implementations of required corrective actions are tracked to reduce concerns to an acceptable risk level.

The Federal and State internal rules that govern the processing of the ODJFS mission critical systems are massive and their interdependencies complex. ODJFS relies on the statutory authority of OBM-OIA to audit these systems and provide management the assurance that they are functioning within the Federal and State guidelines.

Anticipated Completion Date for Corrective Action

ODJFS relies on the statutory authority of OBM-OIA to audit their automated systems. ODJFS will continue to work with OIA to ensure that their independent evaluation of the automated applications function within the Federal and State guidelines that governs them.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

**15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS
(Continued)**

Contact Person Responsible for Corrective Action

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Auditor of State’s Conclusion

Late in fiscal year 2010, the Office of Internal Audit (OIA), within the State’s Office of Budget and Management, completed testing over the ODJFS CRIS-E FIAT process. The results of this testing were considered by the Auditor of State during the final stages of review of our state single audit comments for fiscal year 2009, and upgrades were made to the single audit comment issued related to CRIS-E FIATS. The testing performed by OIA during fiscal year 2010 was limited to one specific control process in place for the CRIS-E system and was not a comprehensive review of the CRIS-E system as a whole. In addition, OIA did not perform comprehensive evaluations of any other significant computer systems at ODJFS.

Based on these facts and the immeasurable reliance placed on these complex information systems (CRIS-E, MMIS, SETS, FACSIS, SACWIS, CFIS, OFIS, OJI, WRS, and UC) to record and process eligibility and financial information for major federal programs a material weakness is warranted. Therefore, the finding will remain as stated.

16. IT – CSRS/OVERRIDES IN CRIS-E

<i>Finding Number</i>	2010-JFS16-031
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 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

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 \$2.7 billion for SNAP, \$691 million for Temporary Assistance for Needy Families (TANF), \$295 million for Children’s Health Insurance Program (CHIP), and \$11.5 billion for Medicaid in fiscal year 2010. 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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16. IT – CSRS/OVERRIDES IN CRIS-E (Continued)

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.

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.

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

ODJFS continues to assert that the FIAT process is a controlled management tool that allows authorized case workers to use the automated processes within the CRIS-E system to deliver accurate benefits. The FIAT process is restricted and procedures require supervisory approval to use.

CSRs related to correcting use of the FIAT processes have been reviewed and been determined that implementation of the requested system changes will result in inaccuracies to other, more prominently used benefits calculation processes.

Anticipated Completion Date for Corrective Action

ODJFS disagrees with this finding.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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16. IT – CSRS/OVERRIDES IN CRIS-E (Continued)

Auditor of State's Conclusion

The assertion by ODJFS that the FIAT process is a controlled management tool and that the FIAT process is restricted and procedures require supervisory approval does not take into consideration the system knowledge and situational awareness required of caseworkers and the manual intervention that must take place to identify instances where CSRs have not been completed and the FIAT process is necessary.

The complex and varied nature of the CSRs and related situations requiring FIATs along with the large caseloads placed on caseworkers and their supervisors increase the risk that these situations requiring FIAT intervention will be misidentified or not identified at all potentially resulting in inappropriate public assistance benefits being issued either intentionally or unintentionally. This risk warrants reporting as a material weakness. Therefore, the finding will remain as stated.

17. FEDERAL REVENUE CONTROLS

<i>Finding Number</i>	2010-JFS17-032
<i>CFDA Number and Title</i>	All Federal Programs of the Department
<i>Federal Agency</i>	Department of Agriculture Department of Labor Department of Health and Human Services
<i>Compliance Requirement</i>	Cash Management

MATERIAL WEAKNESS

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.

During fiscal year 2010, the Department received and processed approximately \$11.5 billion in federal revenue related to the 40 federal programs they administer. ODJFS established a control procedure requiring, on a daily basis, the Federal Cash Draw Unit Supervisor or authorized individual review and approve the Request for Payment (Smartlink II or ASAP Confirmation) printout to verify the amounts and account numbers on them correspond to the Revenue Direct Journal Entry spreadsheet, Ohio Administrative Knowledge System Payment Detail Report, and supporting documentation for accuracy and completeness, by signing the Smartlink II or ASAP Confirmation printout. However, for one of 60 (1.7%; with a potential impact to 6.4% or \$735 million of the population) federal revenue draws tested, there was no evidence to indicate the Federal Cash Draw Unit Supervisor or authorized individual reviewed the Request for Payment printout, as required.

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17. FEDERAL REVENUE CONTROLS (Continued)

Without consistent performance and documentation of internal controls, and the maintenance of required records to support the draw and receipt of federal funds, the risk exists that revenues for the federal programs may not be processed accurately, recorded for the proper program in a timely manner, or in compliance with federal requirements. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate. This also increases the risk that internal controls may not be working in a manner intended by management.

Department management stated the lack of the reviewed Request for Payment printout was due to an oversight when they modified the drawdown amount.

We recommend ODJFS management evaluate their current processes and procedures related to the federal draw drawdown process and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis to reasonably ensure federal revenues for the federal programs are processed accurately, recorded in a timely manner, and in compliance with federal requirements. These controls should include a secondary review for any modifications to verify the changes are accurate and appropriate. In addition, management should periodically monitor the established control procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

Any modification to the draw will be reviewed and initialed by the Federal Cash Draw Supervisor or an authorized individual, this has taken effect. The cash draw procedures have been updated to include a section concerning a modification to the draw and the review process.

Anticipated Completion Date for Corrective Action

The update of the cash draw procedures were completed on March 1, 2011.

Contact Person Responsible for Corrective Action

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18. IT – MMIS ELIGIBILITY – PDD AND PROVIDER CHARGE CODE CHANGE REQUEST FORMS

<i>Finding Number</i>	2010-JFS18-033
<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

MATERIAL WEAKNESS

To help ensure data integrity, it is prudent that data input for electronic processing be properly authorized and accurately input. Accurate changes to key data must be supported by authorized request forms and adequate documentation necessary to support those changes.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

18. IT – MMIS ELIGIBILITY – PDD AND PROVIDER CHARGE CODE CHANGE REQUEST FORMS (Continued)

The Medicaid Management Information System (MMIS) determines the amount of reimbursement to medical providers and managed care entities for services rendered to eligible recipients. During fiscal year 2010, MMIS processed over 76 million claims from providers resulting in over \$11.8 billion in Medicaid and Children's Health Insurance Program (CHIP) reimbursements to these providers. Changes to the Procedure, Drug, and Diagnosis (PDD) file and the Provider Charge file are to be documented, approved, and input by the ODJFS Bureau of Health Plan Policy; however:

- Three of 20 (15%; with a potential impact to 30.5% or approximately \$3.6 billion of the population) tested procedure code changes did not have authorizing origination documentation.
- Three of 20 (15%; with a potential impact to 30.5% or approximately \$3.6 billion of the population) tested drug code changes did not have a corresponding change request form.
- One of eight tested provider change request forms were not signed by Health Plan Policy Staff signifying change was completed in MMIS.

If unauthorized or incorrect changes are made to the PDD or Provider Charge file, the risk is increased that Medicaid or CHIP codes and allowable reimbursement amounts may get changed erroneously. Claims may subsequently get reimbursed incorrectly.

Management indicated the misplacement of drug change forms and the originating documentation and sign offs was due to oversight during the update process.

We recommend all changes to the PDD and Provider Charge file be initiated based on a change request form and supporting documentation. We also recommend that staff completing the change and the supervisor requesting the change approve each completed form to signify the change was completed and requested appropriately.

Official's Response and Corrective Action Plan

While we are much closer to implementing the new Medicaid Information Technology System (MITS) system and have a better understanding of its implications on the Benefit Plans and Provider Contracts, we continued through 2010 using a paper process for documenting PDD and provider charge file changes when not using the Office of Information Systems for changes. The Information Technology Coordination Unit processed 20,879 changes in 2010 and 21,645 in 2009.

Ohio Health Plan (OHP) will adopt the recommended changes to the PDD and Provider Charge file be initiated based on a change request form and supporting documentation that have not already been implemented. We also communicate to staff that when completing the change form they will need a supervisor approval for the change and that each completed form will be updated to signify the change was completed.

