State of Connecticut
Single Audit Report

For The Year Ended June 30, 2002

Auditors of Public Accounts
Hartford, Connecticut

STATE OF CONNECTICUT
Single Audit Report
For the Year Ended June 30, 2002

Table of Contents **Section/Page**

Letter of Transmittal

March 21, 2003

Governor John G. Rowland
Members of the General Assembly

We have conducted the Statewide Single Audit of the State of Connecticut for the fiscal year ended June 30, 2002.

This report on that audit complies with State audit requirements and with those audit requirements placed upon the State as a condition of expending more than $4,900,000,000 in Federal financial assistance during the fiscal year ended June 30, 2002. This audit was performed in accordance with *Government Auditing Standards* for financial and compliance audits, the Federal Single Audit Act Amendments of 1996 and the provisions of Federal Office of Management and Budget Circular A-133.

We call to your attention the Schedule of Findings and Questioned Costs relating to the State's administration of Federal Financial Assistance Programs. The Schedule contains many recommendations all of which need to be addressed in order to ensure the proper administration of Federal funds and their continued receipt at current or increased levels.

We would like to take this opportunity to express our appreciation to the Office of the State Comptroller and the various State agencies that administer major Federal programs for their assistance and cooperation. That cooperation and assistance contributed greatly to the efficient conduct of this Statewide Single Audit.

Finally, we wish to acknowledge the work done by our staff in planning for and carrying out this

Statewide Single Audit. This audit work has been performed with dedication, creativity and professionalism. We are pleased to deliver this report for the fiscal year ended June 30, 2002.

Respectfully submitted,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

State of Connecticut
Financial Statements

INDEPENDENT AUDITORS' REPORT

Governor John G. Rowland
Members of the General Assembly

We have audited the accompanying 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 the State of Connecticut as of and for the year ended June 30, 2002, 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 of Connecticut's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit:

Government-wide Financial Statements

- the financial statements of the Special Transportation Fund account within the Transportation Fund and the Transportation Special Tax Obligations account within the Debt Service Fund, which in the aggregate, represent seven percent of the assets and seven percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community Colleges accounts within the Higher Education Fund; Bradley International Airport; Connecticut Lottery Corporation; Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 57 percent of the assets and 52 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

Fund Financial Statements

- the financial statements of the Special Transportation Fund account, which represents 99 percent of the assets and 98 percent of the revenues of the Transportation Fund;
- the financial statements of the Transportation Special Tax Obligations account, which represents 88 percent of the assets and 91 percent of the revenues of the Debt Service Fund;

- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community Colleges accounts within the Higher Education Fund; Bradley International Airport; Connecticut Lottery Corporation; Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 57 percent of the assets and 52 percent of the revenues of the Enterprise Funds;

Those financial statements 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 the aforementioned funds and accounts, is based on the reports of the other auditors. All of the aforementioned audits were conducted in accordance with auditing standards generally accepted in the United States of America. In addition, the audits the Drinking Water Fund, Clean Water Fund, Bradley International Airport, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Development Authority, Connecticut Innovations Incorporated, were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the audits of certain entities of the State, as described above, were not conducted in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Connecticut as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2003, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 19 to the financial statements, the State of Connecticut implemented the following Governmental Accounting Standards statements for the 2001-2002 fiscal year: Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement Number 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; Statement Number 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement Number 38, *Certain Financial Statement Note Disclosures*. As required by these new standards, the State of Connecticut presents both government-wide financial statements and fund - level financial statements.

As discussed in Note 21 to the financial statements, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

The management's discussion and analysis information on pages B-5 through B-16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 28, 2003
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial position, the financial statements and footnotes should be viewed in their entirety. New standards issued by GASB have significantly changed the format of the basic financial statements. Due to these changes, few comparisons have been made between the current and prior year. In subsequent years, the MDA will focus on year-to-year comparisons.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities were $4.6 billion less than liabilities, a deterioration in financial position of $1.9 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $3.8 billion, an increase of $0.2 billion related to current year operations. In total, net assets went from $0.9 billion to a negative $0.8 billion, a decrease in total net assets of $1.7 billion.

As noted above, the liabilities of the state exceeded its assets by $4.6 billion as of June 30, 2002. Of this amount, the unrestricted net asset portion was a negative $8.2 billion. One of the primary reasons is the state's reliance on issuing bonds for operating purposes. Non-capital asset related bonded debt stood at $4.9 billion at the end of the fiscal year, with local school construction alone representing $1.3 billion in outstanding debt. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of $3.7 billion, with no offsetting assets, further contributed to the state's negative financial position.

Fund Level:
Governmental fund assets exceeded liabilities resulting in a fund balance of $1.5 billion, of which $1.7 billion was reserved leaving a negative unreserved balance of $0.2 billion. The unreserved undesignated fund balance of the General Fund was also negative at $0.9 billion at June 30, 2002.

Enterprise Fund assets exceeded liabilities resulting in total net assets of $3.8 billion, of which $3.7 billion was restricted or invested in capital assets, and the balance of $0.1 billion was unrestricted.

Debt Issued and Outstanding:
Long-term bonded debt of governmental activities totaled $11.7 billion (see Note 15). Other long-term liabilities totaled $3.8 billion.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE STATEMENTS (Reporting the State as a Whole)

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The new financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the state as a whole and its activities. These statements help to demonstrate how the state's financial position as a whole changed due to the year's operating activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

The Statement of Net Assets presents all of the state's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the state's financial position is improving or not.

The Statement of Activities presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in future fiscal year cash flows (e.g., earned but unused vacation time).

Both statements report three activities:

- *Governmental Activities* - Most of the state's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.

- *Business-type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the state is financially accountable. More information on discretely presented component units can be found in Note 1 on page 61**.**

Financial reporting for governmental activities traditionally has focused on changes in current spendable resources rather than on changes in total resources. This traditional focus has been retained for purposes of fund reporting. However, as governmental activities are included with other activities in the new government-wide financial statement format, the focus for these activities shifts to changes in total resources. In other words, all activities reported in government-wide financial statements are reported in a manner similar to private-sector accounting. To increase the readers understanding, a summary reconciliation of the difference between the governmental fund financial statements and the government-wide financial statements is provided as part of the basic financial statements.

FUND LEVEL STATEMENTS

Fund financial statements focus on individual parts of the state's operations in more detail than the government-wide statements. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The state of Connecticut is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that state activities meet the criteria for using these funds, and "combining statements" for its component units.

As a practical matter, governments have traditionally been combining similar individual funds into groupings or "fund types" (i.e., general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust & agency funds). In the past, it was these fund types, rather than individual funds, that have been the focus of the combined financial statements presented in financial reports. Under the new financial reporting model, as presented here, however, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

Governmental fund reporting focuses primarily on the sources uses and balances of current financial resources and often has a budgetary orientation. The state's major government funds include the General Fund, the Transportation Fund and the Debt Service Fund.

General Fund. The General Fund functions as the chief operating fund for the state government. All of the state's activities are reported in the General Fund unless there is a compelling reason to report them elsewhere.

Transportation Fund. The Transportation Fund is a special revenue fund that accounts for motor vehicle taxes, receipts and transportation related federal revenues collected for the purpose of payment of debt service requirements and for making appropriations budgeted for the Department of Transportation and the Department of Motor Vehicles and related expenses. The Department of Transportation is responsible for all aspects of the planning, development, maintenance and improvement of the state transportation system.

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Changes in budgetary reporting. Traditionally, governments have included a budget-to-actual comparison as one of their basic financial statements. The final amended budget has provided the budgetary amounts used for this presentation. The new financial reporting model brings three important changes to traditional practice.

- Budgetary comparisons will henceforth need to present the original budget in addition to the final amended budget.

- In the past budgetary comparisons were presented by fund type (e.g., total budgeted special revenue funds). The new financial reporting model will require a budgetary comparison for the General Fund and individual major special-revenue funds.

- Governments are permitted to present the budgetary comparison as a basic financial statement if they wish to do so, thereby retaining it within the scope of the independent audit. The state of Connecticut has elected to do so even though it is only required to present non-audited budgetary comparison statements as "required supplementary information".

Major Proprietary Fund Financial Statements:

Proprietary funds (enterprise and internal service) are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting where all assets and liabilities are reported on the balance sheet. Revenues are recorded when earned and expenses are recorded when incurred. Some of the important changes that relate to the new reporting standard include the following:

- The new reporting model requires that proprietary fund reporting distinguish current assets and liabilities from non-current assets and liabilities.

- Traditionally, the equity of proprietary funds was divided between "contributed capital" and "retained earnings." Under the new financial reporting model, such a distinction is no longer made. Three new classifications are used under the new financial reporting model to classify equity for proprietary funds and for the government-wide financial statements. These three classifications are 1) "invested in capital assets net of related debt," 2) "restricted" (distinguishing between major categories of restrictions) and 3) "unrestricted."

Enterprise funds report activities that provide goods or services to the general public. An example is the Connecticut Lottery. Internal service funds report activities that provide supplies and services to the state's other programs and activities. An example is the state's motor fleet operations. Internal service funds are reported as governmental activities on the government-wide statements

Fiduciary Fund Financial Statements:

The fiduciary fund category includes pension (and other employee benefit) trust funds, investment-trust fund, private-purpose-trust fund and agency funds. These fund types should be used to report resources held and administered by the state when it is acting in a fiduciary capacity for individuals, private organizations or other governments. Some of the important changes to traditional reporting include the following:

Limitation on the use of fiduciary funds. The use of fiduciary funds will henceforth be limited to accounting for resources that are not available to support a government's operations and programs. This limitation resulted in the non-fiduciary reclassification of numerous expendable and non-expendable trust funds reported in the traditional financial reporting model, which is no longer used.

Changes in fiduciary funds. The distinction between expendable and non-expendable trust funds has been eliminated. Instead, some expendable trust funds have been reclassified and are now reported as special revenue funds while others have been replaced by the "private-purpose" trust fund. This newly created fund type is used to report all trust arrangements under which principal and income are to be used to benefit individuals, private organizations or other governments. Non-expendable or endowment-like arrangements available to support the operations or programs of the government (e.g., cemetery perpetual care funds) are accounted for in a governmental fund type, newly created by GASB statement 34, called "permanent funds."

Component Unit Combining Statements:

The same GASB 34 reporting rules regarding the determination of major funds are applied to the states component units. The Component units of the State of Connecticut are:

Connecticut Housing Finance Authority. Classified as the State's major component unit, the CHFA is a public instrumentality and political subdivision created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families.

Connecticut Development Authority. CDA's purpose is to stimulate commercial development.

Connecticut Resources Recovery Authority. CRRA's purpose is solid waste management.

Connecticut Higher Education Supplemental Loan Authority. CHESLA's purpose is to provide resources for student loans.

Connecticut Health and Educational Facilities Authority. CHEFA's purpose is to provide resources for financing major projects for health and educational institutions.

Connecticut Innovations, Incorporated. CI's purpose is to stimulate application of new technology.

Capital City Economic Development Authority. CCEDA's purpose is to stimulate economic development in the city of Hartford.

FINANCIAL SECTION CONTENTS OTHER THAN FINANCIAL STATEMENTS

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.
Required supplementary information. The RSI provides additional information regarding the States progress on funding its obligation to provide pension benefits to its employees.

Combining Financial Statements. Combining statements for non-major funds are not required to be presented or audited under generally accepted accounting principals. Nevertheless, Connecticut presents these statements as supplementary information, in the optional part of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following table was derived from the government-wide Statement of Net Assets. The state's combined net assets declined $1.7 billion over the course of Fiscal Year 2002 operations. The net assets of governmental activities decreased $1.9 billion, while net assets from business-type activities increased $0.2 billion.

State Of Connecticut's Net Assets
(in Millions)

	Governmental Activities 2002	Business-type Activities 2002	Total Primary Government 2002
Current and Other Non-current Assets	$ 3,369.3	$ 3,931.0	$ 7,300.3
Capital Assets	9,125.8	2,306.1	11,431.9
Total Assets	12,495.1	6,237.1	18,732.2
Current Liabilities	2,535.4	488.4	3,023.8
Long-term Liabilities	14,576.6	1,948.7	16,525.3
Total Liabilities	17,112.0	2,437.1	19,549.1
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,348.4	1,847.5	4,195.9
Restricted	1,231.4	1,846.1	3,077.5
Unrestricted	(8,196.7)	106.4	(8,090.3)
Total Net Assets	$ (4,616.9)	$ 3,800.0	$ (816.9)

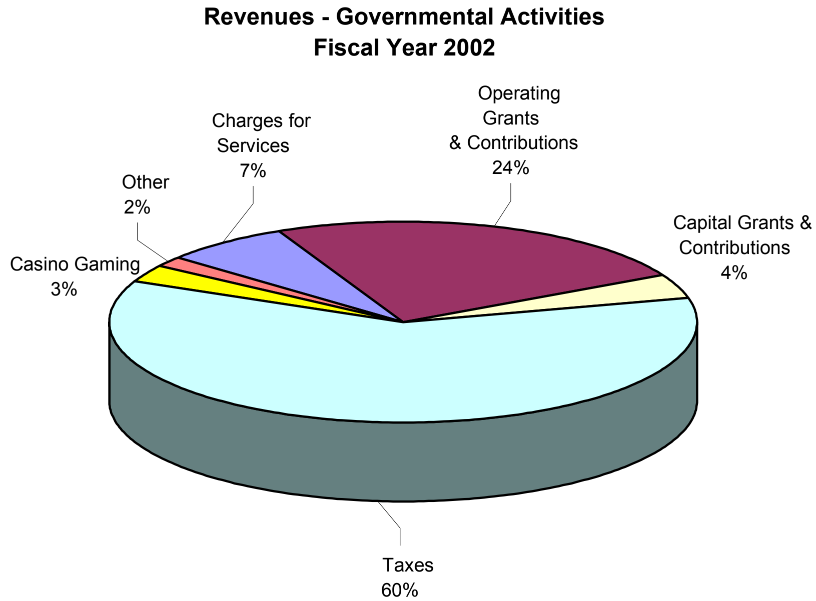
The following condensed financial information was derived from the government-wide Statement of Activities and reflects the nature of the state's change in net assets throughout Fiscal Year 2002.

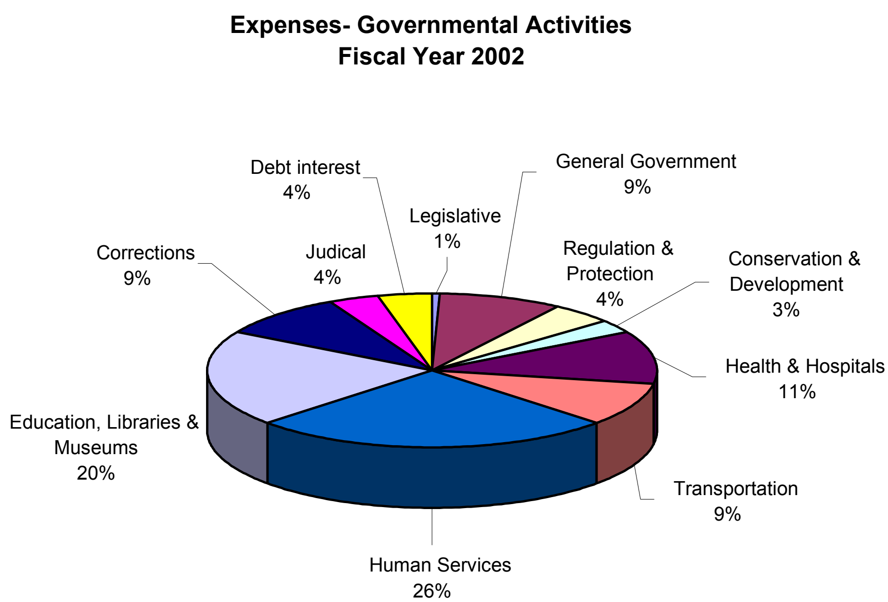
State of Connecticut's Changes in Net Assets
(Expressed in Millions)

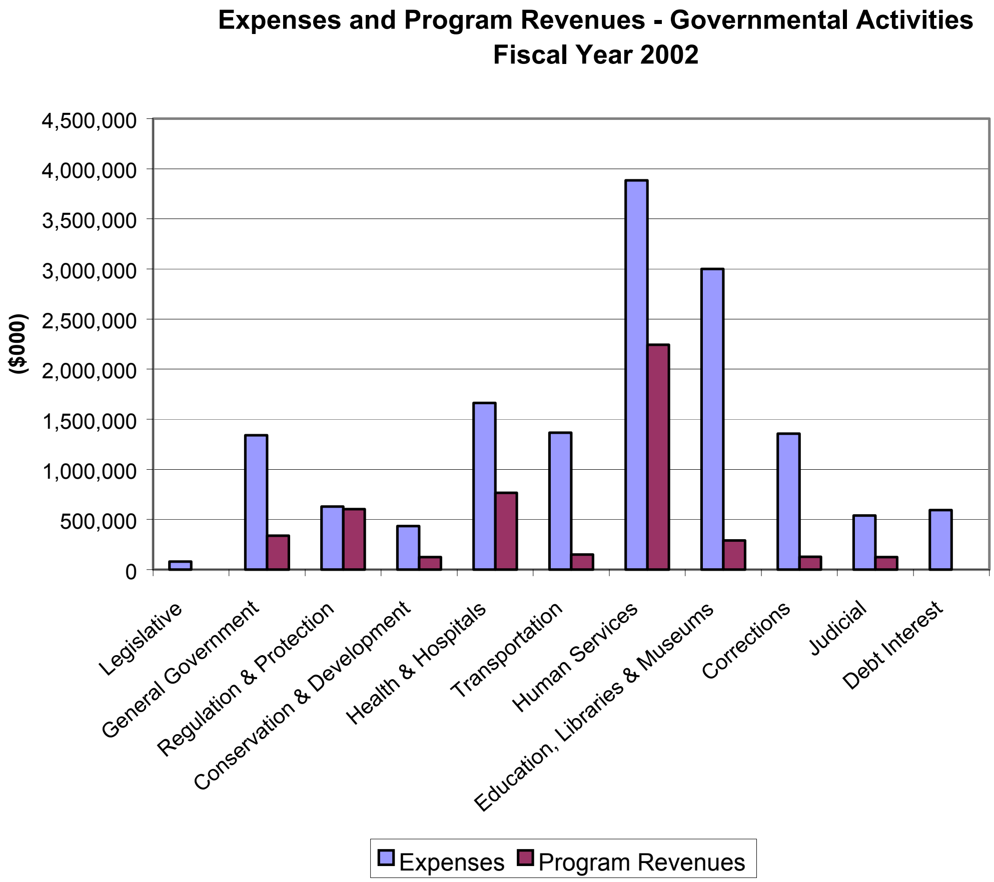
	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
Revenues			
Program Revenues			
Charges for Services	$ 942.9	$ 2,409.7	$ 3,352.6
Operating Grants and Contributions	3,320.1	447.7	3,767.8
Capital Grants and Contributions	509.1	37.8	546.9
General Revenues			-
Taxes	8,292.6	-	8,292.6
Casino Gaming Payments	369.0	-	369.0
Other	224.6	89.4	314.0
Total Revenues	13,658.3	2,984.6	16,642.9
Expenses			
Legislative	80.2	-	80.2
General Government	1,340.0	-	1,340.0
Regulation and Protection	627.4	-	627.4
Conservation and Development	434.4	-	434.4
Health and Hospitals	1,664.1	-	1,664.1
Transportation	1,366.1	-	1,366.1
Human Services	3,882.7	-	3,882.7
Education, Libraries and Museums	3,000.3	-	3,000.3
Corrections	1,355.1	-	1,355.1
Judicial	538.4	-	538.4
Interest and Fiscal Charges	592.5	-	592.5
Higher Education	-	1,869.9	1,869.9
Bradley International Airport	-	50.4	50.4
CT Lottery Corporation	-	672.1	672.1
Employment Security	-	736.3	736.3
Second Injury & Compensation Assurance	-	61.2	61.2
Clean Water	-	30.9	30.9
Other	-	19.2	19.2
Total Expenses	14,881.2	3,440.0	18,321.2
Excess(Deficiency) Before Transfers and Special Items	(1,222.9)	(455.4)	(1,678.3)
Transfers	(657.0)	657.0	-
Special Items	-	(4.5)	(4.5)
Increase(Decrease) in Net Assets	(1,879.9)	197.1	(1,682.8)
Net Assets(Deficit) – Beginning	(2,737.0)	3,602.9	865.9
Net Assets(Deficit) - Ending	$ (4,616.9)	$ 3,800.0	$ (816.9)

GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2002.







Within governmental activities, Fiscal Year 2002 program and general revenue receipts were $1.9 billion less than expenses. During Fiscal Year 2002, budget projections indicated that this gap between revenues and expenses would widen in future fiscal years. In an effort to improve the state's future operating results, revenue enhancements were enacted and appropriations reduced during the course of the 2002 legislative session. Specific appropriation reductions and revenue enhancements impacting Fiscal Year 2003 have been implemented and additional measures are under consideration at this writing.

Business-type activities saw an increase of $0.2 billion or 5.5 percent through Fiscal Year 2002 operations. Higher-Education expenses accounted for 54.3 percent of business-type expenses and 37.5 percent of program revenues. Program revenues exceeded expenses in the Connecticut Lottery Corporation by $0.2 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The state completed Fiscal Year 2002 with a balance of $1.5 billion in its governmental funds. There is a small shortfall or negative balance of $0.1 billion in the unreserved portion of this fund balance. Fiscal Year 2002 operations reduced the balance in governmental funds by $1.1 billion from the prior year.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2002, the General Fund had a negative unreserved fund balance of $0.9 billion. Fiscal Year 2002 operations reduced the total fund balance in the General Fund by $1.3 billion. Lower tax receipts associated with a national economic recession were the primary cause of the deterioration in fund balance. On a budgetary accounting basis, actual revenues fell $1.1 billion short of the original budget plan estimates.

By the end of the first quarter of Fiscal Year 2002, budget forecasts were showing a large deficit building for the year. In response, deficit mitigation legislation was enacted. These mitigation plans resulted in net appropriation reductions after transfers of $0.3 billion. An increase in the state's cigarette tax was also enacted. The deficit mitigation initiatives implemented during the course of Fiscal Year 2002 were not sufficient to keep pace with declining revenues and the General Fund ended the year with a large operating deficit. This deficit was partially offset by a $0.6 billion balance in the state's Budget Reserve Fund. The remaining budgetary base General Fund operating deficit for Fiscal Year 2002 of $0.2 billion was financed through the issuance of economic recovery notes.

Transportation Fund

The Transportation Fund ended Fiscal Year 2002 with an unreserved fund balance of $0.2 billion. The change in fund balance through Fiscal Year 2002 operations was negligible.

The variance in Fiscal Year 2002 actual revenues from the original budget plan was less than fifty million dollars in this Fund.

Other Funds

The other funds category includes the state's special revenue funds. These funds had a total unreserved balance of $0.6 billion on June 30, 2002. The total fund balance as of that date was $1.0 billion.

In Fiscal Year 2002, expenditures exceeded revenues by $1.4 billion in the other funds category. Bonds issued in the amount of $1.6 billion provided an offset to this deficit. The state has a long history of utilizing bond proceeds to offset operating deficits within these funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

The State of Connecticut's investment in capital assets for its governmental and business-type activities as of June 30, 2002 amounts to $11.4 billion (net of accumulated depreciation). The increase in capital assets for governmental activities was 2.1% while the increase for business-type activities was 12.1%. Depreciation charges for the fiscal year totaled $0.9 billion.

State of Connecticut's Capital Assets
(Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
Land	$ 863.6	$ 819.9	$ 46.1	$ 44.0	$ 909.7	$ 863.9
Buildings	701.4	522.9	1,311.6	1,195.5	2,013.0	1,718.4
Improvements Other than Buildings	45.4	127.7	198.8	182.9	244.2	310.6
Equipment	547.4	559.4	365.4	352.8	912.8	912.2
Infrastructure	5,719.7	5,794.6	-	-	5,719.7	5,794.6
Construction in Progress	1,248.3	1,116.7	384.2	282.3	1,632.5	1,399.0
Total	$ 9,125.8	$ 8,941.2	$ 2,306.1	$ 2,057.5	$ 11,431.9	$ 10,998.7

Additional information on the State of Connecticut's capital assets can be found in Note 9 on page 70 of this report.

Long-term Debt.

The state, pursuant to various public and special acts, has authorized a variety of types of debt which fall into the following categories: direct general obligation debt, which is payable from the state's general fund; special tax obligation debt, which is payable from specified taxes and other funds; and special obligation and revenue debt, which is payable from specified revenues and other funds.

State of Connecticut's Outstanding Debt
General Obligation and Revenue Bonds (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
General Obligation Bonds	$ 8,527.4	$ 7,812.1	$ -	$ -	$ 8,527.4	$ 7,812.1
Transportation Related Bonds	3,174.9	3,100.1	-	-	3,174.9	3,100.1
Revenue Bonds	-	-	1,504.8	1,464.1	1,504.8	1,464.1
Total	$ 11,702.3	$ 10,912.2	$ 1,504.8	$ 1,464.1	$ 13,207.1	$ 12,376.3

The state issued approximately $2.9 billion of bonds in fiscal year 2002 including $1.2 billion in refunding bonds with a net increase of 7.2% in outstanding debt for governmental activities and 2.8% for business-type activities. The state's general obligation bonds are rated Aa2, AA and AA by Moody's, Standard and Poor's and Fitch IBCA, respectively, while transportation-related special tax obligation bonds are currently rated Aa3, AA- and AA-, respectively.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from general fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated general fund tax receipts of the state for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation.

Additional information on the State of Connecticut's long-term debt can be found in Notes 15 and 16 on pages 73-77 of this report.

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

By the second quarter of Fiscal Year 2002, it became clear that the state was facing a structural imbalance between projected revenues and estimates of spending requirements. The General Fund deficit for Fiscal Year 2003 was estimated to be $0.6 billion on a budgetary (non-GAAP) accounting basis. The deficit for Fiscal Year 2004 was projected at $2 billion.

In February 2003, the legislature passed a deficit reduction plan that reduces appropriations by approximately $0.2 billion and is expected to produce over $0.4 billion in additional General Fund revenue in Fiscal Year 2003 almost entirely eliminating the deficit. Many of the spending reductions and revenue enhancements will continue into future fiscal years and significantly alleviate the structural budget imbalances. The legislature and governor are continuing their work to ensure that budgets are balanced in future fiscal years.

To date, 2,800 state employees have been terminated in an attempt to mitigate the budget deficit. If these employees are not recalled, future state services and operations will be impacted. The specific operational consequences of the reduction in the state's workforce is not known at this time.

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

This financial report is designed to provide our 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. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

Basic Financial Statements

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Statement of Net Assets

June 30, 2002
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 405,057	$ 486,600	$ 891,657	$ 536,609
Deposits with U.S. Treasury	-	675,562	675,562	-
Investments	181,405	250,670	432,075	120,078
Receivables, (Net of Allowances)	1,841,932	450,954	2,292,886	165,888
Due From Component Units	-	99,611	99,611	-
Due From Primary Government	-	-	-	20,346
Inventories	61,130	10,814	71,944	3,543
Restricted Assets	-	9,420	9,420	451,057
Internal Balances	(145,078)	145,078	-	-
Other Current Assets	13,821	8,910	22,731	12,353
Total Current Assets	2,358,267	2,137,619	4,495,886	1,309,874
Noncurrent Assets:				
Cash and Cash Equivalents	-	63,073	63,073	-
Restricted Assets	590,374	695,704	1,286,078	425,372
Investments	-	448,063	448,063	234,383
Loans, (Net of Allowances)	406,272	505,043	911,315	3,068,708
Capital Assets, (Net of Accumulated Depreciation)	9,125,804	2,306,065	11,431,869	252,286
Other Noncurrent Assets	14,388	81,532	95,920	59,925
Total Noncurrent Assets	10,136,838	4,099,480	14,236,318	4,040,674
Total Assets	12,495,105	6,237,099	18,732,204	5,350,548
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	710,270	194,520	904,790	52,986
Due To Component Units	20,346	-	20,346	-
Due To Primary Government	-	-	-	99,611
Escrow Deposits	-	-	-	26,347
Current Portion of Long-Term Obligations	976,958	168,936	1,145,894	118,451
Amount Held for Institutions	-	-	-	279,817
Deferred Revenue	39,159	59,335	98,494	680
Medicaid Liability	577,150	-	577,150	-
Liability for Escheated Property	51,178	-	51,178	-
Other Current Liabilities	160,333	65,563	225,896	18,271
Total Current Liabilities	2,535,394	488,354	3,023,748	596,163
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	14,576,670	1,948,712	16,525,382	3,667,265
Total Noncurrent Liabilities	14,576,670	1,948,712	16,525,382	3,667,265
Total Liabilities	17,112,064	2,437,066	19,549,130	4,263,428
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,348,364	1,847,526	4,195,890	44,126
Restricted For:				
Transportation	169,228	-	169,228	-
Debt Service	553,530	103,933	657,463	20,229
Capital Projects	-	144,982	144,982	-
Unemployment Compensation	-	798,703	798,703	-
Clean Water Projects	-	402,281	402,281	-
Bond Indenture Requirements	-	22,425	22,425	609,058
Other Purposes	419,135	196,465	615,600	27,817
Funds Held as Permanent Investments:				
Expendable	5,924	-	5,924	-
Nonexpendable	83,598	177,343	260,941	-
Unrestricted (Deficit)	(8,196,738)	106,375	(8,090,363)	385,890
Total Net Assets (Deficit)	$ (4,616,959)	$ 3,800,033	$ (816,926)	$ 1,087,120

The accompanying notes are an integral part of the financial statements.

Statement of Activities

For The Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Service, Fees, Fines, and Others	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Legislative	$ 80,212	$ 170	$ -	$ -
General Government	1,339,982	174,172	164,532	-
Regulation and Protection	627,352	465,005	137,394	-
Conservation and Development	434,356	43,186	81,260	-
Health and Hospitals	1,664,152	40,333	218,045	-
Transportation	1,366,108	48,835	101,924	509,112
Human Services	3,882,711	42,624	2,202,406	-
Education, Libraries and Museums	3,000,315	9,165	282,534	-
Corrections	1,355,142	11,193	116,898	-
Judicial	538,368	108,188	15,106	-
Interest and Fiscal Charges	592,490	-	-	-
Total Governmental Activities	14,881,188	942,871	3,320,099	509,112
Business-Type Activities:				
Higher Education	1,869,875	812,295	248,330	25,674
Bradley International Airport	50,455	44,629	-	12,163
CT Lottery Corporation	672,118	908,204	-	-
Employment Security	736,261	505,012	180,074	-
Second Injury & Compensation Assurance	61,235	110,563	-	-
Clean Water	30,903	11,610	12,656	-
Other	19,186	17,335	6,646	-
Total Business-Type Activities	3,440,033	2,409,648	447,706	37,837
Total Primary Government	$ 18,321,221	$ 3,352,519	$ 3,767,805	$ 546,949
Component Units:				
Connecticut Development Authority	28,320	26,304	-	-
Connecticut Housing Finance Authority (12-31-01)	214,425	212,755	575	-
Connecticut Resource Recovery Authority	173,034	157,513	-	-
Others	29,708	15,323	23,218	-
Total Component Units	$ 445,487	$ 411,895	$ 23,793	$ -

General Revenues:
- Taxes:
  - Personal Income
  - Corporate Income
  - Sales and Use
  - Others
  - Restricted for Transportation Purposes:
  - Motor Fuel
  - Others
- Casino Gaming Payments
- Tobacco Settlement
- Unrestricted Investment Earnings

Transfers-Internal Activities

Special Items:
- Loss on Disposal of Capital Assets
- Others

Total General Revenues, Transfers, and Special Items

Change in Net Assets

Net Assets (Deficit) - Beginning (as restated)

Net Assets (Deficit) - Ending

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	**Business-Type Activities**	**Total**	**Component Units**
$ (80,042)	$ -	$ (80,042)	$ -
(1,001,278)	-	(1,001,278)	-
(24,953)	-	(24,953)	-
(309,910)	-	(309,910)	-
(1,405,774)	-	(1,405,774)	-
(706,237)	-	(706,237)	-
(1,637,681)	-	(1,637,681)	-
(2,708,616)	-	(2,708,616)	-
(1,227,051)	-	(1,227,051)	-
(415,074)	-	(415,074)	-
(592,490)	-	(592,490)	-
(10,109,106)	-	(10,109,106)	-
-	(783,576)	(783,576)	-
-	6,337	6,337	-
-	236,086	236,086	-
-	(51,175)	(51,175)	-
-	49,328	49,328	-
-	(6,637)	(6,637)	-
-	4,795	4,795	-
-	(544,842)	(544,842)	-
(10,109,106)	(544,842)	(10,653,948)	-
-	-	-	(2,016)
-	-	-	(1,095)
-	-	-	(15,521)
-	-	-	8,833
-	-	-	(9,799)
3,680,434	-	3,680,434	-
197,245	-	197,245	-
2,933,268	-	2,933,268	-
948,369	-	948,369	-
424,037	-	424,037	-
109,272	-	109,272	-
368,954	-	368,954	-
139,968	-	139,968	
84,684	89,388	174,072	(3,306)
(657,037)	657,037	-	-
-	(4,499)	(4,499)	-
-	-	-	(2,560)
8,229,194	741,926	8,971,120	(5,866)
(1,879,912)	197,084	(1,682,828)	(15,665)
(2,737,047)	3,602,949	865,902	1,102,785
$ (4,616,959)	$ 3,800,033	$ (816,926)	$ 1,087,120

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Governmental Fund Financial Statements

Major Funds

General Fund:
This fund is the State's general operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

Debt Service Fund:
This fund is used to account for the accumulation of resources for and the payment of, principal and interest on general long-term bonds.

Transportation Fund:
to account for motor vehicle taxes, receipts and transportation related federal revenues collected for the purposes of payment of debt service requirements and budgeted appropriations made to the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the state.

Nonmajor Funds
Nonmajor governmental funds are presented, by fund type beginning on page 88.