Anticipated Completion Date for Corrective Action

OHP will implement the changes as quickly as possible, anticipating that they will be fully in place by June 30, 2011.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

19. IT – MMIS ELIGIBILITY – PMF CODE CHANGES

<i>Finding Number</i>	2010-JFS19-034
<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

MATERIAL WEAKNESS

To help ensure data integrity, it is prudent that data input for electronic processing be properly authorized and accurately input. Another method of ensuring data integrity is to establish a separation of duties among those inputting data and those reviewing and approving the integrity of that data. Additionally, in situations where data is incorrectly input, procedures are established for the correction and resubmission of erroneous input data.

ODJFS maintains the Medicaid Management Information System (MMIS) that processes claims for reimbursement to medical providers for eligible services rendered. During fiscal year 2010, MMIS processed over 76 million claims from providers resulting in over \$11.8 billion in Medicaid and Children’s Health Insurance (CHIP) reimbursements to these providers. The providers submit changes to their Medicaid accounts to the Department’s Office of Ohio Health Plans (OHP). OHP then inputs the changes into the MMIS Provider Master file for processing. Current procedures require change requests to be documented, authorized, date stamped by the individual entering the data, and date stamped by the supervisor who reviews the data entered. However, these procedures were not consistently followed during fiscal year 2010 for changes to the Provider Master File, as indicated below:

- Documentation could not be provided for seven of the 60 changes tested (11%; with a potential impact to 18.9% or approximately \$2.2 billion of the population).
- The change request form provided was not adequate for two out of 53 (4%; with a potential impact to 9.4% or approximately \$1.1 billion of the population).
- The change requests to the Provider Master File were not signed with an authorizing signature from the provider for five out of 53 (10%; with a potential impact to 16.3% or approximately \$1.9 billion of the population).
- Change requests to the Provider Master File were not date stamped by the staff member signifying the change was complete for 10 out of 46 (21%; with a potential impact to 32.2% or approximately \$3.7 billion of the population).
- Change requests to the Provider Master File were not date stamped by the supervisor or lead worker signifying the change was reviewed for 44 out of 46 (96%).

If a provider’s status is updated incorrectly, without proper support, or from an unauthorized source, non-eligible providers or provider groups could receive reimbursement from Medicaid and/or CHIP.

OHP management indicated all requested support information could not be located for provider master file updates, but could not offer any explanation as to why this documentation was not available.

We recommend OHP ensure all change request documentation and required date stamps are provided when making changes to the MMIS Provider Master File. We also recommend Ohio Health Plans’ management assign an employee to periodically conduct and document reviews of the change requests input to the MMIS Provider Master File.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

19. IT – MMIS ELIGIBILITY – PMF CODE CHANGES

Official's Response and Corrective Action Plan

While we are closer to implementing the new Medicaid Information Technology System (MITS) and have a fuller understanding of its implications on the provider enrollment process, we continued through 2010 using a paper process for provider enrollment. The Provider Enrollment Unit processes over 11,000 applications and 14,000 changes to provider records annually. Given our current rate of processing and sorting documents for filing, we typically have the most recent past year's provider applications on hand for filing. At the time of this audit we were filing 2009 documents. Documents that have not yet been filed continue to be stored in boxes or in U.S. Mail containers, and kept in a reserve area in the Provider Enrollment Unit until the unit's clerks can file them. At this point in the sorting process, documents are not stored in sequence, and it is difficult to find specific provider number's documents within the time frame specified for the audit.

With the development of the new Medicaid information system (we do not have a full implementation date set at this time) all documents received by the department will be scanned prior to being available for processing by unit staff. In preparation for a potential MITS implementation date during this year, the provider enrollment unit is making every effort to sort and organize past years' enrollment files, prepare them for imaging (electronic storage) and clear the area of paper files.

The high percentage of missing supervisor stamps occurred because the supervisors had not completed their quality checks by the time the records were requested for audit review. Due to the number of changes and staff resources, change documents are not all checked. However, we anticipate the new Medicaid information system to address this issue directly because it is designed to follow a workflow sequence where tasks must be completed sequentially by the appropriate level of authorized staff in order to progress to a different work queue. An enrollment application can only be moved to the next step in the enrollment process when an appropriately authorized staff person completes a task and submits it to the next processing level. All history and an audit trail will be maintained in the system and our process will not be dependent on paper copies of before and after changes as we currently have with the MMIS system.

For the time being, we continue with our internal process where all changes that are received by mail are given to one staff person for processing. This is to ensure consistency in processing and to better track quality reviews. Upon completion of change documents, a Management Analyst performs quality checks on 20 randomly chosen changes each month. Reports of the quality finding are reported to the supervisor and are to be used to correct and address such errors in the future.

Both supervisory and line staff continue to be reminded, when processing changes, to stamp all documents when they are processed. Each staff person has been notified that they must meet a departmental quality standard for documenting the appropriate completion of the change in the provider's record. This standard has been included in each staff person's annual evaluation.

Anticipated Completion Date for Corrective Action

MITS Implementation was originally scheduled December 2010 and postponed; while we do not have a new Go Live date, we are preparing for the phase one Go Live date. Activities include having the 2009 files scanned (to disk) and sent for appropriate storage; continue filing 2010 applications; continue quality control checks; cross train provider enrollment staff to distribute the enrollment workload, so that appropriate authorizations and stamps can be acquired timely

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

20. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES

<i>Finding Number</i>	2010-JFS20-035
<i>CFDA Number and Title</i>	10.551/10.561 – SNAP Cluster 17.258/17.259/17.260 – WIA Cluster 93.558/93.714 – TANF Cluster 93.563 – Child Support Enforcement 93.575/93.596/93.713 – 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

MATERIAL WEAKNESS

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 2010 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 draw and disbursement process. However, the Department did not consistently apply the established controls during the year or accurately record/reconcile the amounts from the subrecipients, as noted below.

- Counties/areas submit requests for revenue each Friday via CFIS. These requests are intended to cover the entities’ costs for about one week due to the length of time it takes to process the requests. The CFIS data interfaces with OAKS (Ohio Administrative Knowledge System). The Cash Management section receives a report each Monday from OAKS detailing the statewide weekly revenue requests from the counties. A Fiscal Specialist in each program is responsible for tracking the related vouchers to be paid from OAKS (based on the requests), making changes to the coding or the disbursement amounts as needed, and preparing a State Wide Weekly Voucher Approval Signature Page. These documents are to be reviewed by the Fiscal Specialist and signed by the Unit Supervisor, Operation Quality Manager, Section Chief, and Bureau Chief to evidence their review of the internal payment comparison spreadsheet and summary payment sheets to ensure the revenue request/disbursement amounts are accurate and reasonable prior to releasing the payment.

However, the designated employees did not sign the related Signature Page for five of the 60 county payments tested (8.3%; with a potential impact to 15% or \$265 million of the population). The 60 county payments tested related to only 37 Signature Pages since multiple disbursements were grouped together and included on one Signature Page.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

20. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

- 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, the designated employee did not initial the cover page for seven of 90 tested reports (six monthly reports for 10 of the 88 counties and six monthly reports for five of the 20 local areas). This equals a control failure of 7.7%, with a potential impact to 12.8% or \$226 million of the population.
- The amounts (receipts, disbursements, balances, accruals, or obligations) listed on 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 did not agree for six of the 60 (10%) reports tested. In some cases, a variance existed because the Department hadn't received the required report from the county; in other cases, the Department hadn't documented a reason for the variance.

Without consistent performance and documentation of internal controls, and the ability to obtain the report data from the county level in a timely manner, the risk exists that draws and subsequent disbursements or expenditures for the federal programs may be processed inaccurately or for unallowable activities. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate. This also increases the risk that internal controls may not be established or working in a manner intended by management.

Management of the Department indicated the lack of signatures on the Signature Pages and report cover letters was due to human oversight. In addition, ODJFS management could not explain why the reports from the counties/local areas were not received timely or why the variances existed.

We recommend ODJFS management evaluate their current processes and procedures related to the draws and disbursements to counties/WIA local areas and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis which reasonably ensure payments to the counties are accurate, complete, and representative of actual program activity. The Department should amend, as needed, its written policies and procedures so they address all significant aspects in the disbursement process. These policies and procedures should include, but not be limited to, requiring:

- Evidence be maintained to document the occurrence of the established controls, such as document reviews and sign-offs.
- Records, such as the monthly 02750, 02827, 02820, and/or 01992 reports, be received timely and filed in a manner so that they can be readily retrieved.
- Explanations or other reasons why variances in the reconciliation process occurred and how the variances were resolved.