Balance Sheet
Governmental Funds

June 30, 2002
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ -	$ 80,396	$ 166,602	$ 145,818	$ 392,816
Investments	40,813	-	-	140,592	181,405
Securities Lending Collateral	-	-	-	13,466	13,466
Receivables:					
Taxes, Net of Allowances	863,612	-	38,084	-	901,696
Accounts, Net of Allowances	178,076	-	4,211	26,916	209,203
Loans, Net of Allowances	909	-	-	405,363	406,272
From Other Governments	570,266	-	14,272	105,119	689,657
Interest	126	4,419	160	-	4,705
Other	6,315	-	6,555	4	12,874
Due From Other Funds	607,786	-	22,287	566,932	1,197,005
Advances To Other Funds	4,950	-	-	-	4,950
Inventories	41,869	-	14,859	-	56,728
Restricted Assets	-	590,374	-	-	590,374
Total Assets	$ 2,314,722	$ 675,189	$ 267,030	$ 1,404,210	$ 4,661,151
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Accrued Liabilities	$ 327,546	$ -	$ 27,912	$ 177,903	533,361
Due To Other Funds	1,136,323	4,418	1,021	156,747	1,298,509
Due To Component Units	150	-	-	20,196	20,346
Due To Governments	68,380	-	-	-	68,380
Deferred Revenue	443,648	-	16,426	34,348	494,422
Medicaid Liability	577,150	-	-		577,150
Liability For Escheated Property	51,178	-	-	-	51,178
Securities Lending Obligation	-	-	-	13,466	13,466
Other Liabilities	145,273	-	-	1,520	146,793
Total Liabilities	2,749,648	4,418	45,359	404,180	3,203,605
Fund Balances					
Reserved For:					
Petty Cash	1,031	-	-	-	1,031
Inventories	41,869	-	14,859	-	56,728
Loans	5,859	-	-	405,363	411,222
Continuing Appropriations	167,854	-	28,192	849	196,895
Debt Service	9,270	670,771	-	-	680,041
Restricted Purposes	283,213	-	-	89,522	372,735
Unreserved Reported In:					
General Fund	(944,022)	-	-	-	(944,022)
Transportation Fund	-	-	178,620	-	178,620
Special Revenue Funds	-	-	-	595,158	595,158
Capital Project Funds	-	-	-	(90,862)	(90,862)
Total Fund Balances	(434,926)	670,771	221,671	1,000,030	1,457,546
Total Liabilities and Fund Balances	$ 2,314,722	$ 675,189	$ 267,030	$ 1,404,210	$ 4,661,151

The accompanying notes are an integral part of the financial statements.

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2002
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$ 1,457,546
Net assets reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Buildings	2,356,943	
Equipment	1,165,633	
Infrastructure	10,444,768	
Other Capital Assets	1,013,645	
Accumulated Depreciation	(5,919,622)	9,061,367
Debt issue costs are recorded as expenditures in the funds. However, these costs are deferred (reported as other assets) and amortized over the life of the bonds in the Statement of Net Assets.		14,351
Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		455,592
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		32,729
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 15).		
Net Pension Obligation	(3,117,349)	
Worker's Compensation	(245,183)	
Capital Leases	(76,896)	
Compensated Absences	(335,562)	
Claims and Judgments	(7,725)	(3,782,715)
Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement (Note 15).		
Bonds Payable	(11,702,339)	
Unamortized Premiums	(123,890)	
Less: Deferred Loss on Refundings	60,793	
Accrued Interest Payable	(90,393)	(11,855,829)
Net Assets of Governmental Activites		$ (4,616,959)

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 7,721,885	$ -	$ 533,703	$ 22,752	$ 8,278,340
Licenses, Permits and Fees	195,262	-	287,428	68,679	551,369
Tobacco Settlement	-	-	-	139,968	139,968
Intergovernmental	3,159,621	-	101,924	575,848	3,837,393
Charges for Services	25,193	-	33,422	2,432	61,047
Fines, Forfeits and Rents	45,228	-	24,165	1,646	71,039
Casino Gaming Payments	368,954	-	-	-	368,954
Investment Earnings	22,414	37,101	4,738	13,821	78,074
Miscellaneous	206,896	-	8,886	76,960	292,742
Total Revenues	11,745,453	37,101	994,266	902,106	13,678,926
Expenditures					
Current:					
Legislative	76,595	-	-	-	76,595
General Government	980,990	-	1,673	344,237	1,326,900
Regulation and Protection	335,400	-	74,491	197,183	607,074
Conservation and Development	187,731	-	-	240,523	428,254
Health and Hospitals	1,639,205	-	-	13,633	1,652,838
Transportation	38,219	-	533,917	4,721	576,857
Human Services	3,853,342	-	-	13,628	3,866,970
Education, Libraries, and Museums	2,566,700	-	-	415,159	2,981,859
Corrections	1,320,274	-	-	14,153	1,334,427
Judicial	521,006	-	-	11,768	532,774
Capital Projects	-	-	-	1,030,628	1,030,628
Debt Service:					
Principal Retirement	612,283	193,585	17,884	1,073	824,825
Interest and Fiscal Charges	422,436	158,582	5,018	13,759	599,795
Total Expenditures	12,554,181	352,167	632,983	2,300,465	15,839,796
Excess (Deficiency) of Revenues Over Expenditures	(808,728)	(315,066)	361,283	(1,398,359)	(2,160,870)
Other Financing Sources (Uses)					
Bonds Issued	-	-	-	1,621,001	1,621,001
Premiums On Bonds Issued	-	84,248	-	46,768	131,016
Transfers In	435,475	388,455	38,660	242,675	1,105,265
Transfers Out	(893,193)	(36,348)	(382,577)	(451,321)	(1,763,439)
Capital Lease Obligations	5,356	-	399	1,234	6,989
Refunding Bonds Issued	-	1,121,670	-	-	1,121,670
Payment to Refunded Bond Escrow Agent	-	(1,204,925)	-	-	(1,204,925)
Total Other Financing Sources (Uses)	(452,362)	353,100	(343,518)	1,460,357	1,017,577
Net Change in Fund Balances	(1,261,090)	38,034	17,765	61,998	(1,143,293)
Fund Balances - Beginning (as restated)	820,528	632,737	202,191	938,032	2,593,488
Changes in Reserves for Inventories	5,636	-	1,715	-	7,351
Fund Balances - Ending	$ (434,926)	$ 670,771	$ 221,671	$ 1,000,030	$ 1,457,546

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2002

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ (1,143,293)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Bond proceeds provide current financial resources to governmental funds, However, issuing debt increases long term liabilities in the Statement of Net Assets. Bond proceeds were received this year from:		
Bonds Issued	(1,621,001)	
Refunding Bonds Issued	(1,121,670)	
Premium on Bonds Issued	(131,016)	(2,873,687)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets. Long-term debt repayments this year consisted of:		
Principal Retirement	824,825	
Payments to Refunded Bond Escrow Agent	1,204,925	
Capital Lease Payments	5,407	2,035,157
Capital outlays are reported as expenditures in the governmental funds. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	907,266	
Depreciation Expense	(736,882)	170,384
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of Net Assets.		(6,989)
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which purchases exceeded consumption of inventories.		7,351
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Accrued Interest	2,277	
Increase in Interest Accreted on Capital Appreciation Debt	(10,919)	
Amortization of Bond Premium	7,125	
Amortization of Loss on Debt Refundings	(5,529)	
Increase in Compensated Absences Liability	(26,975)	
Decrease in Workers Compensation Liability	81,234	
Decrease in Claims and Judgements Liability	5,385	
Increase in Net Pension Obligation	(105,902)	(53,304)
Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		(21,767)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with the governmental activities.		(8,115)
Debt issue costs are recorded as expenditures in the governmental funds. However, these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are:		
Debt Issue Costs Payments	15,011	
Amortization of Debt Issue Costs	(660)	14,351
Change in Net Assets of Governmental Activities		$ (1,879,912)

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Non-GAAP Budgetary Basis
General and Transportation Funds

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget
Revenues	Original	Final	Actual	Over (Under)
Budgeted:				
Taxes, Net of Refunds	$ 8,754,200	$ 7,738,200	$ 7,730,954	$ (7,246)
Operating Transfers In	385,200	397,600	397,589	(11)
Casino Gaming Payments	360,000	369,000	368,954	(46)
Licenses, Permits, and Fees	128,200	137,600	137,518	(82)
Other	270,700	215,400	216,200	800
Federal Grants	2,144,300	2,142,200	2,142,269	69
Refunds of Payments	(500)	(400)	(373)	27
Operating Transfers Out	(148,000)	(147,700)	(147,686)	14
Total Budgeted	11,894,100	10,851,900	10,845,425	(6,475)
Federal and Other Restricted	700,080	1,895,200	1,098,258	(796,942)
Total Revenues	12,594,180	12,747,100	11,943,683	(803,417)
Expenditures				
Budgeted:				
Legislative	66,962	67,087	58,095	8,992
General Government	645,956	574,038	527,288	46,750
Regulation and Protection	250,255	243,788	222,490	21,298
Conservation and Development	131,698	93,682	78,464	15,218
Health and Hospitals	1,265,550	1,229,506	1,198,335	31,171
Transportation	83,926	52,701	37,653	15,048
Human Services	3,555,552	3,617,827	3,589,653	28,174
Education, Libraries, and Museums	2,966,317	2,881,637	2,847,540	34,097
Corrections	1,095,683	1,099,164	1,068,183	30,981
Judicial	385,341	387,288	376,813	10,475
Non Functional	2,262,991	2,270,539	2,182,512	88,027
Total Budgeted	12,710,231	12,517,257	12,187,026	330,231
Federal and Other Restricted	700,080	1,895,200	1,098,258	796,942
Total Expenditures	13,410,311	14,412,457	13,285,284	1,127,173
Appropriations Lapsed	103,850	161,608	-	(161,608)
Excess (Deficiency) of Revenues Over Expenditures	(712,281)	(1,503,749)	(1,341,601)	162,148
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	712,430	712,430	712,430	-
Appropriations Continued to Fiscal Year 2002-2003	-	-	(168,623)	(168,623)
Miscellaneous Adjustments	-	-	(19,291)	(19,291)
Total Other Financing Sources (Uses)	712,430	712,430	524,516	(187,914)
Net Change in Fund Balance	$ 149	$ (791,319)	(817,085)	$ (25,766)
Budgetary Fund Balances (deficit) - July 1			1,444,214	
Changes in Reserves			116,959	
Budgetary Fund Balances - June 30			$ 744,088	

The accompanying notes are an integral part of the financial statements.

Transportation Fund			
Budget			Variance with Final Budget
Original	Final	Actual	Over (Under)
$ 514,400	$ 534,400	$ 533,734	$ (666)
-	-	-	-
-	-	-	-
320,300	331,400	331,394	(6)
37,000	40,500	40,480	(20)
3,000	3,300	3,310	10
(2,800)	(2,500)	(2,525)	(25)
(9,500)	(9,500)	(9,500)	-
862,400	897,600	896,893	(707)
199,569	308,272	103,225	(205,047)
1,061,969	1,205,872	1,000,118	(205,754)
-	-	-	-
2,252	2,252	1,673	579
63,866	63,902	55,757	8,145
-	-	-	-
-	-	-	-
359,838	365,612	347,043	18,569
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
484,540	486,495	468,182	18,313
910,496	918,261	872,655	45,606
199,569	308,272	103,225	205,047
1,110,065	1,226,533	975,880	250,653
15,000	17,413	-	(17,413)
(33,096)	(3,248)	24,238	27,486
54,748	54,748	54,748	-
-	-	(28,192)	(28,192)
-	-	3,167	3,167
54,748	54,748	29,723	(25,025)
$ 21,652	$ 51,500	53,961	$ 2,461
		390,038	
		(21,078)	
		$ 422,921	

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Proprietary Fund Financial Statements

Major Funds

Higher Education:
Higher Education Funds are used to account for all transactions relating to public institutions of higher education and an affiliated organization. Higher Education institutions include five universities and twelve community-technical colleges.

Bradley Airport Operations:
The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of $100,000,000. The bonds were refunded in 1992 with the issuance of $94,065,000 in refunding bonds. The refunding bonds are secured by and payable solely from the gross operating revenues generated by the State from the operations of the Airport and other receipts, funds or monies pledged in the Indenture.

The Connecticut Lottery Corporation:
The Connecticut Lottery Corporation, a public instrumentality and political subdivision of the State of Connecticut was created on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery.

Employment Security:
to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Second Injury and Compensation Assurance:
an extension of the Worker's Compensation Act, the fund is currently used to pay claimants whose injuries are made more severe because of a pre-existing condition, and in cases where an injured worker receiving worker's compensation subsequently undergoes an incapacitating relapse.

Clean Water:
to account for resources used to provide loans to municipalities to finance waste water treatment projects.

Nonmajor Funds
Nonmajor proprietary funds are presented, by fund type beginning on page 110.

Statement of Net Assets
Proprietary Funds

June 30, 2002
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation	Employment Security
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 429,820	$ 15,745	$ 19,276	$ -
Deposits with U.S. Treasury	-	-	-	675,562
Investments	189,431	-	61,239	-
Receivables:				
Accounts, Net of Allowances	116,053	4,043	9,511	131,514
Loans, Net of Allowances	4,030	-	-	-
Interest	-	-	17,421	-
From Other Governments	1,726	5,925	-	6,290
Due From Other Funds	175,801	-	-	647
Due From Component Units	99,611	-	-	-
Inventories	9,163	-	1,651	-
Restricted Assets	60	9,360	-	-
Other Current Assets	7,191	518	519	-
Total Current Assets	1,032,886	35,591	109,617	814,013
Noncurrent Assets:				
Cash and Cash Equivalents	63,073	-	-	-
Receivables, Net of Allowances	54,838	-	-	-
Restricted Assets	18,813	188,051	-	-
Investments	-	-	409,216	-
Capital Assets, Net of Accumulated Depreciation	2,022,511	247,151	1,992	-
Other Noncurrent Assets	20,643	9,985	4,887	-
Total Noncurrent Assets	2,179,878	445,187	416,095	-
Total Assets	3,212,764	480,778	525,712	814,013
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	153,022	8,038	6,994	-
Due To Other Funds	9,360	6,700	-	15,310
Current Portion of Long-Term Obligations	58,143	5,775	64,666	-
Deferred Revenue	58,231	590	395	-
Other Current Liabilities	20,333	3,585	41,631	-
Total Current Liabilities	299,089	24,688	113,686	15,310
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	512,136	257,148	409,216	-
Total Noncurrent Liabilities	512,136	257,148	409,216	-
Total Liabilities	811,225	281,836	522,902	15,310
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,781,262	83,684	1,992	-
Restricted For:				
Debt Service	12,457	40,411	-	-
Unemployment Compensation	-	-	-	798,703
Clean Water Projects	-	-	-	-
Capital Projects	107,773	37,209	-	-
Nonexpendable Endowment	177,343	-	-	-
Other Purposes	172,903	22,425	2,810	-
Unrestricted	149,801	15,213	(1,992)	-
Total Net Assets (Deficit)	$ 2,401,539	$ 198,942	$ 2,810	$ 798,703

The accompanying notes are an integral part of the financial statements.

Business-Type Activities				Governmental Activities
Enterprise Funds				
Second Injury & Compensation Assurance	Clean Water	Other Funds	Total	Internal Service Funds
$ 16,177	$ 5,523	$ 59	$ 486,600	$ 12,241
-	-	-	675,562	-
-	-	-	250,670	-
18,084	-	-	279,205	10,952
-	118,650	8,082	130,762	-
-	8,265	1,288	26,974	-
-	72	-	14,013	-
-	-	25	176,473	4,666
-	-	-	99,611	-
-	-	-	10,814	-
-	-	-	9,420	-
167	515	-	8,910	4,757
34,428	133,025	9,454	2,169,014	32,616
-	-	-	63,073	-
-	468,588	18,673	542,099	-
-	437,357	51,483	695,704	-
38,847	-	-	448,063	-
24	-	34,387	2,306,065	64,437
-	6,651	2,310	44,476	37
38,871	912,596	106,853	4,099,480	64,474
73,299	1,045,621	116,307	6,268,494	97,090
13,623	10,702	2,141	194,520	11,709
-	25	-	31,395	41,822
13,302	27,050	-	168,936	268
-	-	119	59,335	329
-	-	14	65,563	74
26,925	37,777	2,274	519,749	54,202
142,449	543,706	84,057	1,948,712	10,159
142,449	543,706	84,057	1,948,712	10,159
169,374	581,483	86,331	2,468,461	64,361
-	-	(19,412)	1,847,526	23,007
40,172	-	10,893	103,933	-
-	-	-	798,703	-
-	402,281	-	402,281	-
-	-	-	144,982	-
-	-	-	177,343	-
-	-	20,752	218,890	-
(136,247)	61,857	17,743	106,375	9,722
$ (96,075)	$ 464,138	$ 29,976	$ 3,800,033	$ 32,729

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation	Employment Security
Operating Revenues				
Charges for Sales and Services	$ 719,159	$ 31,055	$ 907,903	$ -
Assessments	-	-	-	433,883
Intergovernmental	187,474	-	-	180,074
Private Gifts and Grants	60,856	-	-	-
Interest on Loans	-	-	-	-
Other	47,555	-	280	29,747
Total Operating Revenues	1,015,044	31,055	908,183	643,704
Operating Expenses				
Cost of Sales and Services	151,151	-	621,062	-
Salaries, Wages and Administrative	1,287,629	27,838	10,915	-
Unemployment Compensation	-	-	-	736,105
Claims Paid	-	-	-	-
Depreciation and Amortization	105,605	11,008	935	-
Other	317,200	-	3,618	-
Total Operating Expenses	1,861,585	38,846	636,530	736,105
Operating Income (Loss)	(846,541)	(7,791)	271,653	(92,401)
Nonoperating Revenue (Expenses)				
Interest and Investment Income	13,315	10,086	36,291	41,945
Interest and Fiscal Charges	(8,290)	(11,609)	(35,588)	(156)
Other	45,581	13,574	21	-
Total Nonoperating Revenues (Expenses)	50,606	12,051	724	41,789
Income (Loss) Before Capital Contributions, Grants, Special Item, and Transfers	(795,935)	4,260	272,377	(50,612)
Capital Contributions	25,674	12,163	-	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(3,102)	-	-	-
Transfers In	925,078	8,338	-	3,086
Transfers Out	-	-	(271,510)	(6,314)
Change in Net Assets	151,715	24,761	867	(53,840)
Total Net Assets (Deficit) - Beginning (as restated)	2,249,824	174,181	1,943	852,543
Total Net Assets (Deficit) - Ending	$ 2,401,539	$ 198,942	$ 2,810	$ 798,703

The accompanying notes are an integral part of the financial statements.

Business-Type Activities				Governmental Activities
Enterprise Funds				
Second Injury & Compensation Assurance	Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ -	$ 15,912	$ 1,674,029	$ 123,549
107,132	-	-	541,015	-
-	-	-	367,548	-
-	-	-	60,856	-
-	11,610	625	12,235	-
3,431	-	798	81,811	-
110,563	11,610	17,335	2,737,494	123,549
-	-	11,691	783,904	86,010
8,927	701	1,541	1,337,551	34,055
-	-	-	736,105	-
41,506	-	-	41,506	-
-	-	1,004	118,552	12,932
-	-	-	320,818	-
50,433	701	14,236	3,338,436	132,997
60,130	10,909	3,099	(600,942)	(9,448)
2,045	24,205	2,883	130,770	1,154
(10,581)	(29,917)	(4,950)	(101,091)	-
(221)	(285)	-	58,670	-
(8,757)	(5,997)	(2,067)	88,349	1,154
51,373	4,912	1,032	(512,593)	(8,294)
-	-	-	37,837	179
-	12,656	6,646	19,302	-
(1,397)	-	-	(4,499)	-
-	7,258	-	943,760	-
-	-	(8,899)	(286,723)	-
49,976	24,826	(1,221)	197,084	(8,115)
(146,051)	439,312	31,197	3,602,949	40,844
$ (96,075)	$ 464,138	$ 29,976	$ 3,800,033	$ 32,729

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Business-Type Activities		
	Enterprise Funds		
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities			
Receipts from Customers	$ 843,493	$ 31,319	$ 908,498
Payments to Suppliers	(503,343)	(15,643)	(23,322)
Payments to Employees	(1,141,856)	(11,899)	(9,225)
Other Receipts (Payments)	59,379	-	(598,842)
Net Cash Provided by (Used in) Operating Activities	(742,327)	3,777	277,109
Cash Flows from Noncapital Financing Activities			
Retirement of Bonds and Annuities Payable	(130)	-	(40,278)
Interest of Bonds and Annuities Payable	-	-	(37,140)
Transfers In	835,211	8,338	-
Transfers Out	-	-	(282,755)
Other Receipts (Payments)	15,506	-	-
Net Cash Flows from Noncapital Financing Activities	850,587	8,338	(360,173)
Cash Flows from Capital and Related Financing Activities			
Additions to Property, Plant and Equipment	(212,378)	(82,417)	(269)
Proceeds from Capital Debt	164,965	-	-
Principal Paid on Capital Debt	(45,922)	(3,860)	-
Interest Paid on Capital Debt	(33,740)	(15,356)	-
Transfer In	85,157	-	-
Capital Contributions	-	7,915	-
Other Receipts (Payments)	50,944	14,050	-
Net Cash Flows from Capital and Related Financing Activities	9,026	(79,668)	(269)
Cash Flows from Investing Activities			
Proceeds from Sales and Maturities of Investments	14,548	51,665	40,760
Purchase of Investment Securities	(76,910)	-	(4,267)
Interest on Investments	14,117	10,969	37,842
Net Cash Flows from Investing Activities	(48,245)	62,634	74,335
Net Increase (Decrease) in Cash and Cash Equivalents	69,041	(4,919)	(8,998)
Cash and Cash Equivalents -Beginning of Year (as restated)	434,771	90,392	28,274
Cash and Cash Equivalents -End of Year	$ 503,812	$ 85,473	$ 19,276
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities			
Operating Income (Loss)	$ (846,541)	$ (7,791)	$ 271,653
Adjustments not Affecting Cash:			
Depreciation and Amortization	105,605	11,008	935
Others	942	-	4,463
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables, Net	(4,621)	(3,675)	304
(Increase) Decrease in Due From Other Funds	(17,930)	-	-
(Increase) Decrease in Inventories and Other Assets	(1,311)	-	(702)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	22,236	10	456
Increase (Decrease) in Due To Other Funds	(707)	4,225	-
Total Adjustments	104,214	11,568	5,456
Net Cash Provided by (Used In) Operating Activities	$ (742,327)	$ 3,777	$ 277,109
Noncash Investing, Noncapital Financing and Capital and Related Financing Transactions			
Fixed Assets Acquired by Incurring Capital Lease Obligations	236	-	-
Change in Receivable from State Affecting Proceeds of Capital Debt	3,655	-	-
Bond Issuance Costs Reducing Proceeds of Long-Term Debt	(308)	-	-
Change in Accrued Interest Payable Affecting Interest Paid	(1,683)	-	-
Bond Premium Affecting Cost, Increasing Bond Proceeds	622	-	-
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets			
Cash and Cash Equivalents - Current	$ 429,820	$ 15,745	
Cash and Cash Equivalents - Noncurrent	63,073	-	
Cash and Cash Equivalents - Restricted	10,919	69,728	
	$ 503,812	$ 85,473	

The accompanying notes are an integral part of the financial statements.

Business-Type Activities					Governmental Activities
Enterprise Funds					
Employment Security	**Second Injury & Compensation Assurance**	**Clean Water**	**Other**	**Totals**	**Internal Service Funds**
$ 626,041	$ 111,110	$ 47,767	$ 17,760	$ 2,585,988	$ 120,276
-	-	-	(11,603)	(553,911)	(105,875)
-	(8,419)	(680)	(1,082)	(1,173,161)	(33,459)
(701,510)	(37,591)	(49,204)	(8,925)	(1,336,693)	38,051
(75,469)	65,100	(2,117)	(3,850)	(477,777)	18,993
-	(94,530)	(31,040)	-	(165,978)	-
(156)	(13,565)	(29,100)	(1,165)	(81,126)	-
3,086	-	6,743	-	853,378	-
(6,314)	-	-	(8,884)	(297,953)	-
-	(1,637)	12,793	6,730	33,392	-
(3,384)	(109,732)	(40,604)	(3,319)	341,713	-
-	(27)	-	(1,958)	(297,049)	(24,258)
-	-	-	-	164,965	921
-	-	-	-	(49,782)	-
-	-	-	(3,583)	(52,679)	-
-	-	-	-	85,157	-
-	-	-	-	7,915	-
-	-	-	-	64,994	-
-	(27)	-	(5,541)	(76,479)	(23,337)
34,534	34,009	24,783	10,765	211,064	-
-	-	-	-	(81,177)	-
41,945	2,223	22,442	1,991	131,529	1,154
76,479	36,232	47,225	12,756	261,416	1,154
(2,374)	(8,427)	4,504	46	48,873	(3,190)
2,374	24,604	1,019	13	581,447	15,431
$ -	$ 16,177	$ 5,523	$ 59	$ 630,320	$ 12,241
$ (92,401)	$ 60,130	$ 10,909	$ 3,099	$ (600,942)	$ (9,448)
-	-	-	1,004	118,552	12,932
-	-	-	-	5,405	-
(17,664)	(8,154)	(13,026)	(8,041)	(54,877)	(2,384)
-	-	-	-	(17,930)	(888)
58,108	(14)	-	88	56,169	567
(65)	13,135	-	-	35,772	(23,119)
(23,447)	3	-	-	(19,926)	41,333
16,932	4,970	(13,026)	(6,949)	123,165	28,441
$ (75,469)	$ 65,100	$ (2,117)	$ (3,850)	$ (477,777)	$ 18,993
-	-	-	-	236	-
-	-	-	-	3,655	-
-	-	-	-	(308)	-
-	-	-	-	(1,683)	-
-	-	-	-	622	-

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Fiduciary Fund Financial Statements

Investment Trust Fund
External Investment Pool:
to account for the portion of the Short-Term Investment Fund that belongs to participants that are not part of the State's financial reporting entity.

Private Purpose Trust Fund
Escheat Securities:
to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.

Individual fund descriptions and financial statements begin on the following pages:

Pension (and Other Employee Benefit) Trust Funds, page 118
Agency Funds, page 124

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2002

(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Agency Funds	Total
Assets					
Cash and Cash Equivalents	$ 11,693	$ -	$ -	$ 271,551	$ 283,244
Receivables:					
Accounts, Net of Allowances	11,371	-	-	2,755	14,126
From Other Governments	1,637	-	-	-	1,637
From Other Funds	4,331	-	-	4,169	8,500
Interest	842	1,024	-	94	1,960
Investments	18,585,924	1,245,812	-	-	19,831,736
Inventories	-	-	-	170	170
Securities Lending Collateral	1,572,731	-	-	-	1,572,731
Other Assets	4,756	7	60,768	522,426	587,957
Total Assets	20,193,285	1,246,843	60,768	$ 801,165	22,302,061
Liabilities					
Accounts Payable and Accrued Liabilities	25	2,032	-	14,831	16,888
Securities Lending Obligation	1,572,731	-	-	-	1,572,731
Due to Other Funds	14,918	-	-	-	14,918
Other Liabilities	-	82	-	562	644
Funds Held for Others	-	-	-	785,772	785,772
Total Liabilities	1,587,674	2,114	-	$ 801,165	2,390,953
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 12)	18,571,063	-	-		18,571,063
Other Employee Benefits	34,548	-	-		34,548
Individuals, Organizations, and Other Governments	-	1,244,729	60,768		1,305,497
Total Net Assets	$ 18,605,611	$ 1,244,729	$ 60,768		$ 19,911,108

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Total
Additions				
Contributions:				
Plan Members	$ 275,381	$ -	$ -	$ 275,381
State	640,088	-	-	640,088
Municipalities	19,053	-	-	19,053
Total Contributions	934,522	-	-	934,522
Investment Income (Loss)	(1,240,059)	48,770	-	(1,191,289)
Less: Investment Expense	(93,424)	(690)	-	(94,114)
Net Investment Income (Loss)	(1,333,483)	48,080	-	(1,285,403)
Escheat Securities Received	-	-	12,576	12,576
Transfers In	1,137	-	-	1,137
Other	5	-	-	5
Total Additions	(397,819)	48,080	12,576	(337,163)
Deductions				
Administrative Expense	1,396	-	-	1,396
Benefit Payments and Refunds	1,528,793	-	-	1,528,793
Escheat Securities Returned or Sold	-	-	12,997	12,997
Pool's Share Transactions	-	169,351	-	169,351
Distributions to Pool Participants	-	48,080	-	48,080
Other	3,948	-	5,547	9,495
Total Deductions	1,534,137	217,431	18,544	1,770,112
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	(1,931,956)	-	-	(1,931,956)
Individuals, Organizations, and Other Governments	-	(169,351)	(5,968)	(175,319)
Net Assets - Beginning (as restated)	20,537,567	1,414,080	66,736	22,018,383
Net Assets - Ending	$ 18,605,611	$ 1,244,729	$ 60,768	$ 19,911,108

The accompanying notes are an integral part of the financial statements.

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Component Unit Financial Statements

Major Component Units

Connecticut Development Authority:
the Connecticut Development Authority is a public instrumentality and political subdivision of the State. The Authority was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond Program, its Umbrella Program and its Insurance Program.

Connecticut Housing Finance Authority:
the Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

Connecticut Resources Recovery Authority:
the Connecticut Resources Recovery Authority is a public instrumentality and political subdivision of the State. The Authority is responsible for implementing the State's solid waste management plan, which includes design, construction and operation of resources recovery facilities and the marketing of recovered products.

Nonmajor
The nonmajor component units are presented beginning on page 127.

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Combining Statement of Net Assets
Component Units

June 30, 2002

(Expressed in Thousands)

Assets	Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-01)	Connecticut Resources Recovery Authority	Other Component Units	Total
Current Assets:					
Cash and Cash Equivalents	$ 22,333	$ 359,043	$ 69,705	$ 85,528	$ 536,609
Investments	960	21,421	-	97,697	120,078
Receivables, Net of Allowances	16,801	114,336	19,474	15,277	165,888
Due From Primary Government	20,327	-	-	19	20,346
Inventories	-	-	3,543	-	3,543
Restricted Assets	-	47,192	-	403,865	451,057
Other Current Assets	839	8,967	1,519	1,028	12,353
Total Current Assets	61,260	550,959	94,241	603,414	1,309,874
Noncurrent Assets:					
Restricted Assets	20,229	319,525	85,339	279	425,372
Capital Assets, Net of Accumulated Depreciation	20,272	2,523	229,151	340	252,286
Investments	19,886	214,497	-	-	234,383
Receivables, Net of Allowances	110,884	2,877,689	-	80,135	3,068,708
Other Noncurrent Assets	3,381	43,190	11,480	1,874	59,925
Total Noncurrent Assets	174,652	3,457,424	325,970	82,628	4,040,674
Total Assets	235,912	4,008,383	420,211	686,042	5,350,548
Liabilities					
Current Liabilities:					
Accounts Payable and Accrued Liabilities	889	23,509	27,447	1,141	52,986
Due To Primary Government	-	-	-	99,611	99,611
Escrow Deposits	152	26,195	-	-	26,347
Current Portion of Long-Term Obligations	5,688	89,075	18,373	5,315	118,451
Amount Held for Institutions	-	-	-	279,817	279,817
Deferred Revenue	285	-	-	395	680
Other Current Liabilities	8,246	4,775	1,317	3,933	18,271
Total Current Liabilities	15,260	143,554	47,137	390,212	596,163
Noncurrent Liabilities:					
Noncurrent Portion of Long-Term Obligations	50,591	3,247,074	242,154	127,446	3,667,265
Total Noncurrent Liabilities	50,591	3,247,074	242,154	127,446	3,667,265
Total Liabilities	65,851	3,390,628	289,291	517,658	4,263,428
Net Assets					
Invested in Capital Assets, Net of Related Debt	14,226	2,523	27,037	340	44,126
Restricted:					
Debt Service	20,229	-	-	-	20,229
Bond Indentures	-	609,058	-	-	609,058
Other Purposes	-	1,933	20,786	5,098	27,817
Unrestricted	135,606	4,241	83,097	162,946	385,890
Total Net Assets	$ 170,061	$ 617,755	$ 130,920	$ 168,384	$ 1,087,120

The accompanying notes are an integral part of the financial statements.

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Development Authority	$ 28,320	$ 26,304	$ -	$ -
Connecticut Housing Finance Authority (12/31/01)	214,425	212,755	575	-
Connecticut Resources Recovery Authority	173,034	157,513	-	-
Other Component Units	29,708	15,323	23,218	-
Total Component Units	$ 445,487	$ 411,895	$ 23,793	$ -

General Revenues:
Investment Income
Special Items:
Administrative Fee Rebates
Others
Total General Revenues and Special Items
Change in Net Assets
Net Assets - Beginning (as restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-01)	Connecticut Resources Recovery Authority	Other Component Units	Totals
$ (2,016)	$ -	$ -	$ -	$ (2,016)
-	(1,095)	-	-	(1,095)
-	-	(15,521)	-	(15,521)
-	-	-	8,833	8,833
(2,016)	(1,095)	(15,521)	8,833	(9,799)
3,286	43,153	4,388	(54,133)	(3,306)
-	-	-	(1,327)	(1,327)
(1,233)	-	-	-	(1,233)
2,053	43,153	4,388	(55,460)	(5,866)
37	42,058	(11,133)	(46,627)	(15,665)
170,024	575,697	142,053	215,011	1,102,785
$ 170,061	$ 617,755	$ 130,920	$ 168,384	$ 1,087,120

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Notes to the Financial Statements

June 30, 2002

Note 1 Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board, except for the financial statements of the University of Connecticut Foundation, Incorporated (a component unit). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

b. Reporting Entity

For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. The State also includes a nongovernmental corporation as a component unit because it would be misleading to exclude the corporation from the reporting entity. Component units are reported in the financial statements in a separate column (discrete presentation), or as part of the primary government (blending presentation).

Discretely Presented Component Units

Discretely presented component units include legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides significant funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). The following organizations are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the primary government:

Connecticut Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

Connecticut Housing Finance Authority

The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing for low and moderate-income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 2001.

Connecticut Resources Recovery Authority

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated

The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, tradeshows, exhibitions, conferences, and local consumer shows, exhibitions and events; to encourage the diversification of the state economy; to strengthen Hartford's role as the region's major business and industry employment center and seat of government; to encourage residential housing development in downtown Hartford; and to construct, operate, maintain and market a convention center project in Hartford.

Financial statements for the major component units are included in the accompanying financial statements after the fund financial statements. Audited financial statements issued separately by each component unit can be obtained from their respective administrative offices.

Blended Component Units

Connecticut Lottery Corporation

The Connecticut Lottery Corporation is a legally separate organization for which the State appoints a voting majority of the Corporation's governing board and which provides a significant amount of revenues to the State. The corporation is reported as part of the primary government's business-type activities in the government-wide financial statements and as a major Enterprise fund in the fund financial statements.