These written policies and procedures should be formally approved and communicated to all affected employees in the disbursement process. In addition, management should periodically monitor the established control procedures to help ensure they are performed timely, consistently, and effectively.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

20. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

Official's Response and Corrective Action Plan

Response 2a) *The designated employees representing each level of management did not consistently sign the approval due to absence not human oversight. Since at least one manager approved the vouchers, we believe the vouchers had reasonable oversight. To resolve this issue, the department changed and implemented a revised signature page that reflects the signature of the Fiscal Specialist that completed this task (Implemented on 3/7/11). The review and approval will be completed by the Unit Supervisor. In the absence of the Unit Supervisor, the Section Chief will be the approver.*

Response 2b) *County Finance has updated their procedures in response to this finding as follows: The assigned Fiscal Specialist enters the data on the monthly financial statement into an individual agency type spreadsheet and initials the form. The initials indicate that the agencies data has been entered on the spreadsheet and it also proves mathematical accuracy of the data. If the county did not submit their monthly financial statement or it requires a correction, the Fiscal Specialist will send an e-mail to the county the first working day after the reports are due requesting either the financial statement or a corrected copy. If the county still does not submit their financial statement or a corrected copy after the second request, the Operations Section Chief will send a request to the Agency Director informing the county that they are out of reporting compliance. If the county is still out of reporting compliance, the Bureau Chief sends notification to the Agency Director that the agencies' draws will be held until a completed and signed report is received by BCFTA. The Fiscal Specialist will continue to monitor the spreadsheet and notifies the Bureau Chief immediately if a completed and signed report is received. Once the report is received, the Bureau Chief will notify the Operations Section Chief to remove the hold. Reports will be checked for appropriate staff's initials when filed into the county file folder at the end of the reporting period.*

Response 2c) *In most cases, a completed monthly financial statement was either not submitted by the county or the variances were the result of a county not uploading or incorrectly reporting their data before the reporting period closed. As a result, all variances between the financial statement and the CFIS 1.A report will be noted to reflect the reason for the discrepancies. If corrections are necessary they will be documented accordingly and crossed referenced on the spreadsheet. Once all monthly financial statements are entered into the spreadsheet, they will be filed timely to ensure they can be readily retrieved. BCFTA is currently working on automating these processes which will increase the timeliness of the financial data reported. This process is expected to be completed by Sept 1, 2011*

Anticipated Completion Date for Corrective Action

The implementation date for the CFIS Statewide Voucher Report was March 7, 2011.

The implementation date for the Monthly Financial Statement will be April 1, 2011

The anticipated automated process for the Financial Statements will be September 1, 2011.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

21. MEDICAID/CHIP – MANAGED CARE

<i>Finding Number</i>	2010-JFS21-036
<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>	Special Tests and Provisions

MATERIAL WEAKNESS

42 CFR Section 438.207, states, in part:

- (a) Basic rule. The State must ensure, through its contracts, that each MCO, PIHP, and PAHP gives assurances to the State and provides supporting documentation that demonstrates that it has the capacity to serve the expected enrollment in its service area in accordance with the State’s standards for access to care under this subpart.
 - (b) Nature of supporting documentation. Each MCO, PIHP, and PAHP must submit documentation to the State, in a format specified by the State to demonstrate that it complies with the following requirements:
 - (1) Offers an appropriate range of preventive, primary care, and specialty services that is adequate for the anticipated number of enrollees for the service area.
 - (2) Maintains a network of providers that is sufficient in number, mix, and geographic distribution to meet the needs of the anticipated number of enrollees in the service area.
- ...

Sound internal control procedures require management to monitor and oversee operations of the Managed Care program to provide reasonable assurance the Managed Care Plans (MCP) are in compliance with provider panel and provider capacity requirements. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department expended approximately \$3.5 billion (Medicaid - \$3.43 billion and CHIP - \$136 million) related to Managed Care during SFY 2010. The program requires each MCP to contract with a minimum number of providers to help ensure MCP members have access to services covered by Medicaid. Monthly, MCPs submit reports identifying the number of providers for each provider type, as well as identifying the primary care physician capacity and hospital capacity. The Department creates provider panel reports with the information submitted by the MCPs. The Department has established certain internal controls and practices to review the monthly provider panel reports and verify requirements are met; however, these controls were not consistently followed, as indicated below. Of the 25 provider panel reports selected for testing:

- Three (12%; when sampling risk is considered, there is a possibility of up to a 24.9% actual exception rate in the population) did not contain evidence the Department reviewed the report and verified the provider panel and provider capacity requirements were met.
- Three (12%; when sampling risk is considered, there is a possibility of up to a 24.9% actual exception rate within the population) provider panel report reviews were not performed timely; these reviews occurred from four to five months after the month of the provider panel report reviewed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

21. MEDICAID/CHIP – MANAGED CARE (Continued)

- Four (16%; when sampling risk is considered, there is a possibility of up to a 29.5% actual exception rate within the population) had provider requirement information that did not agree to the requirements established by the Managed Care program, as specified in the MCP contract. Even though the requirement information in the provider panel reports was not up to date, the provider met the requirements as specified in the MCP contract.

Without proper documentation of management's review and approval of internal controls, there is an increased risk that procedures may not be working as intended or may not be consistently applied. If control procedures are not performed and documented thoroughly and consistently, management is unable to provide reasonable assurance that the Managed Care program is in compliance with provider panel and provider capacity requirements.

The Contract Administrator indicated the exceptions noted are due to oversight and a limited number of staff. Additionally, the process of manually updating the Provider Panel Reports with changes from the MCP Agreement can be very cumbersome.

We recommend the Department implement and/or strengthen internal controls related to the review of the provider panel reports. The Department should select a sample of provider panel reports to review on a regular basis to ensure that information contained within the reports agree to the requirements listed in the MCP Agreements. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively.

Official's Response and Corrective Action Plan

1. For the time period covered by the identified reports, the staff member that double checks the compliance reports was on extended leave. During the time period, the reports were checked to assure compliance was properly issued, but not reviewed for the signature of the contract administrator. Contract Administrators have been reminded of the need to initial the quarterly provider panel reports. Effective 3/21/11, a second staff member will continue to double check the quarterly reports for the initials of the contract administrator.

2. The late signatures of the Contract Administrators are evidence of compliance with the review process. Roles and responsibilities regarding the review and re-review of the provider panel requirements have been worked out and communicated to staff to assure on-going compliance in a timely manner effective 3/21/11.

3. The Managed Care Provider network (MCPN) database generates the standard provider panel reports. The MCPN outputs the reports, which include the requirements. Staff has checked the accuracy of the requirements in the report against the requirements in the Provider Agreement. Specific errors identified have been corrected effective 3/21/11.

Anticipated Completion Date for Corrective Action

The processes documented above have been implemented; the effective 3/21/2011.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

22. INFORMATION TECHNOLOGY – OJI - LACK OF CONTROL TOTALS

<i>Finding Number</i>	2010-JFS22-037
<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

MATERIAL WEAKNESS

An important internal control in a data processing environment is the use of completeness and accuracy controls that are designed to help ensure all transactions are processed and missing transactions are identified. Common completeness and accuracy controls include the use of record counts and control totals available in the transaction files.

The Ohio Job Insurance (OJI) application processes all unemployment benefits for Ohio recipients, which totaled approximately \$5.2 billion in fiscal year 2010. OJI claims transactions are received by and processed through the Integrated Voice Response (IVR) Unit and the online OJI application, which are automatically processed nightly in batch mode by the mainframe Control M Job Scheduler. Files from the IVR, which include record counts, and the online OJI application are pulled into the batch processing job and then processed for payment. However, IVR and OJI control totals were not used to ensure all transactions submitted were processed by the mainframe.

Without such automated controls, there is an increased risk that incomplete or erroneous financial information could be processed and not promptly detected, resulting in an over- or underpayment of unemployment compensation benefits.

According to OIS OJI management, this information was not available for the on-line systems prior to going to batch. In addition, monetary amounts for the IVR system are not available for reconciliation, only record counts.