University of Connecticut Foundation, Incorporated

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut, a unit of the Higher Education fund. The University is not financially accountable for the Foundation. However, the Foundation is included as a component unit because the nature and significance of its relationship to the University are such that exclusion would cause the University's financial statements to be misleading. The Foundation is reported as part of the primary government's business-type activities in the government-wide financial statements and as part of the Higher Education fund (a major Enterprise fund) in the fund financial statements.

c. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between the governmental and business-type activities of the primary government by using separate columns and rows. Governmental activities are generally financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.

2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated to the various functions or segments. Program revenues include a) fees, fines, and charges paid by the recipients of goods or services offered by the functions or segments and b) grants and contributions that are restricted to meeting the operational or capital needs of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its 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 enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund - This is the State's primary operating fund. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g., health, social assistance, education, etc.).

Debt Service - This fund is used to account for the resources accumulated and payments made for principal and interest on special tax obligation bonds of the Transportation fund and Rental Housing bonds.

Transportation - This fund is used to account for motor vehicle taxes, receipts, and transportation related federal revenues collected for the purpose of payment of transportation related bonds and budgeted appropriations of the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State.

The State reports the following major enterprise funds:

Higher Education - This fund is used to account for the financial activities of the State's higher education institutions, including the University of Connecticut, the University of Connecticut Health Center (including John Dempsey Hospital), State Universities, Community-Technical Colleges, and the University of Connecticut Foundation, Incorporated, a component unit.

Bradley International Airport - This fund is used to account for the financial activities of the Bradley International Airport, which is owned and operated by the State.

Connecticut Lottery Corporation - This fund is used to account for the financial activities of the State's lottery. The Corporation was created in 1996 for the purpose of generating revenues for the State's General Fund.

Employment Security - This fund is used to account for unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Second Injury and Compensation Assurance - This fund is an extension of the Workers' Compensation Act managed by the State Treasurer and is used to pay injured workers whose injuries are made more severe because of a pre-existing condition, and in cases where an injured worker subsequently undergoes an incapacitating relapse.

Clean Water - This fund is used to account for resources used to provide loans to municipalities to finance waste water treatment facilities.

In addition, the State reports the following fund types:

Internal Service Funds - These funds account for goods and services provided to other agencies of the State on a cost-reimbursement basis. These goods and services include prisoner-built office furnishings, information services support, telecommunications, printing, and other services.

Pension (and Other Employee Benefits) Trust Funds - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, a defined contribution plan, and other employee benefits plans. These plans are discussed more fully in Notes 10 and 11.

Investment Trust Fund - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

Private-Purpose Trust Fund - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

Agency Funds - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

d. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Health and Educational Facilities Authority.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Sales and use taxes, personal income taxes, public service corporation taxes, special fuel taxes, federal grants, and casino gaming payments are considered to be susceptible to accrual. Licenses, permits, and fees are not considered to be susceptible to accrual and are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources, as they are needed.

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes and Federal and other restricted grant revenues of the General and Transportation funds which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2002 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water Fund (an Enterprise fund) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. STIF and the Combined Investment Funds hold these investments.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

Collections of historical documents, rare books and manuscripts, guns, paintings, and other items are not capitalized. These collections are held by the State Library for public exhibition, education, or research; and are kept protected, cared for, and preserved indefinitely. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are also not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

Securities Lending Transactions (see Note 4)
Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues
In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

Long-term Obligations
In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations include compensated absences, workers' compensation claims, capital leases, claims and judgements, annuities payable, and the net pension obligation.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Capital Appreciation Bonds
Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

Compensated Absences
The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

g. Fund Balance
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

h. Interest Rate Swap Agreements
The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 16).

i. Interfund Activities
In the fund financial statements, interfund activities are reported as follows:

Interfund receivables/payables - The current portion of interfund loans outstanding at the end of the fiscal year is reported as due from/to other funds; the noncurrent portion as advances to/from other funds. All other outstanding balances between funds are reported as due from/to other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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 expenditures or expenses in purchaser funds. In the statement of activities, transactions between the primary government and its discretely presented component units are reported as revenues and expenses, unless they represent repayments of loans or similar activities.

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. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

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

j. Food Stamps
Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

k. External Investment Pool
Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates
The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting
The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	$ (817,085)	$ 53,961
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	46,016	(4,029)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	69,405	(4,996)
Salaries and Fringe Benefits Payable	(15,620)	(615)
Increases (decreases) in continuing appropriations	(543,806)	(26,556)
Net change in fund balances (GAAP basis)	$ (1,261,090)	$ 17,765

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).

3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Fund Deficits
The following funds have deficit balances at June 30, 2002, none of which constitutes a violation of statutory provisions (amounts in thousands).

~~General Fund~~	$ 434,926
~~Special Revenue~~	
Consumer Counsel & Public Utility Control	2,076
~~Capital Projects~~	
State Facilities	205,449
~~Enterprise~~	
Second Injury & Compenstion Assurance	96,075
Bradley Parking Garage	8,519

The General Fund and Consumer Counsel and Public Utility Control Fund deficits has been addressed by Public Act 93-402, subsequently modified by Public Act 99-1 (June special session), which among other things, requires any GAAP deficits for budgeted funds existing as of June 30, 2003 to be amortized in fifteen equal increments beginning with the annual budget for fiscal year 2004-2005.

The State Facilities deficit will be eliminated in the future by the sale of bonds.

The deficit balance in the Second Injury and Compensation Assurance fund will be eliminated in the future by higher employer assessments.

Note 4 Cash Deposits and Investments
In this note, the State's deposits and investments are classified in categories of "custodial credit risk." This is the risk that the State will not be able to (a) recover deposits if the depository bank fails or (b) recover the value of investments or collateral securities that are in the custody of an outside party if the counterparty to the investment or deposit transaction fails. Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low. The level of potential custodial credit risk is higher for those deposits or investments classified in category 2 and highest for those in category 3.

Cash Deposits (amounts in million)

At June 30, 2002, the reported amount of the State's deposits was $(194.6) for the Primary Government and Fiduciary Funds (pooled deposits) and $11.4 for the Component Units. The corresponding bank balance for such deposits was $126.4 for the Primary Government and Fiduciary Funds and $16.6 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $40.9 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $85.5 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $4.5 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $12.1 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) and are disclosed in the investment schedules.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund (External Investment Pool fund) in the fiduciary fund financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the financial statements. Instead, each fund's investment in the internal portion of STIF is reported as "cash equivalents" in the government-wide and fund financial statements.

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commercial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value and are disclosed in the investment schedules.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the financial statements. Instead, each fund's equity in the CIFS is reported as investments in the government-wide and fund financial statements.

Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer. As of June 30, 2002, investments consisted of the following (amounts in thousands):

	Primary Government			
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds
Equity in CIFS	$ 119,684	$ 545	$ -	$ 18,585,924
Other Investments	61,721	250,125	120,098	1,245,812
Total Investments-current	$ 181,405	$ 250,670	$ 120,098	$ 19,831,736
Other Investments-noncurrent	$ -	$ 448,063	$ 234,383	$ -

The following investment schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2002. Further, the reported amounts of these investments are classified according to the following categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

Investments-Primary Government and Fiduciary Funds
Short-Term Investment Fund
(amounts in thousands)

Investment Type	Reported Amount Category 1	Fair Value
Certificates of Deposit-Negotiable	$ 100,000	$ 100,000
Commercial Paper	2,055,921	2,056,072
Corporate Notes	311,688	311,807
Bankers' Acceptances	38,913	39,048
Bank Notes	363,707	364,012
Federal Agency Securities	124,557	125,149
Extendable Commercial Notes	348,770	348,770
Repurchase Agreements	200,000	200,000
Total Investments	$ 3,543,556	$ 3,544,858

Investments-Primary Government and Fiduciary Funds
Combined Investment Funds
(amounts in thousands)

Investment Type	Reported Amount (Fair Value) Category 1	Category 3	Total
Certificates of Deposit-Negotiable	$ -	$ 310,422	$ 310,422
Asset Backed Securities	652,860	-	652,860
U.S. Government and Agency Securities:			-
Not on Securities Loan	1,490,373	-	1,490,373
On Securities Loan for Securities or Letter of Credit Collateral	-	52,128	52,128
Mortgage Backed Securities	711,836	-	711,836
Corporate Debt	3,040,199	1,050,944	4,091,143
Convertible Securities	211,080	-	211,080
U. S. Corporate Stock:			-
Not on Securities Loan	6,459,089	-	6,459,089
On Securities Loan for Securities or Letter of Credit Collateral	-	12,040	12,040
International Equity Securities:			
Not on Securities Loan	1,699,773	-	1,699,773
On Securities Loan for Securities or Letter of Credit Collateral	-	3,329	3,329
Short-term Investments	-	224,868	224,868
Preferred Stock	101,279	-	101,279
	$ 14,366,489	$ 1,653,731	$ 16,020,220
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form.			
Real Estate Investment Trusts			55,936
Mutual Funds			33,833
Limited Liability Corporations			33,972
Trusts			51,047
Limited Partnerships			2,548,141
Annuities			12,959
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:			
U.S. Government and Agency Securities			674,561
U. S. Corporate Stock			246,453
International Equity Securities			454,495
Domestic Fixed Securities			165,436
International Fixed Securities			3,823
			$ 20,300,876

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.

The CIFS account for the purchase and sale of investments using "trade date" accounting – investments are increased or decreased on the date the purchase or sales order is made although the investments are not received or delivered until a later date (settlement date). Thus, the above schedule was prepared taking into account unsettled sales and purchases of investments. This means that investments under unsettled sales are included in the schedule, because the investments are still subject to custodial credit risk that could result in losses prior to settlement. Conversely, investments under unsettled purchases are excluded from the schedule, because the investments are still in the hands of the dealers.

Other Investments-Primary Government
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 2	Total	Fair Value
Collateralized Investment Agreements	$ 378,329	$ -	$ 378,329	$ 378,329
State/Municipal Bonds	164,535	-	164,535	163,125
U.S. Government & Agency Securities	445,094	-	445,094	445,094
Common Stock	25,220	960	26,180	26,180
Corporate Bonds	10,044	37,838	47,882	47,882
Other	5,216	-	5,216	5,216
	$ 1,028,438	$ 38,798	$ 1,067,236	$ 1,065,826
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Annuity Contracts			470,455	470,455
Mutual Funds			111,167	111,167
Guaranteed Investment Contracts			8,719	8,719
Tax Exempt Proceeds Fund			84,115	84,115
Other			5,839	5,839
Total Investments			$ 1,747,531	$ 1,746,121

The Higher Education fund owns all of the investments that are in Category No. 2.

Other Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 3	Total	Fair Value
U.S. Government & Agency Securities	$ 32,566	$ 6,195	$ 38,761	$ 38,776
Common Stock	76,343	-	76,343	76,343
Repurchase Agreements	86,375	-	86,375	86,375
Collateralized Investment Agreements	2,288	12,583	14,871	14,871
Mortgage Backed Securities and Obligations	431,046	-	431,046	431,046
Corporate Debt	22,388	-	22,388	22,388
Other	44,698	2	44,700	44,700
	$ 695,704	$ 18,780	714,484	714,499
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Guaranteed Investment Contracts			47,117	47,117
Fidelity Funds			333,620	333,620
Limited Partnerships			9,574	9,574
Other			20,300	20,300
Total Investments			$ 1,125,095	$ 1,125,110

CHFA owns approximately 86 percent and CHESLA owns approximately 55 percent of the investments that are in categories 1 and 3, respectively.

Derivatives

GASB Technical Bulletin Number 94-1 defines derivatives as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. According to this definition, the following State's investments or contracts are considered to be derivatives:

- Short-Term Investment Fund - Adjustable-rate federal agency, corporate notes, and bank notes whose interest rates vary directly with short-term money market indices and are reset daily, weekly, monthly, quarterly, or semi-annually.

- Combined Investment Funds - Adjustable–rate securities, asset backed securities, indexed Treasury securities, option contracts, mortgage backed securities (including interest-only strips), and foreign exchange contracts.

The State invests in derivatives to enhance investment returns or as in the case of foreign exchange contracts to facilitate trade settlements and to serve as foreign currency hedges.

The Mutual Fixed Income Fund (a Combined Investment Fund) invests in mortgage backed securities (MBSs), asset backed securities (ABSs), and interest-only strips. MBS's and ABS's are bonds issued by a special purpose trust that collects payments on an underlying collateral pool of mortgages or other loans and remits payments to bondholders. The bonds are structured in a series of classes or tranches, each with a different coupon rate and stated maturity date. Interest payments to the bondholders are made in accordance with the trust indentures and amounts received from borrowers in excess of interest payments and expenses are used to amortize the principal on the bonds. Such principal payments are made to retire the tranches of bonds in order of their stated maturity. Because mortgage prepayments are largely dependent on market interest rates, the ultimate maturity date of the bonds is unpredictable and is sensitive to changes in market interest rates, but is generally prior to the stated maturity date. At June 30, 2002, the fund held MBSs of $629 million and ABSs of $182 million.

Interest-only strips (IOs) are a specialized type of mortgage backed securities. The cash flow on these investments is derived from the interest payments on the underlying mortgage loans. Prepayments on underlying loans curtail these interest payments, reducing the value of the IOs and, as such, these instruments are extremely sensitive to changes in interest rates, which encourage or discourage such prepayments. As of June 30, 2002, the IOs had a value of $7 million.

From time to time, the International Stock, Mutual Fixed Income, and Private Investment Funds (Combined Investment Funds) utilize foreign currency contracts to facilitate transactions in foreign securities and to manage the funds currency exposure. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the funds' investments against currency fluctuations. Losses may arise from changes in the value of foreign currencies or failure of the counterparties to perform under the contracts' terms. As of June 30, 2002, the International Stock Fund reported an unrealized loss of $47 million from open forward currency contracts.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. The funds did not impose any restrictions during the fiscal year on the amount of loans that the lending agent made on their behalf and the lending agent indemnified the funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrowers failed to return the loaned securities or pay distributions thereon. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 55 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

As of June 30, 2002, receivables consisted of the following:

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 921,097	$ -	$ -
Accounts	1,173,456	364,740	19,887
Loans	-	130,762	126,232
Other Governments	689,658	14,014	-
Interest	4,705	-	-
Other	25,719	26,974	24,375
Total Receivables	2,814,635	536,490	170,494
Allowance for doubtful accounts	(972,703)	(85,536)	(4,606)
Receivables, net	$ 1,841,932	$ 450,954	$ 165,888

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2002 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 549,016	$ -	$ 549,016
Income Taxes	161,858	-	161,858
Corporations	89,869	-	89,869
Gasoline and Special Fuel	-	38,281	38,281
Various Other	82,073	-	82,073
Total Taxes Receivable	882,816	38,281	921,097
Allowance for Uncollectibles	(19,204)	(197)	(19,401)
Taxes Receivable, net	$ 863,612	$ 38,084	$ 901,696

Note 7 Loans Receivable

Loans receivable for the primary government and its component units, as of June 30, 2002, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Mortgage	$ -	$ -	$ 2,918,424
Industrial	-	-	116,947
Housing	202,535	-	-
Clean Water	51,076	468,589	-
Education	-	20,340	80,135
Other	161,705	18,673	-
Less Allowance for Losses	(9,044)	(2,559)	(46,798)
Loans Receivable Net	$ 406,272	$ 505,043	$ 3,068,708

The mortgage loan program consists of home, multi-family, and construction loan mortgages made by the Connecticut Housing Finance Authority. Most home loans are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. In addition, some home and multi-family loans are insured or guaranteed by private insurers, and the State has guaranteed the repayment of up to $5 million for the Authority's Residential Mortgage Guarantee Program. Permanent loans earn interest at rates ranging from 0 percent to 13.5 percent and have initial terms of 10 to 40 years. Construction loans earn interest at rates ranging from 0 percent to 9.0 percent. Upon completion of each development, the related permanent mortgage loan, which will generally be provided by the Authority, will be payable over 30 to 40 years at annual interest rates ranging from 0 percent to 9.0 percent.