We recommend management incorporate control total matches in the OJI system at key points in the process to help reduce the risk of erroneous or duplicate transactions from being processed, and ensure the batch job processes all transaction files completely and accurately.

Official's Response and Corrective Action Plan

The Office of Information Services does agree with this material weakness. There are control totals in place for the batch processing and the online processing but the need to reconcile those totals between the online and batch application need to be put in place. The corrective action plan is to collaboratively look at the current process and implement an enhanced process that will reconcile the claim counts and dollars according to a specific processing time. This plan will need to take in account the ability of the front end to continue to collect claimant information while the batch has a cutoff time to begin processing.

We propose to use an automated balancing tool, such as CONTROL-B, to construct automated balance processes at multiple stop points within the OJI batch operation. These balancing processes will use record counts from the IVR and other input processes to ensure that OJI batch programs carry reconciliation throughout.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

22. INFORMATION TECHNOLOGY – OJI - LACK OF CONTROL TOTALS (Continued)

Additionally, these automated balancing processes can be developed based on severity and ranges, such that, if a non-match is within a specific tolerance, the reconciliation would be flagged and the batch processing would continue. If the non-match was deemed critical, any exact non-match would stop the batch process.

Anticipated Completion Date for Corrective Action

October 31, 2011

Contact Person Responsible for Corrective Action

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23. UNEMPLOYMENT INSURANCE – REPORTING

<i>Finding Number</i>	2010-JFS23-038
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	Reporting

MATERIAL WEAKNESS

UI Reports Handbooks No. 336 and No. 401 contain instructions for completing and submitting various reports for the Unemployment Insurance (UI) program. Included in the handbook is the ETA 227 report, described in section IV-3 of the Handbook, which states:

The ETA 227 report provides information on overpayments of intrastate and interstate claims under the state unemployment compensation (UI), and under federal UI programs; i.e., programs providing unemployment compensation for federal employees (UCFE) and ex-service members (UCX), established under Chapter 85, Title 5, U.S. Code. This report will include claims for regular, state additional, and federal-state extended benefits (EB). ... The ETA 227 report is due quarterly on the first day of the second month after the quarter of reference.

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, and in compliance with program requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

The Department had established a control whereby it would take a "snapshot" of the OJI (Ohio Job Insurance) computer system and Benefit Payment Control management staff would reconcile the snapshot to the ETA 227 report before submitting the report. However, the Department could not provide documentation that it reconciled the reports to supporting documentation before it submitted the reports. Management also stated it did not perform any related reconciliations during fiscal year 2010. 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. UNEMPLOYMENT INSURANCE – REPORTING (Continued)

The ETA 227 quarterly reports reported a total of approximately \$374 million in Accounts Receivable for state fiscal year 2010. Two of the four quarterly reports were selected for testing. The ETA 227 report for the 3rd 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 overstated by \$19,492 and UI Non-fraud was understated by \$18,421. Section B did not trace and agree for the Fraud and Nonfraud columns for either the controllable or noncontrollable rows. Fraud controllable was overstated by \$13,835 and fraud non-controllable was overstated by \$8,369. Non-fraud controllable was understated by \$13,836 and Non-fraud non-controllable was understated by \$7,298. It should be noted that all of these variances for the 3rd quarter were well below 1%. However, the supporting documentation we received for the 4th quarter was not traceable to the ETA 227 report, as it was not organized in a manner that would match up with the submitted numbers.

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 the Department's Office of Information Services (OIS) continues to contribute to errors in supporting documentation. They are aware of the problem and are continuing to make efforts to correct and refine the process. They also indicated they are working on implementing improved reconciliation controls for the ETA 227 reports. Regarding the supporting documentation not agreeing to the final reported numbers, management indicated the ETA 227 data support file they received from their System Support team was not broken down to correspond with specific sections of the submitted report and, therefore, could not be traced to any supporting documentation.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the controls should include a review of the reports and verifying the amounts on them before the reports are submitted. In addition, the Department should maintain appropriate supporting documentation for the reports. 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

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 and OJI System Support are building a data extract format that categorizes the ETA-227 content for ease of verification. The current extract categorizes the data by population (report areas) and not by specific details/lines/cells. This results in cumbersome formulation and an unreliable process for verification. With the new "in-place extract" format, data will be sorted to mirror individual lines contained within the ETA-227. This will simplify and improve the verification process before transmitting the report to USDOL. In addition, any variances can quickly be identified and resolved prior to submission.

Anticipated Completion Date for Corrective Action

We are working with OJI System Support programmers and scarce resources to establish a timeframe for this system improvement. The multiple federal benefit extensions and associated system program requirements take precedence. We anticipate completing this remedy implementation by June 30, 2011.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. UNEMPLOYMENT INSURANCE – REPORTING (Continued)

Contact Person Responsible for Corrective Action

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24. MEDICAID – DRUG REBATE MONITORING

<i>Finding Number</i>	2010-JFS24-039
<i>CFDA Number and Title</i>	93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Allowable Costs/Cost Principles

SIGNIFICANT DEFICIENCY

Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to the Center for Medicaid Services (CMS) of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on this data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide drug utilization data to manufacturers. For all rebates not paid within 30 days, interest accrues on unpaid rebates until the date the manufacturer mails the check.

Federal regulations require recipients to maintain internal controls over federal programs that provide reasonable assurance they are in compliance with laws, regulations, and the provisions of contracts or grant agreements. It is management's responsibility to monitor these control procedures to verify they are designed and operating in a manner consistent with federal regulations and the programs' objectives. Furthermore, sound internal control procedures require management to monitor and oversee operations of contractors which are responsible for carrying out federal requirements to provide assurance procedures performed by the contractor are functioning as intended. It is management's responsibility to create and implement control policies and procedures to monitor their contractors' performance to ensure they are in compliance with federal regulations and with their contractual obligations.

During fiscal year 2010, the Department received drug rebates totaling approximately \$67 million. The Department contracted with a third party administrator to perform the processing and collection of these rebates. The contract requires the contractor to invoice 100 percent of manufacturers for federal and supplemental rebates no later than 60 days after the end of the quarter, to investigate all invoice payments not received within 30 days after mailing, and ensure interest is collected appropriately on late payments. During the fiscal year, the Department received a SAS 70 report related to the general controls of the contractor for calendar year 2009 and an Agreed-Upon Procedures report designed to test for compliance with the specific drug rebate requirements for fiscal year 2009. The Department performed and documented their review of the Agreed-Upon Procedures Report; however, the Department could not provide evidence of their review of the SAS 70 report to ensure the contractor's general controls were working properly and to ensure any relevant user control considerations noted in the report were properly addressed by Departmental controls.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. MEDICAID – DRUG REBATE MONITORING (Continued)

Without proper documentation of management's review and approval of internal controls, there is an increased risk that procedures may not be working as intended or may not be consistently applied. If the SAS 70 report is not reviewed and evidence of this review is not maintained, management is unable to provide reasonable assurance any issues noted within the SAS 70 were properly identified and addressed, or that appropriate compensating controls are in place to address any weaknesses or relevant user control considerations noted. The Ohio Department of Job and Family Services management stated they felt their review of the Agreed-Upon Procedures Report was sufficient.

We recommend the Department perform their review of the annual SAS 70 report over the drug rebate contractor. These monitoring procedures should be documented to provide management with reasonable assurance the required review was performed timely, thoroughly, and that all applicable user control considerations and weaknesses identified were properly addressed by the Department.

Official's Response and Corrective Action Plan

The Office of Ohio Health Plans (OHP) disagrees with the proposed audit finding. OMB Circular A-133 §__.210 (f) indicates that recipient agencies such as ODJFS are responsible for ensuring compliance of vendor transactions in situations where a vendor is responsible for program provisions. To facilitate compliance with OMB Circular A-133 requirements, OHP employs an independent public accounting firm (IPA) that annually conducts agreed-upon procedures (AUPs) to assess the TPA compliancy on behalf of OHP. The AUPs provide direct assurance of the TPA's compliance as they require the IPA to test whether the TPA invoices contractors within 60 days after the end of the quarter and that interest is collected when appropriate.

AOS staff has indicated the need for OHP to review and document their evaluations of the SAS 70 report; however, the report addresses only general control considerations of the TPA's and provides no specific assurance of the TPA's compliance.

The AUPs as completed by the IPA provide OHP with an effectual system of internal control by which to monitor the TPA and also serve to substantiate OHP's compliance with federal provisions regarding the timeliness by which contractors are invoiced and collection of interest. In management's assessment, the AOS's recommendation provides no enhancement to the existing system of internal control and no additional assurance of the TPA's compliance beyond that gained from the AUPs.

Anticipated Completion Date for Corrective Action

Agency doesn't believe corrective action is necessary.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

Even though the Department obtained and evidenced their review of a report on agreed-upon procedures designed to test for compliance with the specific drug rebate requirements, this report did not address the design and operating effectiveness of general controls. In addition, the SAS 70 includes controls the user organization should apply to reduce risk. Since the SAS 70 was not reviewed, the Department could not conclude on the adequacy of general controls or address any of the user control considerations in the SAS 70 report. We believe the control failure noted represents a significant deficiency and, therefore, the finding will remain as stated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

25. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS

<i>Finding Number</i>	2010-JFS25-040
<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/Cost Principles

SIGNIFICANT DEFICIENCY

It is management’s responsibility to implement control policies and procedures to reasonably ensure compliance with federal and state laws and regulations. It is imperative that management monitor and oversee the process of entering Medicaid/CHIP claims to reasonably ensure compliance with applicable laws and regulations. Controls must also be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Claims Processing Section within the Department’s Bureau of Provider Services is responsible for processing paper claims submitted by medical providers that include attachments. In addition, following the adjudication process in MMIS, the Claims Processing and Claims Reconciliation sections process all claims that go into suspension (did not pass one or more edit checks), regardless of whether the claim was keyed internally, processed by the Department’s vendor (for paper claims without attachments), or submitted by the provider through Electronic Data Interchange (EDI). During the audit period, the Department processed 26,808 total claims with an override code (approved for payment). Under the current system, the Claims Processing Section Chief is to perform a monthly review of claims that went into suspension and have an override or deny code. However, the Department did not document these reviews. In addition, this review does not include a review of internally processed claims that did not go into suspension (passed all MMIS edit checks) for potential keying errors.

In addition, the Claims Reconciliation section within the Department’s Bureau of Provider Services processes claims adjustments. These claims adjustments are usually submitted by the provider, but they can also be submitted by the Office of Ohio Health Plan’s section. Under the current system, the Lead Worker is to perform a thorough review of claims adjustments entered into MMIS by new Claims Examiners, including a review of all claims processed by the Claims Examiner until a sufficiently low error rate is achieved. Once Claims Examiners are fully trained, the Lead Worker is to conduct periodic reviews, varying in frequency for up to six months depending on the findings of previous batches and supervision needs of the individual. However, the Department did not maintain documentation to support the reviews performed.

Without performing proper review of the claims and adjustments entered into the MMIS system and maintaining documentation of the reviews, management cannot be reasonably assured that control activities were operating effectively or consistently. In addition, there is an increased risk the Department will make payments that are unallowable, incorrect, or incomplete. Claims processed in error and/or processing inaccuracies by the electronic systems which may impact Department funds could go undetected. The Department indicated the control weaknesses were due to staffing shortages.

We recommend the Department implement and/or strengthen internal controls related to the review of the claims and claims adjustment processing. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively. Management should ensure the sample selected for review is sufficient.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

**25. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS
(Continued)**

Official’s Response and Corrective Action Plan

Quality checks are performed but have not been kept other than in the employee file which was not shared due to containing employee’s personal information.

Claims processing and adjustments as we currently know them, will no longer be functional when MITs is implemented. We had expected implementation in December of 2010 and spent scarce staff resources preparing for the switch over which has not occurred yet but is pending.

Implementation of MITs will correct this deficiency.

Anticipated Completion Date for Corrective Action

The Go Live date for MITs has not been announced yet but will be in 2011.

Contact Person Responsible for Corrective Action

Roger Fouts, Bureau Chief, Bureau of Provider Services, Ohio Department of Job & Family Services, 50 West Town Street, Columbus, OH 43215, Phone: (614) 752-3742, E-Mail: Roger.Fouts@jfs.ohio.gov

26. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES

<i>Finding Number</i>	2010-JFS26-041
<i>CFDA Number and Title</i>	93.558/93.714 – TANF Cluster
<i>Federal Agency</i>	Health and Human Services
<i>Compliance Requirement</i>	Special Tests and Provisions

SIGNIFICANT DEFICIENCY

County agencies are advanced or reimbursed federal monies to administer various programs on behalf of the Ohio Department of Job and Family Services (ODJFS). Counties are responsible for maintaining complete records and case files in accordance with ODJFS rules and guidelines. It is the responsibility of county management to implement control policies and procedures to reasonably ensure their case files are reviewed and complete. It is the responsibility of ODJFS management to implement monitoring controls and procedures to reasonably ensure county agencies are maintaining appropriate documentation to support state-paid benefits.

During fiscal year 2010, ODJFS disbursed approximately \$472 million in benefits related to the Ohio Works First portion of the TANF program. In order to maintain these benefits and/or avoid sanctions, recipients must comply with certain special requirements which are to be documented and maintained in the recipients’ case files at the related 88 counties. However, three of five counties tested had weaknesses in their internal controls which, in some instances, resulted in inaccurate information, as noted below. The error rates listed represent the results of testing for the program as a whole and at the individual counties.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES (Continued)

Part 1 - Child Support Non-Cooperation

Of the 100 child support non-cooperation sanctions selected for testing at the counties, three recipients (3% with a potential impact to 6.6% of the population) did not evidence their signature and date on the self-sufficiency contract or employability contract.

- *Cuyahoga County* - One of 20 (5%) self-sufficiency contracts was not signed and dated by the recipient.
- *Lucas County* - One of 20 (5%) employability contracts was not signed and dated by the recipient. The county was unable to provide one recipient's employability contract for testing.
- *Montgomery County* - One of 20 (5%) self-sufficiency contracts was not signed and dated by the recipient. The county was unable to provide one recipient's self-sufficiency contract for testing.

Of the 100 child support non-cooperation sanctions selected for testing at the counties, four (4% with a potential impact to 7.9% of the population) recipients and/or case managers did not evidence their signature and date on the self-sufficiency plan or employability plan.

- *Cuyahoga County* - One of 20 (5%) self-sufficiency plans was not signed and dated by the recipient.
- *Lucas County* - Two of 20 (10%) employability plans were not signed and dated by the case manager. The county was unable to provide one recipient's employability plan for testing.
- *Montgomery County* - One of 20 (5%) self-sufficiency plans was not signed and dated by the recipient and the case manager.

Part 3 - Penalty for Refusal to Work

Of the 96 penalty for refusal to work sanctions selected for testing at the counties, three (3.12% with a potential impact to 6.6% of the population) recipients and/or case managers did not evidence their signature and date on the self-sufficiency contract.

- *Montgomery County* – Three of 20 (15%) self-sufficiency contracts were not signed and dated by the recipient and the case manager. The county was unable to provide two recipient's self-sufficiency contracts for testing.

Of the 96 penalty for refusal to work sanctions selected for testing at the counties, three (3.12% with a potential impact to 6.6% of the population) recipients and/or case managers did not evidence their signature and date on the self-sufficiency plan.

- *Montgomery County* – Three of 20 (15%) self-sufficiency plans were not signed and dated by the recipient and the case manager. The county was unable to provide one recipient's self-sufficiency plan for testing.

Part 4 - Adult Custodial Parent with Child Under Six when Childcare is Not Available

Of the 100 adult custodial parent with child under six when childcare is not available sanctions selected for testing at the counties, three (3% with a potential impact to 6.6% of the population) recipients or case managers did not evidence their signature and date on the self-sufficiency plan.

- *Cuyahoga County* - One of 20 (5%) self-sufficiency plans were not signed and dated by the recipient.
- *Montgomery County* - Two of 20 (10%) self-sufficiency plans were not signed and dated by the recipient and the case manager. The county was unable to provide one recipient's self-sufficiency plan for testing.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES (Continued)

Without appropriate reviews and approvals, the risk is increased that benefit payments may be made to ineligible recipients or for inappropriate amounts. Under these conditions, reports submitted to the federal awarding agency may not include all activity of the reporting period, may not be supported by underlying accounting or performance records, and/or may not be presented in accordance with program requirements. According to County management, unsigned copies of the self-sufficiency or employability contracts and/or plans in the recipient's case file were oversights by the caseworkers.