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from the proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 2.64 percent to 12 percent. As of June 30, 2002, loans in the amount of $22.1 million (including loans of $6.7 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $7.9 million at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2002, restricted assets for the primary government and its component units were comprised of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Cash & Cash Equivalents	$ 590,374	$ 80,647	$ 95,105
Investments	-	620,363	779,361
Interest Receivable	-	2,055	1,963
Other	-	2,059	-
Total	$ 590,374	$ 705,124	$ 876,429

Note 9 Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated:				
Land	$ 435,227	$ 37,904	$ 5,649	$ 467,482
Land-Infrastructure	384,653	11,467	-	396,120
Construction in Progress-Infrastructure	885,615	429,683	317,405	997,893
Construction in Progress	231,115	312,664	293,336	250,443
Total Capital Assets not being Depreciated	1,936,610	791,718	616,390	2,111,938
Other Capital Assets:				
Buildings	2,095,991	294,124	32,290	2,357,825
Improvements Other than Buildings	279,061	16,791	132	295,720
Equipment	1,263,839	128,400	40,964	1,351,275
Infrastructure	8,733,350	317,405	-	9,050,755
Total Other Capital Assets at Historical Cost	12,372,241	756,720	73,386	13,055,575
Less: Accumulated Depreciation For:				
Buildings	1,573,056	115,700	32,290	1,656,466
Improvements Other than Buildings	151,346	99,070	132	250,284
Equipment	704,483	140,398	40,964	803,917
Infrastructure	2,938,776	392,266	-	3,331,042
Total Accumulated Depreciation	5,367,661	747,434 *	73,386	6,041,709
Other Capital Assets, Net	7,004,580	9,286	-	7,013,866
Governmental Activities, Captial Assets, Net	$ 8,941,190	$ 801,004	$ 616,390	$ 9,125,804

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 6,196
General Government	13,594
Regulation and Protection	33,188
Conservation and Development	9,060
Health and Hospitals	9,766
Transportation	603,451
Human Services	2,941
Education, Libraries and Museums	14,845
Corrections	30,333
Judicial	13,507
Capital assets held by the government's internal service funds are charge to the various functions based on the usage of the assets	10,553
Total Depreciation Expense	$ 747,434

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 43,997	$ 2,766	$ 685	$ 46,078
Construction in Progress	282,317	233,143	131,224	384,236
Total Capital Assets not being Depreciated	326,314	235,909	131,909	430,314
Capital Assets being Depreciated:				
Buildings	1,809,862	179,360	7,070	1,982,152
Improvements Other Than Buildings	280,372	28,197	266	308,303
Equipment	619,249	62,013	20,331	660,931
Total Other Capital Assets at Historical Cost	2,709,483	269,570	27,667	2,951,386
Less: Accumulated Depreciation For:				
Buildings	614,354	59,588	3,303	670,639
Improvements Other Than Buildings	97,449	12,311	255	109,505
Equipment	266,459	45,912	16,880	295,491
Total Accumulated Depreciation	978,262	117,811	20,438	1,075,635
Other Capital Assets, Net	1,731,221	151,759	7,229	1,875,751
Business-Type Activities, Capital Assets, Net	$ 2,057,535	$ 387,668	$ 139,138	$ 2,306,065

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2002:

Land	$ 27,774
Buildings	202,027
Improvements other than Buildings	40
Machinery and Equipment	225,145
Construction in Progress	30
Total Capital Assets	455,016
Accumulated Depreciation	(202,730)
Capital Assets, net	$ 252,286

Note 10 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)-consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 12.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

Membership of each plan consisted of the following at the date of the latest actuarial evaluation:

	SERS 6/30/02	TRS 6/30/02	JRS 6/30/02
Retirees and beneficiaries receiving benefits	32,354	22,303	210
Terminated plan members entitled to but not yet receiving benefits	1,496	1,508	1
Active plan members	54,287	48,902	220
Total	88,137	72,713	431

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent.

The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System

Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2002, the annual required contribution (ARC) was $210.7 million; however, the State contributed $204.5 million to the plan, reflecting a reduction of $6.2 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System

Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 415,493	$ 210,701	$ 9,598
Interest on net pension obligation	166,054	89,954	3
Adjustment to annual required contribution	(102,046)	(54,251)	(2)
Annual pension cost	479,501	246,404	9,599
Contributions made	415,493	204,511	9,598
Increase (decrease) in net pension obligation	64,008	41,893	1
Net pension obligation beginning of year	1,953,580	1,057,828	39
Net pension obligation end of year	$ 2,017,588	$ 1,099,721	$ 40

Three-year trend information is as follows (amounts in thousands):

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2000	405,927	84.4%	1,889,886
	2001	439,317	85.5%	1,953,580
	2002	479,501	86.7%	2,017,588
TRS	2000	268,857	76.0%	985,967
	2001	286,527	74.9%	1,057,828
	2002	246,404	83.0%	1,099,721
JRS	2000	9,326	100%	37
	2001	9,839	100%	39
	2002	9,599	100%	40

Defined Contribution Plan

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed $20.7 million and $33.9 million, respectively.

Note 11 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets or the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 12.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	CMERS 6/30/01	CPJERS 12/31/01
Retirees and beneficiaries receiving benefits	4,572	227
Terminated plan members entitled to but not receiving benefits	186	29
Active plan members	8,233	363
Total	12,991	619
Number of participating employers	164	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 12 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4)

Statement of Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ -	$ -	$ 711	$ 1	$ 73	$ 785
Receivables:							
Accounts, Net of Allowances	2,007	7,346	8	1,997	3	10	11,371
From Other Governments	-	1,637	-	-	-	-	1,637
From Other Funds	2,258	-	-	-	-	-	2,258
Interest	266	440	15	106	6	-	833
Investments	7,090,509	10,107,302	125,264	1,184,508	60,924	615	18,569,122
Securities Lending Collateral	604,496	854,494	10,287	97,013	5,509	38	1,571,837
Total Assets	7,699,536	10,971,219	135,574	1,284,335	66,443	736	20,157,843
Liabilities							
Accounts Payable and Accrued Liabilities	25	-	-	-	-	-	25
Securities Lending Obligation	604,496	854,494	10,287	97,013	5,509	38	1,571,837
Due to Other Funds	1,612	13,306	-	-	-	-	14,918
Total Liabilities	606,133	867,800	10,287	97,013	5,509	38	1,586,780
Net Assets							
Held in Trust For Employee Pension Benefits	7,093,403	10,103,419	125,287	1,187,322	60,934	698	18,571,063
Total Net Assets	$ 7,093,403	$ 10,103,419	$ 125,287	$ 1,187,322	$ 60,934	$ 698	$ 18,571,063

Statement of Changes in Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Additions							
Contributions:							
Plan Members	$ 49,577	$ 179,687	$ 1,331	$ 11,198	$ 228	$ 32	$ 242,053
State	415,493	204,511	9,598	-	-	-	629,602
Municipalities	-	3,758	-	15,295	-	-	19,053
Total Contributions	465,070	387,956	10,929	26,493	228	32	890,708
Investment Income (Loss)	(472,978)	(679,166)	(7,344)	(76,488)	(3,581)	(49)	(1,239,606)
Less: Investment Expenses	(35,618)	(51,169)	(553)	(5,760)	(270)	(4)	(93,374)
Net Investment Income (Loss)	(508,596)	(730,335)	(7,897)	(82,248)	(3,851)	(53)	(1,332,980)
Transfers In	-	-	-	-	1,137	-	1,137
Other	-	-	-	-	-	5	5
Total Additions	(43,526)	(342,379)	3,032	(55,755)	(2,486)	(16)	(441,130)
Deductions							
Administrative Expense	272	-	7	7	-	-	286
Benefit Payments and Refunds	651,201	761,288	13,509	57,265	2,111	93	1,485,467
Other	2,701	-	-	-	1,173	-	3,874
Total Deductions	654,174	761,288	13,516	57,272	3,284	93	1,489,627
Changes in Net Assets	(697,700)	(1,103,667)	(10,484)	(113,027)	(5,770)	(109)	(1,930,757)
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,791,103	11,207,086	135,771	1,300,349	66,704	807	20,501,820
End of Year	$ 7,093,403	$ 10,103,419	$ 125,287	$ 1,187,322	$ 60,934	$ 698	$ 18,571,063

Note 13 Postemployment Benefits

In addition to the pension benefits described in Note 10, the State provides postretirement health care and life insurance benefits, in accordance with State statues, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

As of June 30, 2002, 32,602 retirees of the State Employees Retirement System meet those eligibility requirements. When employees retire, the State may pay up to 100 percent of their health care insurance premium cost (including dependent's coverage) based on the plan chosen by the employee. In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance, continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than $7,500 (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest $100. The State finances the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. During the year ended June 30, 2002, $205 million was paid in postretirement benefits.

Note 14 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2003	31,917
2004	31,661
2005	26,208
2006	21,957
2007	22,313
Thereafter	4,470
Total	$ 138,526

Contingent revenues for the year ended June 30, 2002, were $2.9 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2002, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2003	$ 20,581	$ 14,150
2004	20,269	10,413
2005	17,357	8,347
2006	13,619	7,464
2007	8,235	7,189
2008-2012	23,825	28,965
2013-2017	-	14,184
2018-2022	-	6,150
2023-2027	-	6,124
2028-2032	-	4,870
Total minimum lease payments	$ 103,886	107,856
Less: Amount representing interest costs		30,960
Present value of minimum lease payments		$ 76,896

Minimum capital lease payments were discounted using an interest rate of approximately 6 percent.

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2002, totaled $43.7 million.

Note 15 Changes in General Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2002, (amounts in thousands):

Governmental Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Bonds:					
General Obligation	$ 7,812,055	$ 1,916,495	$ 1,201,114	$ 8,527,436	$ 677,267
Transportation	3,100,121	821,130	746,348	3,174,903	225,350
	10,912,176	2,737,625	1,947,462	11,702,339	902,617
Plus/(Less) premiums, discounts and deferred amounts	-	64,693	1,596	63,097	-
Total Bonds	10,912,176	2,802,318	1,949,058	11,765,436	902,617
Other Liabilities:					
Net Pension Obligation	3,011,447	735,504	629,602	3,117,349	-
Compensated Absences	314,015	43,009	15,985	341,039	10,451
Workers' Compensation	326,417	5,845	87,079	245,183	55,344
Capital Leases	75,314	6,989	5,407	76,896	2,334
Claims and Judgements	13,110	-	5,385	7,725	6,212
Total Other Liabilities	3,740,303	791,347	743,458	3,788,192	74,341
Governmental Activities Long-Term Liabilites	$ 14,652,479	$ 3,593,665	$ 2,692,516	$ 15,553,628	$ 976,958

In prior years, the General and Transportation funds have been used to liquidate other liabilities.

Business-Type Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Revenue Bonds	$ 1,464,120	$ 191,745	$ 151,066	$ 1,504,799	$ 61,980
Plus/(Less) premiums, discounts and deferred amounts	-	7,783	1,708	6,075	-
Total Revenue Bonds	1,464,120	199,528	152,774	1,510,874	61,980
Other Liabilities:					
Lottery Prizes	514,182	-	40,299	473,883	64,666
Compensated Absences	-	-	-	80,773	24,421
Other	-	-	-	52,118	17,869
Total Other Liabilities	514,182	-	40,299	606,774	106,956
Business-Type Long-Term Liabilities	$ 1,978,302	$ 199,528	$ 193,073	$ 2,117,648	$ 168,936

Note 16 Bonded Debt

a. Primary Government – Governmental Activities

General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2002, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2002-2022	2.55-7.525%	$ 2,315,390	$ 597,460
School Construction	2002-2022	3-9.75%	1,304,618	48,876
Municipal & Other Grants & Loans	200-2021	3-8.4%	1,742,944	712,160
Elderly Housing	2003-2011	7-7.5%	19,905	-
Rental Housing	2002	5.25%	80,000	-
Elimination of Water Pollution	2002-2022	4.1-7.525%	289,076	104,950
General Obligation Refunding	2002-2019	2.4-7%	2,107,832	-
Miscellaneous	2002-2031	3.5-9.5%	144,093	8,131
			8,003,858	$ 1,471,577
Accretion-Various Capital Appreciation Bonds			523,578	
		Total	$ 8,527,436	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 677,267	$ 428,521	$ 1,105,788
2004	607,389	411,545	1,018,934
2005	635,773	397,006	1,032,779
2006	577,853	371,579	949,432
2007	567,995	351,490	919,485
2008-2012	2,557,173	1,394,030	3,951,203
2013-2017	1,593,158	448,441	2,041,599
2018-2022	767,228	92,511	859,739
2023-2027	13,217	3,514	16,731
2028-2032	6,805	608	7,413
Total	$ 8,003,858	$ 3,899,245	$ 11,903,103

Transportation Related Bonds

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the debt service fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2002, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2012-2017	4.25-5.50%	$ 13,878	$ 3,902
Infrastructure Improvements	2003-2022	2-10.0%	3,144,908	376,663
General Obligation Refunding	2004	5.15-9.75%	8,505	-
Other	2008-2013	4.6-7.525%	499	164
			3,167,790	$ 380,729
Accretion-Various Capital Appreciation Bonds			7,113	
		Total	$ 3,174,903	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 225,350	$ 158,836	$ 384,186
2004	226,655	149,607	376,262
2005	223,990	137,816	361,806
2006	247,735	126,054	373,789
2007	235,753	119,404	355,157
2008-2012	1,103,647	390,623	1,494,270
2013-2017	647,255	137,474	784,729
2018-2022	249,000	26,442	275,442
2023-2027	8,405	210	8,615
Total	$ 3,167,790	$ 1,246,466	$ 4,414,256

Demand Bonds

Included in general obligation bonds, there are variable rate demand bonds in the amount of $100 million. The bonds were issued in May 1997 to fund various State programs (e.g. community conservation development, economic development and manufacturing assistance, regional economic development, etc.) and will mature in the year 2014. Starting in the year 2005, the bonds will be subject to mandatory annual redemption in the principal amount of $10 million plus accrued interest (these amounts are included in the debt service schedule). Concerning the issuance of the bonds, the State signed various agreements, including a "Remarketing Agreement" with a broker/dealer firm and a "Standby Bond Purchase Agreement" with a foreign bank.

These bonds bear interest at a weekly rate or at a flexible rate for a flexible rate period, which cannot be longer than 270 days. Initially, all bonds bear interest at the weekly rate. After that, the bonds may be converted from time to time to the flexible rate or weekly rate at the option of the State. The State's remarketing agent determines the weekly or flexible rate and applicable flexible rate period.

Bonds bearing interest at the weekly rate are subject to purchase at the option of the holder at a purchase price equal to principal and accrued interest, if any, on a minimum seven days' notice and delivery to the State's agent. In addition, all bonds are subject to mandatory purchase upon (1) conversion from the weekly rate to the flexible rate or vice versa, (2) the end of each flexible rate period, and (3) expiration or substitution of the Standby Bond Purchase Agreement. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase.

The Standby Bond Purchase Agreement requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus (for bonds bearing interest at the weekly rate) accrued interest up to 35 days at an annual interest rate not to exceed 15 percent; (1) for bonds held for up to 30 days after the purchase date, the Federal funds rate plus .50 percent; (2) for bonds held for more than 30 days but less than 90 days after the purchase date, the Federal funds rate plus 1.00 percent; and (3) for bonds held for more than 90 days after the purchase date, the higher of (a) the base commercial lending rate announced from time to time by the bank, or (b) the federal funds rate plus .50 percent.

The State is required under the Standby Bond Purchase Agreement to pay to the bank a quarterly fee of .065 percent per annum of the available commitment as of each payment date. The available commitment is an amount that the bank is committed to purchase under the agreement. Such amount was initially set in the agreement at $101.4 million and is adjusted from time to time according to provisions in the agreement. If the rating on the bonds were to fall below certain levels, or be withdrawn or suspended, the bank fee could go as high as .135 percent per annum.

The Standby Bond Purchase Agreement expires in the year 2004 and could be extended annually for another year. If certain events of default described in the agreement were to occur, the agreement could be terminated prior to that date.

Interest Rate Swap Agreements
The State has entered into interest rate swap agreements for the following outstanding debt:

Type	Face Value (000's)	Interest Rate	Maturity Date
Transportation - STO's	$ 156,100	variable	2010
General Obligation	$ 20,000	variable	2012

The agreements require the State to pay a fixed interest rate to the counterparties to the swaps, and the counterparties pay the State a variable interest rate that is determined by the Agreements. The State continues to make payments to the bondholders, and only the net difference in interest payments is exchanged with the counterparty. By entering into these agreements, the State has in effect exchanged its variable rate liability for a fixed rate obligation.

The agreements call for the following exchange of interest rates:

Counterparty	Face Value (000's)	Interest Rate Assumed by State	Interest Rate Assumed by Counter party
AIG Corp.	$ 93,700	5.75%	65% of 1-month LIBOR rate
SMBC	$ 62,400	5.71%	65% of 1-month LIBOR rate
Morgan Stanley	$ 20,000	4.33%	CPI(adj semi-annual)

The State is exposed to the market risk relating to the relationship between the variable interest rate on the bonds (which is reset weekly) and the rate that it receives under the swap agreements. As of June 30, 2002, the AIG, SMBC, and Morgan Stanley interest rate swaps had unfavorable positions of $10.9 million, $7.2 million, and $1.6 million respectively.

The counterparties guarantee the agreements, and the agreement with AIG Corp. has a collateral agreement, which goes into effect if the credit rating of AIG falls below a defined level.

b. Primary Government – Business–Type Activities
Revenue Bonds
Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

Enterprise funds' revenue bonds outstanding at June 30, 2002, were as follows:

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2002-2030	2.1-7%	$ 439,120
Bradley International Airport	2012-2031	3.25-7.65%	263,935
Second Injury	2012-2015	4.5-6%	154,020
Clean Water	2011-2022	3.45-11%	564,310
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	29,614
Total Revenue Bonds			1,504,799
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(1,012)
Clean Water			6,445
Other			642
Revenue Bonds, net			$ 1,510,874

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2002, the following bonds were outstanding:

a) Airport revenue refunding bonds in the amount of $50.8 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.

b) On March 1, 2001 the airport issued Bradley International Airport Revenue Bonds in the amount of $194 million and Bradley International Airport Refunding Bonds in the amount of $19.2 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

In November 1996 and in October 2000, the State issued $100 million and $124.1 million of Second Injury Special Assessment Revenue Bonds, respectively. The bonds were issued to reduce long-term liabilities of the fund by settling claims on a one-time lump sum basis. Additionally, the bond indenture allows for the periodic issuance of subordinated bond anticipation notes (BANs) in the form of commercial paper.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects.