We recommended the Department review their policies and procedures regarding the approvals of documentation to ensure controls are in place and operating as management intended at the county level. These policies and procedures should be adequately communicated to staff responsible for program areas. Furthermore, management should perform periodic reviews of case files and other pertinent documentation to determine if proper approvals are being obtained, controls are consistently applied and documented as intended, and all required supporting documents are maintained within the case files.

Official's Response and Corrective Action Plan

Note: A separate response was not received from ODJFS regarding state-level corrective actions.

Cuyahoga

In Cuyahoga County, the cases which contain OWF work participation assistance groups are centrally located within the JET Center. As part of this Planned Corrective Action, JET Center caseworkers and team leaders will be attending a mandatory OWF case review training on April 19, 2011, and Rushmore (Case Review) Training in May. Also as part of this Action, management will remind JET staff at each monthly all-staff meeting through the end of this year about the importance of having both the caseworker and recipient sign every self-sufficiency plan. The next JET all-staff meeting is scheduled for March 30, 2011. Finally, team leaders will perform periodic reviews of case files within the JET Center including approvals for regular and hardship extensions of OWF. These reviews will include ensuring that all self-sufficiency plans are signed by both the caseworker and recipient. Oversights will be brought to the worker's attention for correction.

Lucas

Bullet 1: *At the time of this sanction, the client was a LEAP client. While LEAP clients are required to review and sign the ODJFS 6905 LEAP Program Agreement the Agreement was not present in this case file. Our assumption is that the Eligibility Worker may have failed to refer the LEAP client for Work Activities Assessment or that the Work Activities Case Manager did not virtual print the LEAP agreement into the case file. LCDJFS is developing a Work Activities Tracking System that will match OWF/LEAP recipient group demographics and work activities codes against a "screen scrape" from CRIS-E AEIWP and CRIS-E WPAS. This tracking system will enable LCDJFS to identify any OWF/LEAP clients are not referred for Work Activity assessment and assignment.*

Bullet 2: *One of the cases had only the typed name of the Work Program case manager. This issue that was found last year by the same Work Program case manager it was corrected last year, by clarifying the need for the written signature. This ECP was signed and dated before last year's clarification was sent out to the worker in question. Internal Work Activity case reviews assist LCDJFS with ensuring that the Work Program case managers adhere to this requirement.*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES (Continued)

Montgomery

Montgomery County is undergoing an initiative to improve deficiencies among case work. A series of refresher training courses are being developed to address case preparation including the proper completion of self sufficiency contracts and plans. Prior to the refresher training, supervisors will be required to perform an adjunct training on properly completing self sufficiency contracts and plans including the importance of signatures providing dates for both recipients and case managers. In addition supervisors will be required to review 6 cases per worker monthly and provide feedback on cases with insufficient signatures and dates on self sufficiency contracts and plans.

Anticipated Completion Date for Corrective Action

Cuyahoga

December 31, 2011

Lucas

Bullet 1 – the new Work Activity Tracking System (anticipated launch September 30, 2011). In the interim:

- *A reminder will be provided to all Eligibility Specialists (4-01-2011) of the requirement to refer OWF applicants to Work Activities assessment groups.*
- *The ongoing QA eligibility review will aid LCDJFS with identifying workers who persist in failing to make this referral.*
- *The Family Intake Unit will receive “in unit” training to advise them of Work Activity assessment requirements and referral procedures (completed by 6-30-2011).*

Montgomery

Supervisor training - May 31, 2011

Supervisor case reviews – April 1, 2011

Refresher Training – September 30, 2011

Contact Person Responsible for Corrective Action

Cuyahoga

Christopher Frech, Center Manager of the JET Center, Cuyahoga County Department of Job & Family Services, 1641 Payne Ave., Room 400W, Cleveland, OH 44114, Phone: (216) 802-2801, E-Mail: frechc@odjfs.state.oh.us

Lucas

Jamalica Evans, Program Administrator-Work Programs, Lucas County Department of Job & Family Services, 3210 Monroe St., PO Box 10007, Toledo OH 43682, Phone: (419) 213-8470, E-Mail: evansj10@odjfs.state.oh.us

Montgomery

Dwayne T. Woods, JFS Manager, Montgomery County Department of Job & Family Services, 1111 S. Edwin C. Moses Blvd., Dayton, Ohio 45422, Phone: (937) 496-3399, E-Mail: woodsdt@odjfs.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

27. UNEMPLOYMENT INSURANCE TAX CONTRIBUTIONS – EVIDENCE OF CONTROLS

<i>Finding Number</i>	2010-JFS27-042
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	Cash Management

SIGNIFICANT DEFICIENCY

OBM Circular A-133, § __.300, states in part:

The auditee shall:

...

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

It is management’s responsibility to design and implement internal control policies and procedures to reasonably ensure specific objectives will be achieved. A sound internal control structure requires procedures performed to be thoroughly documented to provide management with reasonable assurance they are being performed timely and consistently. To be effective, the performance of an internal control must be evidenced in some manner to document the control is in place and functioning as intended.

The Ohio Department of Job and Family Services’ Remittance Control Unit is responsible for processing the unemployment tax checks and contribution reports after they have been collected and batched by the Finance process examiners. This section processes approximately 500,000 checks and 90,000 electronic transactions, for a total of approximately \$1.2 billion annually. Once the batches for checks are finished running for the day, the Remittance Control Unit forwards the Revenue Voucher, Daily Deposit Summary, and a copy of the Revenue Deposit Slip to the Fiscal Unit within Program Services. Upon receipt of the revenue voucher from Remittance Control, the Fiscal Unit Supervisor or her Designee compares each voucher to the supporting documentation (deposit slip, deposit summaries and bank statements) to verify completeness and accuracy. This review is evidenced by initials on the daily deposit summary or the checkmarks on the bank statements for ACH and Credit Card payments. However, the Fiscal Unit Supervisor/Designee’s initials were missing for seven out of 60 (11.66%; with a potential impact to 18.9% or \$228 million of the population) items tested.

It is imperative the Department monitor tax contributions from employers to promptly identify erroneous financial data. Without proper documentation of internal control activities performed by both employees and supervisors, there is an increased risk that procedures may not be working as management intended, not applied consistently, or management’s objectives may not be achieved. This could result in inaccurate or incomplete processing of tax contributions and, subsequently, of overall federal draws for the Unemployment Insurance program.

The Fiscal Unit Supervisor, Unemployment Compensation, indicated these errors occurred as a result of a new employee’s failure to adhere to the control procedure. Per the Fiscal Unit Supervisor, the employee has since been removed from this responsibility.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

27. UNEMPLOYMENT INSURANCE TAX CONTRIBUTIONS – EVIDENCE OF CONTROLS (Continued)

We recommend Department management establish and/or strengthen policies and procedures for reviewing and evidencing the review of financial data recorded in the State's accounting system to ensure accuracy and completeness of the transactions processed. The Department should formally document and communicate these policies and procedures to all employees and re-evaluate and update the procedures on a regular basis to address any necessary changes. Appropriate training should be provided to all new employees to ensure they are aware of the required procedures. In addition, management should periodically monitor these activities to help ensure the policies and procedures are functioning as intended.

Official's Response and Corrective Action Plan

These errors occurred because of a new employee's failure to adhere to the control procedure. The employee has since been removed from this responsibility.

An area will be added to the Daily Deposit Summary form that better identifies the initials needed to confirm review.

The unit will implement a "New Employee Checklist" that reviews procedures of the different processes and is initialed by the employee and supervisor confirming the information has been reviewed and is understood.

Anticipated Completion Date for Corrective Action

These changes became effective January 3, 2011.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING

<i>Finding Number</i>	2010-DMH01-043
<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 - MEDICAID

NONCOMPLIANCE AND MATERIAL WEAKNESS – SOCIAL SERVICES BLOCK GRANT, CHIP

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 2010, the Department received and disbursed approximately \$358.4 million in federal funding for the Medicaid Assistance Program, \$27.5 million for the Children’s Health Insurance Program (CHIP), and \$8.1 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. Once information is entered into the access database, the reports are evaluated utilizing the Risk Assessment Tool developed by the Community Audit Program. Based upon the Risk Assessment Tool, the Community Audit Program Manager determines whether or not an on-site visit is necessary for the CMH boards. However, the follow weaknesses existed in the processes during fiscal year 2010:

- Even though there has historically been a limited amount of coverage for the CHIP and SSBG programs from the A-133 audits and boards, which should result in additional risk factors in the Department's risk assessments and warrant additional procedures. However, the Department did not perform sufficient supplementary procedures (e.g. on-site programmatic reviews) to increase their coverage and ensure the costs associated with these programs were allowable and in compliance with federal laws and regulations. The Department performed only two on-site visits for Medicaid, CHIP, and SSBG. As part of these site visits, the Department reviewed only financial records (i.e., total receipt and disbursement comparisons); they did not review programmatic or other records regarding federal compliance (i.e. allowability of individual transactions, etc.)
- Nine of nine (100%) CMH boards selected for review were not made aware of the name of the awarding federal agency for Medicaid and CHIP through their award agreement or other means.

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 Department, only a limited amount of on-site reviews were performed due to insufficient staffing levels. The Department reviewed the same counties as last year due to the elevated risk associated with the county board. The Department believed the on-site reviews performed were sufficient for program compliance purposes. In addition, beginning in fiscal year 2011, the Department indicated they added the Federal awarding agency to all Medicaid/CHIP award letters. This was an oversight in the past.

We recommend the Department continue to develop and enhance their subrecipient monitoring process to include, but not be limited to, the following:

- Monitoring of the subrecipient's use of federal awards through an appropriate number of site visits or other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals are achieved. The reviews conducted via on-site visits should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements such as allowable costs, matching, cash management, and period of availability. Supervisory reviews should be performed to determine the adequacy of subrecipient monitoring performed.
- Including information within the CMH agreements between the CMH and the Department to identify the name of the Federal awarding agency.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Official's Response and Corrective Action Plan

The Department has met with staff from the Auditor of State (AOS) to address the audit finding dealing with additional workload that includes increasing the number of site visits. We understand the AOS' concerns and recommendation; however, without additional staff, it would be very difficult to undertake the additional workload without sacrificing other tasks that are currently being performed in our Desk Reviews on all 50 Mental Health Boards (subrecipients).

The Department's current monitoring methodology is based on which subrecipients pose the most risk to the Department by performing a series of analysis to determine the use of pass-through funds in our Desk Reviews. Based on our Desk Reviews, the Department determines what site visits to be performed. Until the Department's budget improves and we are able to hire additional staff to undertake the additional workload, the Department will re-evaluate the possibility of suspending certain tasks in our Desk Reviews (or alternating tasks, i.e. every two years) to free up time to increase the number of site visits the Department can perform.

Anticipated Completion Date for Corrective Action

6/30/2011

Contact Person Responsible for Corrective Action

Jill Stotridge, Manager, Fiscal Operations and Community Funding Services, Ohio Department of Mental Health, 30 E. Broad St., 11th Floor, Columbus, OH 43215, Phone: (614) 466-9958, E-Mail: jill.stotridge@mh.ohio.gov

2. SSBG – COMMUNITY MENTAL HEALTH BOARD ASSURANCES

<i>Finding Number</i>	2010-DMH02-044
<i>CFDA Number and Title</i>	93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Activities Allowed or Unallowed; Subrecipient Monitoring

MATERIAL WEAKNESS

It is management's responsibility to implement a system of internal controls to reasonably assure federal compliance requirements are communicated to subrecipients and subrecipients agree to abide by applicable laws and regulations. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control is in place and functioning as intended. It is management's responsibility to monitor these controls procedures to verify they are operating effectively. During the audit period, the Department disbursed approximately \$8.1 million in SSBG funding to the Community Mental Health (CMH) Boards. Biennially, the Department awards each CMH Board a tentative two year allocation of SSBG funds. The CMH Board prepares and submits a Community Plan, which serves as a funding application, and a proposed budget to the Department. The Department's Director reviews and approves the Community Plan and sends an approval letter to the CMH Board. The Approval Letter states the Department has only "conditionally" approved the Community Plan and the final approval of the Community Plan is contingent upon the CMH Board's submission of the signed Agreement and Assurances pages, which evidence the Board's agreement to abide by the requirements as stated in the Community Plan Allocation Guidelines, applicable federal laws and regulations, and suspension and debarment requirements. However, the Department does not evidence receipt and

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

2. SSBG – COMMUNITY MENTAL HEALTH BOARD ASSURANCES (Continued)

review of the Board's signed assurances pages or otherwise evidence final approval of the Board's grant allocation. Although there is a signature line for the Department's representative on the Agreement and Assurances page, the Department did not utilize this signature line to evidence final approval of the allocation.

Without proper documentation of internal control activities performed, there is an increased risk that procedures may not be working as management intended, not applied consistently, or management's objectives may not be achieved. In addition, although no payments were identified where assurances were not received, there is an increased risk the Department will disburse SSBG funding prior to receipt of the Board's assurances and final approval of the Board's allocation. This could result in unallowable costs charged to the SSBG program.

The Department indicated that SSBG funding would not have been distributed to CMH Boards prior to receipt, review, and placement of the Assurances page within the Board's file. However, they recognize the need for greater clarity and improved process management. In addition, the Department indicated the signature line on the Assurances page will be utilized in the future.

We recommend the Department establish policies and procedures to ensure internal control procedures are consistently performed and adequately documented to reasonably ensure the CMH Boards have met all requirements prior to funding. Specifically, we recommend the Department review, approve, and evidence final approval of the Community Plan/SSBG allocation. We also recommend the Department implement a tracking sheet or other tool to monitor the receipt of the required assurances from the CMH boards. These procedures should be documented and the Department should maintain the documentation to evidence performance of the procedure.

Official's Response and Corrective Action Plan

Background on the SFY 2010-2011 Community Plan Process

The Ohio Department of Mental Health (the Department) regularly works collaboratively with Boards to accommodate local issues and technical assistance requests related to Community Plan process compliance. The intent of conditional approval language in the SFY 2010-2011 Community Plan approval process was to serve as notification of conditional and partial approval of Community Plans for Boards that, according to their local by-laws and governance (i.e. Board meeting schedules, agency contract timelines, etc.), must also approve supporting documents that make up the Community Plan. As noted in the joint ODMH and ODADAS conditional approval letters, the SFY 2010-2011 Community Plans were deemed complete upon receipt of the signed Agreement and Assurances document.

The Department had the following process controls in place for the SFY 2010-2011 Community Plan process:

- A tracking sheet to monitor the receipt and review of Board assurances and other documentation requirements;*
- Community Plan guidelines development and oversight group comprised of Department and ODADAS staff;*
- The Directors' authorized letter evidencing receipt and approval of the Board Signature Page for Community Plan Provision of ADAMH Services. The Agreement and Assurances were intended to serve as a subset of the approval process.*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

2. SSBG – COMMUNITY MENTAL HEALTH BOARD ASSURANCES (Continued)

Corrective Action

While the Department maintained an internal review, monitoring and approval process for the signed Agreement and Assurances document included as part of the SFY 2010-2011 Community Plan, the Department recognizes the need for greater clarity and improved process management to meet the Auditor of State's compliance and assurance standards. As recommended by the Auditor of State, the Department will document the internal control procedures used to verify and reasonably ensure that ADAMHS and CMH Boards meet all assurance requirements prior to funding. Should the current proposed legislative mandate to remove the Community Plan from state statute not be enacted, the Department will continue to track the receipt and review of Community Plan documentation requirements, will evidence the authorized final approval of the SFY 2012-2013 Community Plan and will document notification of final approval to Boards for future review.