Bradley Parking Garage bonds were issued in 2000 in the amount of $53.8 million to build parking garage at the airport.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 61,980	$ 77,800	$ 139,780
2004	77,211	73,961	151,172
2005	86,393	69,870	156,263
2006	81,597	66,547	148,144
2007	78,336	60,784	139,120
2008-2012	439,619	239,543	679,162
2013-2017	272,949	139,918	412,867
2018-2022	203,710	78,438	282,148
2023-2027	119,700	35,102	154,802
2028-2032	83,304	9,434	92,738
Total	$ 1,504,799	$ 851,397	$ 2,356,196

c. Component Units

Component units' revenue bonds outstanding at June 30, 2002, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2003-2019	4.6-8.75%	$ 54,320
CT Housing Finance Authority	2002-2042	3.6-9.5%	3,226,505
CT Resources Recovery Authority	2001-2016	3.4-7.7%	238,979
Other:			
CT Higher Education Supplemental Loan Authority	2001-2021	4-7.5%	124,285
CT Health and Educational Facilities Authority	2001-2004	4.32-14.94%	3,730
Total Revenue Bonds			3,647,819
Less discount on CDA bonds			(74,078)
Revenue Bonds, net			$ 3,573,741

Revenue bonds issued by the component units do not constitute a liability or debt of the State. The State is only contingently liable for those bonds as discussed below.

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. Under the Umbrella Program, bonds outstanding at June 30, 2002 were $11.3 million. Assets totaling $10.8 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had $43.0 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2001, bonds outstanding under the bond resolution and the indenture were $3,206.7 million and $19.8 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year ($270.0 million at 12/31/01) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds ($3,980.5 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2001, the Authority has entered into interest rate swap agreements for $436 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swap agreements section of this note.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund. According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

Connecticut Health and Educational Facilities Authority's revenue bonds are issued to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and re-financing of projects to be undertaken in relation to programs for these institutions. Prior to July 1, 1979, the Authority issued general obligation bonds for which the Authority is ultimately responsible for the payment of principal and interest when due. After July 1, 1979, the Authority has issued only special obligation bonds, which are discussed in the no-commitment debt section of this note. At year-end, the Authority had $3.7 million in outstanding general obligation bonds.

Each Authority has established special capital reserve funds that secure all the outstanding bonds of the Authority at year-end, except as discussed next. These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was $204.6 million. For the Connecticut Health and Educational Facilities Authority, the general obligation bonds outstanding at year-end were not secured by the special capital reserve funds.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 218,868	$ 383,194	$ 602,062
2004	143,992	193,792	337,784
2005	147,417	185,933	333,350
2006	151,408	177,743	329,151
2007	650,828	712,672	1,363,500
2008-2012	837,455	562,137	1,399,592
2013-2017	627,411	335,568	962,979
2018-2022	522,559	178,467	701,026
2023-2027	304,311	57,356	361,667
2028-2032	31,335	8,656	39,991
2033-2037	10,130	2,344	12,474
2038-2042	2,105	164	2,269
Total	$ 3,647,819	$ 2,798,026	$ 6,445,845

No-commitment debt

Under the Self-Sustaining Bond program, The Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component unit section of this note. These bonds are paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of default) and do not constitute a debt or liability of the Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2002 were $1,122.3 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2002 were $244.3 million. Of this amount, $68.6 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2002, were $4,066.6 million, of which $277.7 million was secured by special capital reserve funds.

The State may be continently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

d. Debt Refundings

During the year, the State issued $1,217.8 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 4.86% to advance refund $1,228.9 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 5.53%. The proceeds of the refunding bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased and the liability for those bonds have been removed from the statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by $73.5 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $155.4 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $113.8 million. As of June 30, 2002, $2,510.9 million of outstanding general obligation, special tax obligation, and revenue bonds (including prior year's refundings) are considered defeased.

Note 17 Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule below lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

	Risk Financed by	
Risk of Loss	Purchase of Commercial Insurance	Self-Insurance
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per statue the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than $100 thousand.

When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is $25 million, which is carried in a railroad liability policy.

The State records its risk management activities in the General fund, except for activities related to the medical malpractice risk which are recorded in the Higher Education fund, an Enterprise fund. At year-end, liabilities for unpaid claims are recorded in the statement of net assets (government-wide and proprietary fund statements) when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liabilities are determined based on the ultimate cost of settling the claims, including an amount for claims that have been incurred but not reported and claim adjustment expenses. The liabilities are actuarially determined and the unpaid liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. In the General fund, the liability for unpaid claims is only recorded if the liability is due for payment at year-end. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the claims liabilities during the last two fiscal years were as follows (amounts in thousands):

	Governmental ~~Activities~~ Workers' Compensation	Business-Type ~~Activities~~ Medical Malpractice
Balance 6-30-00	$ 283,600	$ 8,325
Incurred claims	105,270	2,026
Paid claims	(62,453)	(800)
Balance 6-30-01	326,417	9,551
Incurred claims	5,845	384
Paid claims	(87,079)	(580)
Balance 6-30-02	$ 245,183	$ 9,355

Note 18 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2002, were as follows (amounts in thousands):

~~Fund~~	Interfund ~~Receivable~~	Interfund ~~Payable~~
Governmental Funds		
General	$ 612,736	$ 1,136,473
Debt Service	-	4,418
Transportation	22,287	1,021
Other Funds:		
Special Revenue:		
Workers' Compensation	82	152
Banking	-	168
Consumer Counsel and Public Utility Control	-	197
Insurance	28	202
Criminal Injuries	11	-
Regional Market	-	6
Soldiers, Sailors, and Marines	44	15
Employment Security Adminstration	1,125	951
Grant and Loan Programs	291,492	20,224
Environmental Programs	44,969	315
Housing Programs	-	16
Other	115,754	103
Capital Projects:		
State Facilities	-	153,532
Infrastructure	104,895	824
Transportation	8,531	-
Permanent:		
Soldiers, Sailors and Marines	-	44
Other	1	194
Total Other Funds	566,932	176,943
Total Governemental Funds	$ 1,201,955	$ 1,318,855
Proprietary Funds		
Enterprise:		
Higher Education	$ 275,412	$ 9,360
Bradley International Airport	-	6,700
Employment Security	647	15,310
Clean Water	-	25
Drinking Water	25	-
Total Enterprise Funds	$ 276,084	$ 31,395
Internal Service:		
Correction Industries	$ 567	$ 4,954
Information and Technology	2,761	288
Administrative Services	1,338	41,530
Total Internal Service Funds	$ 4,666	$ 46,772
Fiduciary Funds		
Pension and Other Employee Benefits:		
State Employees	$ 2,258	$ 1,612
State Teachers	-	13,306
Other Employee Benefits	2,073	-
Total Pension and Other Benefits	4,331	14,918
Agency:		
Payroll and Fringe Benefit	4,169	-
Total Agency Funds	4,169	-
Total Fiduciary Funds	$ 8,500	$ 14,918
Component Units		
Connecticut Development Authority	$ 20,327	$ -
Connecticut Health & Educational Supplemental Loan Authority	-	99,611
Connecticut Innovations Incorporated	19	-
Total Component Units	$ 20,346	$ 99,611
Totals	$ 1,511,551	$ 1,511,551

Note 19 Accounting Changes and Restatements

During the fiscal year 2001-2002, the State implemented the following statements issued by the Governmental Accounting Standards Board:

Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments.

Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities.

Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and

Statement No. 38, Certain Financial Statement Disclosures.

Statement No. 34, as amended by Statement No. 37, establishes new financial standards for states and local governments. The new standards require significant changes to the content and format of the basic financial statements of the State. Some of these changes are including an introductory managements' discussion and analysis, including new government-wide financial statements, and reporting fund financial statements by major funds, rather than by fund type. The new government-wide financial statements consist of a statement of net assets and a statement of activities that are prepared using the economic resources measurement focus and the accrual basis of accounting. To implement these changes, fund reclassifications and adjustments to the fund equities reported in the prior year financial statements were required.

Statement No. 35 establishes new accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The State's higher education institutions, reported as an Enterprise fund, adopted the requirements of this statement.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

The provisions of these new standards have been incorporated into the financial statements and notes. The following schedule summarizes changes to fund equities reported on the combined balance sheet. The changes resulted primarily from implementing Statement No. 34.

	Fund Equity 6-30-01 Previously Reported	GASB Statements Implementation: Fund Reclass	GASB Statements Implementation: Prior Period Adjustment	Other Prior Period Adjustments	Fund Equity 6-30-01 as Restated
Governmental Funds and Activities					
Major Funds:					
General	$ 813,709	$ -	$ 6,819	$ -	$ 820,528
Debt Service	554,816	77,921	-	-	632,737
Transportation-previously reported as a Special Revenue fund	-	201,446	745	-	202,191
Non-Major Funds:					
Special Revenue Funds:					
Transportation	201,446	(201,446)	-	-	-
Housing Programs	164,090	85,622	-	-	249,712
Other	81,049	44,245	-		125,294
Unadjusted Special Revenue Funds	460,983	-	-	-	460,983
Total Special Revenue Funds	907,568	(71,579)	-	-	835,989
Capital Projects Funds:					
State Facilities	19,174	-	(56,728)	-	(37,554)
Others-unadjusted	49,261	-	-	-	49,261
Total Capital Projects Funds	68,435	-	(56,728)	-	11,707
Permanent Funds:					
Soldiers, Sailors, & Marines	-	58,037	-	-	58,037
Connecticut Arts Endowment	-	13,717	-	-	13,717
Other	-	18,582	-	-	18,582
Total Permanent Funds	-	90,336	-	-	90,336
Total Non-major Funds	976,003	18,757	(56,728)	-	938,032
Total Governmental Funds	$ 2,344,528	$ 298,124	$ (49,164)	$ -	$ 2,593,488
Adoption of GASB 34					-
Capital assets, net of depreciation	$ -	$ 4,060,881	$ 4,830,102	$ -	$ 8,890,983
Net assets of Internal Service Funds	-	41,132	-	(288)	40,844
Additional Revenues	-	-	477,359	-	477,359
Long-term Liabilities	-	(83,932)	(14,655,789)	-	(14,739,721)
Total adoption of GASB 34	-	4,018,081	(9,348,328)	(288)	(5,330,535)
Total Governmental Funds and Activities	$ 2,344,528	$ 4,316,205	$ (9,397,492)	$ (288)	$ (2,737,047)

	Fund Equity 6-30-01 Previously Reported	GASB Statements Implementation Fund Reclass	GASB Statements Implementation Prior Period Adjustment	Other Prior Period Adjustments	Fund Equity 6-30-01 as Restated
Proprietary Funds and Business-Type Activities					
Enterprise Funds:					
Major Funds:					
Higher Education	$ -	$ 2,646,400	$ (396,576)	$ -	$ 2,249,824
Bradley International Airport	174,181	-	-	-	174,181
Connecticut Lottery Corporation	1,943	-	-	-	1,943
Employment Security	-	841,336	11,207	-	852,543
Second Injury	-	86,488	(232,539)	-	(146,051)
Clean Water	-	439,312	-	-	439,312
Non-Major funds:					
Bradley Parking Garage-previously reported as other Enterprise Fund	(1,406)	-	-	-	(1,406)
Clean Water	-	32,603	-	-	32,603
Total Non-Major Funds	(1,406)	32,603	-	-	31,197
Rental Housing	80,616	(79,611)	(1,005)	-	-
John Dempsey	51,108	(51,108)	-	-	-
Other	793	(604)	(189)	-	-
Total Enterprise Funds	307,235	3,914,816	(619,102)	-	3,602,949
Internal Service Funds	41,132	(41,132)	-	-	-
Total Proprietary Funds and Business-Type Activities	$ 348,367	$ 3,873,684	$ (619,102)	$ -	$ 3,602,949
Fiduciary Funds					
Pension and Other Employee Benefits Trust Funds:					
Pension Trusts	$ 20,501,820	$ -	$ -	$ -	$ 20,501,820
Retired Teachers' Health Benefits Plan	-	17,955	-	-	17,955
Police, Firemen Survivors Benefits	-	17,792	-	-	17,792
Total Pension and Other Employee Benefits Trust Funds	20,501,820	35,747	-	-	20,537,567
Investment Trust Fund-External Investment Pool	1,414,080	-	-	-	1,414,080
Private-Purpose Trust Fund-Escheat Securities	-	-	66,736		66,736
Funds previously reported as Expendable Trust Funds	1,007,211	(1,007,211)	-	-	-
Funds previously reported as Non-Expendable Trust Funds	562,252	(562,252)	-	-	-
Total Fiduciary Funds	$ 23,485,363	$ (1,533,716)	$ 66,736	$ -	$ 22,018,383
Higher Education Funds	$ 2,595,292	$ (2,595,292)	$ -	$ -	$ -
Accounts Groups					-
General Fixed Assets	4,060,881	(4,060,881)	-	-	-
General Long-Term Debt	-	-	-	-	-
Total Account Groups	4,060,881	(4,060,881)	-	-	-
Total Primary Government	$ 32,834,431	$ -	$ (9,949,858)	$ (288)	$ 22,884,285
Connecticut Development Authority-Component Unit	$ 170,762	$ -	$ (738)	$ -	$ 170,024

Note 20 Related Organizations
Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 21 Commitments and Contingencies
A. Commitments
At June 30, 2002, the State, including its component units, had the following outstanding commitments:

1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately $1,642.2 million of which $1,175.6 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $3,676.2 million and interest costs of $285.9 million for a total of $3,962.1 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $604.6 million. Funding for these programs is expected to come from bond sales.

4) The State has authorized a loan to the Connecticut Resources Recovery Authority (a component unit) of up to $115 million to support the repayment of the Authority's debt for one of its facilities and to minimize the amount of tipping fee increases chargeable to the towns which use the facility. As of June 30, 2002, the Authority had not drawn on these funds.

B. Contingent Liabilities
The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

During the year, the City of Waterbury issued $97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 16 – Component Units.

C. Litigation
The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects
adverse decisions may have on the future expenditures or revenue sources of the State.

Note 22 Subsequent Events
In August, $656 million of general obligation and general obligation refunding bonds were issued. The bonds will mature November 15, of the years 2002 through 2022 and bear interest rates ranging from 2% to 5.5%.

In November, $231 million of general obligation bonds and $215 million of special tax obligation bonds were issued. The general obligation bonds will mature October 15, of the years 2003 through 2022 and bear interest rates ranging from 3% to 5%. The special tax obligation bonds will mature December 1, of the years 2007 through 2022 and bear interest rate of 4.23%.

In December, $219 million of general obligation economic recovery notes were issued to fund the accumulated deficit in the General Fund. These notes will mature at various dates through 2007 and bear interest rates of 2% to 4%.

In February, 2003, $422 million of special tax obligation refunding bonds for transportation infrastructure programs were issued. These bonds will mature through February, 2022 and bear interest rates in the Weekly Mode until such a date, if any, as the State elects to change from the Weekly Mode to another interest rate.

In January 2003, an agreement was reached between the parties in the *Sheff v. O'Neill* lawsuit. While this agreement must be approved by the General Assembly and ordered by the court in order to take effect, its basic provisions are aimed at reducing racial, ethnic and economic isolation in the Hartford public schools over the next four years. The agreement requires the state to create eight new interdistrict magnet schools in Hartford, expand the Open Choice program to provide additional seats in suburban schools for minority public school students from Hartford and provide increased funding for interdistrict cooperative programs serving Hartford public school students. It is estimated that the cost over the next four years will be $45 million. Additionally, the state is required to fund an undetermined amount of money for eligible school construction costs for magnet schools.

Required PERS Supplementary Information

Required Supplementary Information
Schedules of Funding Progress

(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/1997	$5,131.0	$8,833.2	$3,702.2	58.1%	$2,225.2	166.4%
6/30/1998	$5,669.9	$9,592.4	$3,922.5	59.1%	$2,339.0	167.7%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$7,196.0	$11,512.1	$4,316.1	62.5%	$2,651.9	162.8%
6/30/2001	$7,638.9	$12,105.4	$4,466.5	63.1%	$2,784.5	160.4%
6/30/2002	$7,893.7	$12,806.1	$4,912.4	61.6%	$2,852.1	172.2%

*No actuarial valuation was performed as of June 30, 1999

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
TRS						
6/30/1997 *	-	-	-	-	-	-
6/30/1998	$7,721.1	$10,970.1	$3,249.0	70.4%	$2,298.9	141.3%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$9,605.9	$11,797.6	$2,191.7	81.4%	$2,501.5	87.6%
6/30/2001 *	-	-	-	-	-	-
6/30/2002	$10,387.3	$13,679.9	$3,292.6	75.9%	$2,698.3	122.0%

*No actuarial valuations were performed as of June 30, 1997, 1999 and 2001

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
JRS						
9/30/1997	$87.8	$167.5	$79.7	52.4%	$20.2	394.6%
6/30/1998	$98.1	$168.1	$70.0	58.4%	$21.2	330.2%
6/30/1999	$110.7	$172.5	$61.8	64.2%	$21.9	282.2%
6/30/2000	$123.4	$181.7	$58.3	67.9%	$24.1	241.9%
6/30/2001	$133.1	$193.8	$60.7	68.7%	$26.3	230.8%
6/30/2002	$138.4	$209.4	$71.0	66.1%	$28.9	245.7%
MERS						
6/30/1996	$782.0	$692.2	$(89.8)	113.0%	$242.8	(37.0)%
6/30/1997	$872.0	$731.1	$(140.9)	119.3%	$246.0	(57.3)%
6/30/1998	$980.4	$814.1	$(166.3)	120.4%	$258.2	(64.4)%
6/30/1999	$1,100.7	$860.1	$(240.6)	128.0%	$269.4	(89.3)%
6/30/2000	$1,251.6	$1,153.2	$(98.4)	108.5%	$290.3	(33.9)%
6/30/2001	$1,353.1	$1,238.1	$(115.0)	109.3%	$311.2	(37.0)%

PJRS

For the Probate Judges Retirement System because the UAAL is zero, the actuarial cost method becomes the aggregate cost method and a schedule of funding progress is not required.