The Department has already taken quality improvement steps based on the Auditor of State's recommendations, specifically:

- Inclusion of authorized signature lines for both sub-awardee/recipient of funds and Department representative in the SFY 2012-2013 Agreement and Assurances document;*
- The Department has created the position of Community Planning and Grants Management Compliance Monitoring Manager in the Division of Program and Policy Development (PPD) to provide oversight and quality assurance to community planning and recovery initiatives management;*
- For the SFY 2010-2011 period, the Community Plan and Block Grant/General Revenue Funding special project funding to the community processes resided in different offices within PPD. Beginning in SFY 2012, both activities will reside the in the Office of Community Planning and Recovery Initiatives within PPD.*

Anticipated Completion Date for Corrective Action

7/1/2011

Contact Person Responsible for Corrective Action

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**SUPPLEMENTAL
INFORMATION**

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2009 THROUGH JUNE 30, 2010**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Commerce	2009-COM01-001 IT – Unauthorized Program Changes	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- COM01-001.
Ohio Department of Administrative Services	2009-DAS01-002 Findings for Recovery – Duplicate Payroll Costs	No	This item is no longer considered a reportable item.
	2009-DAS02-003 Findings for Recovery Repaid Under Audit – Duplicate Payroll Costs	No	This item is no longer considered a reportable item.
Ohio Department of Education	2004-EDU05-009 2005-EDU03-004 2006-EDU04-005 2007-EDU05-009 2008-EDU01-010 2009-EDU01-004 IT – Application Development and Maintenance	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Education.
	2008-EDU02-011 2009-EDU02-005 IT – Security Management	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Education.
Ohio Department of Health	2008-DOH01-012 2009-DOH01-006 Period of Availability	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2009 THROUGH JUNE 30, 2010

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
	2008-DOH04-015 2009-DOH02-007 Cash Management	No	The finding has been repeated in the FY 2010 Single Audit. See 2010-DOH03-011.
Ohio Department of Health (Continued)	2005-DOH05-009 2006-DOH03-008 2007-DOH02-011 2008-DOH03-014 2008-DOH05-016 2009-DOH03-008 Lack of Monitoring Controls for Matching and Level of Effort – MCH	No	These findings have been partially corrected in the FY 2010 Single Audit. See 2010-DOH05-013.
	2004-DOH06-016 2005-DOH06-010 2006-DOH04-009 2007-DOH03-012 2008-DOH06-017 2009-DOH04-009 IT – Program Change Controls	No	The finding has been repeated in the FY 2010 Single Audit. See 2010-DOH07-015.
Ohio Department of Job and Family Services	2009-JFS01-010 Various Programs – Period of Availability	No	The finding has been repeated in the FY 2010 Single Audit. See 2010-JFS01-016.
	2006-JFS01-010 2007-JFS01-013 2008-JFS01-018 2009-JFS02-011 MMIS – Claims Reimb in Excess of OAC Limits	No	The finding has been repeated in the FY 2010 Single Audit. See 2010-JFS02-017.
	2009-JFS03-012 Medicaid/CHIP – Subrecipient Agreements/Payments	No	The finding has been repeated in the FY 2010 Single Audit. See 2010-JFS03-018.
	2009-JFS04-013 Indirect Cost Allocation Variance	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2009 THROUGH JUNE 30, 2010

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2006-JFS07-016 2007-JFS03-015 2008-JFS03-020 2009-JFS05-014 Medicaid/CHIP – Missing Case Files – Various Counties	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS04-019.
	2007-JFS06-018 2008-JFS05-022 2009-JFS06-015 CHIP – Ineligible Recipient	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS06-021.
	2006-JFS10-019 2007-JFS07-019 2008-JFS08-025 2009-JFS07-016 TANF – ELI Missing Case Files – Franklin County	No	This item is no longer considered a reportable item under the provisions of OMB Circular A-133.
	2008-JFS12-029 2009-JFS08-017 Child Care Cluster – Cash Management	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS08-023.
	2005-JFS21-031 2006-JFS14-023 2007-JFS17-029 2008-JFS14-031 2009-JFS09-018 IEVS – Alert Resolution/ Inadequate Documentation	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS09-024.
	2009-JFS10-019 Federal Financial Reports	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS14-029.
	2009-JFS11-020 Various Programs – Cash Management	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS13-028.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2009 THROUGH JUNE 30, 2010

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS13-029	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS10-025.
	2005-JFS20-030		
	2006-JFS13-022		
	2007-JFS16-028		
	2008-JFS13-030		
	2009-JFS12-021		
	<i>IEVS – Due Dates</i>		
	2004-JFS23-039	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS15-030.
	2005-JFS26-036		
	2006-JFS16-025		
	2007-JFS19-031		
	2008-JFS15-032		
	2009-JFS13-022		
	<i>All Applications – Lack of Internal Testing of Auto- mated Controls</i>		
	2004-JFS22-038	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS16-031.
	2005-JFS28-038		
	2006-JFS17-026		
	2007-JFS20-032		
	2008-JFS16-033		
	2009-JFS14-023		
	<i>IT – CSRs/Overrides of CRIS-E</i>		
	2009-JFS15-024	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS20-035.
	Various Programs – County Finance Documentation and Procedures		
	2008-JFS18-035	Yes	
	2009-JFS16-025		
	Various Programs – Coding Errors		
	2009-JFS17-026	Yes	
	Unemployment Insurance – ARRA Funds on the SEFA		

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2009 THROUGH JUNE 30, 2010

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2009-JFS18-027 Unemployment Insurance – Reporting	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- JFS23-038.
	2004-JFS32-048 2005-JFS39-049 2006-JFS22-031 2007-JFS22-034 2008-JFS19-036 2009-JFS19-028 IT – MMIS Recertification of Providers	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS43-059 2005-JFS40-050 2006-JFS29-038 2007-JFS27-039 2008-JFS22-039 2009-JFS20-029 IT – Missing/ Incomplete Program Change Requests Forms	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS44-060 2005-JFS41-051 2006-JFS30-039 2007-JFS28-040 2008-JFS23-040 2009-JFS21-030 IT – Unavailable Program Change Documentation	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
2005-JFS46-056 2006-JFS31-040 2007-JFS29-041 2008-JFS24-041 2009-JFS22-031 IT – Missing Approval Documentation	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2009 THROUGH JUNE 30, 2010

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS34-050	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2005-JFS47-057		
	2006-JFS32-041		
	2006-JFS33-042		
	2007-JFS30-042		
	2007-JFS31-043		
	2008-JFS25-042		
	2008-JFS26-043		
	2009-JFS23-032		
	IT – MMIS Production Environment Security		
	2004-JFS52-068	No	These findings have been partially corrected in the FY 2010 Single Audit. A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services. Finding 2009- JFS26-035 is no longer considered a reportable item under the provisions of OMB Circular A-133.
	2005-JFS43-053		
	2006-JFS32-041 thru		
	2006-JFS36-045		
	2007-JFS30-042 thru		
	2007-JFS34-046		
	2008-JFS25-042 thru		
	2008-JFS29-046		
	2009-JFS23-032 thru		
	2009-JFS26-035		
IT – MMIS/WRS/UC/ OJI/SCOTI Production Environment Security			
	2004-JFS54-070	No	These findings have been partially corrected in the FY 2010 Single Audit. Finding 2009- JFS25-034 was corrected. Finding 2009- JFS26-035 is no longer considered a reportable item under the provisions of OMB Circular A-133.
	2005-JFS44-054		
	2006-JFS35-044		
	2006-JFS36-045		
	2007-JFS33-045		
	2007-JFS34-046		
	2008-JFS28-045		
	2008-JFS29-046		
	2009-JFS25-034		
	2009-JFS26-035		
IT – OJI/SCOTI Production Environment Security			

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2009 THROUGH JUNE 30, 2010

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Mental Health	2004-DMH01-074 2005-DMH01-058 2006-DMH01-046 2007-DMH01-047 2008-DMH01-048 2009-DMH01-036 Subrecipient Monitoring	No	The finding has been re- peated in the FY 2010 Single Audit. See 2010- DMH01-043.
Ohio Rehabilitation Services Commission	2008-RSC01-053 2009-RSC01-037 Vocational Rehabilitation and Social Security Disability Insurance – Cash Management	Yes	
Ohio Department of Transportation	2009-DOT01-038 Contract Advertisement	No	This item is no longer considered a reportable item under the provisions of OMB Circular A-133.
	2009-DOT02-039 Notification of ARRA Funding Amount to Subrecipients	Yes	
	2007-DOT02-053 2008-DOT01-055 2009-DOT03-040 IT – Production Access to Programs and Data	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Transportation.



Dave Yost • Auditor of State

STATE OF OHIO SINGLE AUDIT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 30, 2013**