Required Supplementary Information
Schedules of Employer Contributions

(Expressed in Millions)

	SERS		TRS		JRS		MERS		PJRS	
Fiscal Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1997	$542.8	64.3%	$174.0	85.0%	$9.3	100.0%	$21.3	100.0%	$0.32	100.0%
1998	$567.6	59.0%	$211.0	85.0%	$9.3	100.0%	$18.8	100.0%	$0.25	100.0%
1999	$315.6	100.0%	$221.6	85.0%	$9.3	100.0%	$18.1	100.0%	$0.32	100.0%
2000	$342.8	100.0%	$240.5	85.0%	$9.3	100.0%	$32.0	100.0%	$-	-
2001	$375.6	100.0%	$252.5	85.0%	$9.8	100.0%	$15.5	100.0%	$-	-
2002	$415.5	100.0%	$210.7	97.1%	$9.6	100.0%	$15.3	100.0%	$-	-

Note: During 2000, 2001 and 2002 the only contributions to the Probate Judges Retirement System were the required member contributions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/2002	6/30/2002	6/30/2002	6/30/2001	12/31/2001
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	30 Years	10-29 Years	29 Years	10-25 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	3%

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governor John G. Rowland
Members of the General Assembly

We have audited the basic financial statements of the State of Connecticut, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the audits of certain component units of the State, as described in the aforementioned report on the basic financial statements, were not conducted in accordance with *Government Auditing Standards*.

Compliance:

As part of obtaining reasonable assurance about whether the State of Connecticut's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported, or will report, to the State's management in separately issued departmental audit reports covering the fiscal year ended June 30, 2002.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the State of Connecticut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported, or will report, to the State's management in separately issued departmental audit reports covering the fiscal year ended June 30, 2002.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, the Legislative Committee on Program Review and Investigations, and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 28, 2003
State Capitol
Hartford, Connecticut

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Governor John G. Rowland
Members of the General Assembly

Compliance
We have audited the compliance of the State of Connecticut with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2002, except for the following program. We did not audit the State's compliance with the requirements of the U.S. Department of Housing and Urban Development's *Mortgage Insurance – Homes* (CFDA #14.117) program. Other auditors have audited the Connecticut Housing Finance Authority's compliance with that program's requirements, and their report thereon covering that Authority for its fiscal year ended December 31, 2001, has been furnished to us. The State of Connecticut's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the State of Connecticut's management. Our responsibility is to express an opinion on the State of Connecticut's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Connecticut's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Connecticut's compliance with those requirements.

As described in item III.E.4. in the accompanying Schedule of Findings and Questioned Costs, the State of Connecticut did not comply with the requirements regarding *Eligibility* that are applicable to its *Foster Care-Title IV-E* (CFDA #93.658) major Federal program. Compliance with such requirement is necessary, in our opinion, for the State of Connecticut to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Connecticut complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items III.A.1., III.A.2., III.A.7., III.A.8., III.A.10., III.A.13., III.A.15., III.A.17., III.A.19., III.A.20., III.A.22., III.A.29., III.A.31., III.A.34., III.E.6., III.F.2., III.G.1., III.G.4., III.G.5., III.H.1., and III.H.2..

Internal Control Over Compliance

The management of the State of Connecticut is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the State of Connecticut's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Connecticut's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items III.A.1., III.A.2., III.A.3., III.A.4., III.A.5., III.A.6., III.A.7., III.A.8., III.A.9., III.A.10., III.A.11., III.A.12., III.A.13., III.A.14, III.A.15., III.A.16., III.A.17., III.A.18., III.A.19., III.A.20., III.A.21., III.A.22., III.A.23., III.A.24., III.A.25., III.A.26., III.A.27., III.A.28., III.A.29., III.A.30., III.A.31., III.A.32., III.A.33., III.A.34., III.B.1., III.C.1., III.D.1., III.D.2., III.D.3., III.E.1., III.E.2., III.E.3., III.E.4., III.E.5., III.E.6., III.F.1., III.F.2., III.G.1., III.G.2., III.G.3.,

III.G.4., III.G.5., III.G.6., III.H.1., III.H.2., III.H.3., III.H.4., III.H.5., III.H.6., III.H.7., III.H.8., III.I.1., III.I.2., and III.J.1..

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items III.A.1., III.A.2., III.A.7., III.A.8., III.A.10., III.A.15., III.A.29., III.A.34., III.D.1., III.E.4., III.F.2., III.G.4., III.G.5. III.I.2., and III.J.1.to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Connecticut as of and for the year ended June 30, 2002, and have issued our report thereon dated February 28, 2003. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information of the Governor, Members of the General Assembly, State Comptroller, the Appropriations Committee of the General Assembly, the Legislative Committee on Program Review and Investigations, the Office of Policy and Management and those Federal agencies which provided financial assistance. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

March 21, 2003, except for the *Schedule of Expenditures of Federal Awards*, as to which the date is February 28, 2003.
Hartford, Connecticut

Schedule of Expenditures of Federal Awards

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
		$
Department of Agriculture		
Food Stamp Cluster:		
Food Stamps (See Note 3)	10.551	143,070,241
State Administrative Matching Grants for Food Stamp Program	10.561	24,496,672
Total Food Stamp Cluster		167,566,913
Child Nutrition Cluster:		
School Breakfast Program	10.553	10,373,094
National School Lunch Program	10.555	48,692,517
Special Milk Program for Children	10.556	464,779
Summer Food Service Program for Children	10.559	2,320,460
Total Child Nutrition Cluster		61,850,850
Various Programs (See Note 12)	10.000	113,216
Agricultural Research - Basic and Applied Research	10.001	117,452
Plant and Animal Disease, Pest Control, and Animal Care	10.025	68,149
Federal-State Marketing Improvement Program	10.156	22,717
Inspection Grading and Standardization	10.162	3,614
Market Protection and Promotion	10.163	8,765
Grants for Agricultural Research, Special Research Grants	10.200	99,983
Cooperative Forestry Research	10.202	193,368
Payments to Agricultural Experiment Stations Under Hatch Act (See Note 12)	10.203	811,835
Grants for Agricultural Research-Competitive Research Grants	10.206	162,519
Biotechnology Risk Assessment Research	10.219	45,446
Agricultural and Rural Economic Research	10.250	116,817
Initiative for Future Agriculture and Food Systems	10.302	494
Integrated Programs	10.303	86,914
Crop Insurance	10.450	176,799
Cooperative Extension Service (See Note 12)	10.500	2,664,693
Food Distribution (See Note 3)	10.550	10,669,996
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	47,259,703
Child and Adult Care Food Program	10.558	10,243,392
State Administrative Expenses for Child Nutrition	10.560	1,148,785
Emergency Food Assistance Program (Administrative Costs)	10.568	275,209
Nutrition Services Incentive	10.570	2,480,841
WIC Farmers' Market Nutrition Program	10.572	105,355
Team Nutrition Grants	10.574	268,020
Forestry Research	10.652	6,135
Cooperative Forestry Assistance	10.664	719,240
Rural Business Enterprise Grants	10.769	100,000
Total Department of Agriculture		307,387,220

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Commerce		
Various Programs	11.000	931,185
Economic Development--Support for Planning Organizations	11.302	396
Economic Adjustment Assistance (See Note 9)	11.307	329,818
Anadromous Fish Conservation Act Program	11.405	45,351
Interjurisdictional Fisheries Act of 1986	11.407	4,776
Sea Grant Support	11.417	66,888
Coastal Zone Management Administration Awards	11.419	1,221,789
Unallied Management Projects	11.454	26,950
Habitat Conservation	11.463	3,000
Atlantic Coastal Fisheries Cooperative Management Act	11.474	150,649
Fisheries Disaster Relief	11.477	424,053
Total Department of Commerce		3,204,855
Department of Defense		
Various Programs (See Note 3)	12.000	1,627
Procurement Technical Assistance For Business Firms (See Note 12)	12.002	112,236
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	65,616
Basic and Applied Scientific Research	12.300	14,602
National Guard Military Operations and Maintenance (O&M) Projects	12.401	8,785,615
Air Force Defense Research Sciences Program	12.800	890
Total Department of Defense		8,980,586
Department of Housing and Urban Development		
Section 8 Project-Based Cluster:		
Lower Income Housing Assistance Program - Section 8 New Const / Substantial Rehab.	14.182	9,579,677
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	457,143
Total Section 8 Project-Based Cluster		10,036,820
Interest Reduction Pymts-Rental and Coop. Housing for Lower Income Families (See Note 1 and Note 8)	14.103	1,443,632
Mortgage Insurance - Homes (See Note 1 and Note 8)	14.117	58,393,565
Housing Counseling Assistance Program	14.169	26,714
Congregate Housing Services Program	14.170	199,484
Community Development Block Grants / State's Program	14.228	10,217,968
Emergency Shelter Grants Program	14.231	1,151,829
Supportive Housing Program	14.235	1,376,917
Shelter Plus Care	14.238	3,999,299
HOME Investment Partnerships Program	14.239	22,184,453
Housing Opportunities for Persons with AIDS	14.241	1,244,116
Community Development Block Grants / Economic Development Initiative	14.246	571,292

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Fair Housing Assistance Program - State and Local	14.401	47,442
Community Outreach Partnership Center Program	14.511	28,874
Public and Indian Housing Drug Elimination Program (See Note 12)	14.854	2,196
Section 8 Housing Choice Vouchers	14.871	32,595,223
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	440,763
Total Department of Housing and Urban Development		143,960,587
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	2,559,730
Wildlife Restoration	15.611	1,562,752
Total Fish and Wildlife Cluster		4,122,482
Various Programs	15.000	146,756
Cooperative Endangered Species Conservation Fund	15.615	15,569
Clean Vessel Act	15.616	734,464
Wildlife Conservation and Appreciation	15.617	(1,505)
Wildlife Conservation and Restoration	15.625	136,951
U.S Geological Survey-Research and Data Acquisition	15.808	41,792
National Cooperative Geologic Mapping Program	15.810	14,829
Historic Preservation Fund Grants-In-Aid	15.904	615,836
Outdoor Recreation-Acquisition, Development and Planning	15.916	88,079
Total Department of the Interior		5,915,253
Department of Justice		
Various Programs	16.000	423,200
Law Enforcement Assistance-Narcotics/Dangerous Drugs-State Legislation	16.002	14,425
State Domestic Preparedness Equipment Support Program	16.007	330,591
Juvenile Accountability Incentive Block Grants	16.523	3,907,995
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	758,723
Juvenile Justice and Delinquency Prevention -- Special Emphasis	16.541	109,116
National Institute for Juvenile Justice and Delinquency Prevention	16.542	209,001
Title V - Delinquency Prevention Program	16.548	366,816
Part E-State Challenge Activities	16.549	34,831
State Justice Statistics Programs for Statistical Analysis Centers	16.550	90,753
National Criminal History Improvement Program	16.554	556,695
National Sex Offender Registry Assistance	16.555	109,607
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	123,032
Crime Victim Assistance	16.575	3,322,592
Crime Victim Compensation	16.576	841,510
Byrne Formula Grant Program	16.579	6,130,602
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	4,466

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Crime Victim Assistance / Discretionary Grants	16.582	39,715
Drug Court Discretionary Grant Program	16.585	29,485
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	3,268,744
Violence Against Women Formula Grants	16.588	879,538
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	161,571
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	544,217
Managing Sex Offenders	16.591	48,575
Local Law Enforcement Block Grants Program	16.592	652,520
Residential Substance Abuse Treatment for State Prisoners	16.593	723,136
State Criminal Alien Assistance Program	16.606	3,369,218
Bulletproof Vest Partnership Program	16.607	3,592
Community Prosecution and Project Safe Neighborhoods	16.609	54,735
Public Safety Partnership and Community Policing Grants	16.710	3,654,255
Police Corps	16.712	116,066
Enforcing Underage Drinking Laws Program	16.727	626,451
Drug Prevention Program	16.728	1,976,108
Total Department of Justice		33,481,881
Department of Labor		
Employment Services Cluster:		
Employment Service	17.207	9,935,306
Disabled Veterans' Outreach Program	17.801	1,382,176
Local Veterans' Employment Representative Program	17.804	1,475,756
Total Employment Services Cluster		12,793,238
Job Training Partnership Act Cluster:		
Employment and Training Assistance-Dislocated Workers	17.246	1,541,747
Job Training Partnership Act	17.250	444,256
Total Job Training Partnership Act Cluster		1,986,003
WIA Cluster:		
WIA Adult Program	17.258	7,740,055
WIA Youth Activities	17.259	9,205,571
WIA Dislocated Workers	17.260	8,965,793
Total WIA Cluster		25,911,419
Various Programs (See Note 12)	17.000	182,399
Labor Force Statistics	17.002	1,465,432
Unemployment Insurance (See Note 1 and Note 10)	17.225	786,360,075
Senior Community Service Employment Program	17.235	959,417
Trade Adjustment Assistance-Workers	17.245	2,001,162
Employment Services and Job Training Pilots - Demonstrations and Research	17.249	673,040
Welfare-to-Work Grants to States and Localities	17.253	2,168,394

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Workforce Investment Act	17.255	139,533
Occupational Safety and Health	17.500	117,943
Occupational Safety and Health - State Program	17.503	605,957
Consultation Agreements	17.504	1,177,300
Mine Health and Safety Grants	17.600	2,891
Total Department of Labor		836,544,203
Department of State		
Various Programs (See Note 12)	19.000	12,970
Educational Exchange-Fulbright American Studies Institutes	19.418	35,000
Educational Partnerships Program	19.424	3,084
Total Department of State		51,054
Department of Transportation		
Federal Transit Cluster:		
Federal Transit- Capital Investment Grants	20.500	50,473,077
Federal Transit - Formula Grants	20.507	43,464,670
Total Federal Transit Cluster		93,937,747
Highway Safety Cluster:		
State and Community Highway Safety	20.600	6,777,247
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	341,350
Total Highway Safety Cluster		7,118,597
Boating Safety Financial Assistance	20.005	704,061
Airport Improvement Program	20.106	6,030,094
Highway Planning and Construction	20.205	466,009,942
National Motor Carrier Safety	20.218	1,490,243
Recreational Trails Program	20.219	108,501
Local Rail Freight Assistance	20.308	24,804
Federal Transit - Metropolitan Planning Grants	20.505	688,515
Formula Grants for Other Than Urbanized Areas	20.509	1,528,212
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	880,567
Transit Planning and Research	20.514	113,351
Pipeline Safety	20.700	307,609
University Transportation Centers Program (See Note 12)	20.701	30,000
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	124,062
Total Department of Transportation		579,096,305
Department of the Treasury		
Low-Income Taxpayer Clinics	21.008	88,679

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Office of Personnel Management		
Intergovernmental Personnel Act Mobility Program	27.011	111,981
Equal Employment Opportunity Commission		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	1,300
Federal Mediation and Conciliation Service		
Labor Management Cooperation	34.002	33,804
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 3)	39.003	204,436
National Aeronautics and Space Administration		
Various Programs	43.000	44,778
Aerospace Education Services Program (See Note 12)	43.001	7,091
Total National Aeronautics and Space Administration		51,869
National Foundation on the Arts and the Humanities		
Promotion of the Arts - Partnership Agreements	45.025	612,898
Promotion of the Humanities - Federal/State Partnership	45.129	16,205
Promotion of the Humanities - Division of Preservation and Access	45.149	153,487
Promotion of the Humanities - Fellowships and Stipends (See Note 12)	45.160	1,431
State Library Program	45.310	1,885,690
Total National Foundation for the Arts and the Humanities		2,669,711
National Science Foundation		
Various Programs (See Note 12)	47.000	1,013
Engineering Grants	47.041	87,395
Mathematical and Physical Sciences	47.049	113,898
Biological Sciences	47.074	24,960
Social, Behavioral, and Economic Sciences (See Note 12)	47.075	3,125
Education and Human Resources (See Note 12)	47.076	515,388
Total National Science Foundation		745,779
Small Business Administration		
Small Business Development Center	59.037	1,063,568
Department Of Veterans Affairs		

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Veterans State Domiciliary Care	64.014	2,708,381
Veterans State Hospital Care	64.016	3,745,272
Burial Expenses Allowance for Veterans	64.101	54,476
All - Volunteer Force Educational Assistance	64.124	190,042
Total Department Of Veterans Affairs		6,698,171
Environmental Protection Agency		
Various Programs	66.000	95,653
Air Pollution Control Program Support	66.001	1,236
State Indoor Radon Grants	66.032	191,647
Ozone Transport	66.033	33,548
Water Pollution Control-State and Interstate Program Support	66.419	2,050
State Public Water System Supervision	66.432	1,360,640
Water Quality Management Planning	66.454	107,674
National Estuary Program	66.456	726,686
Capitalization Grants for State Revolving Funds (See Note 1)	66.458	13,415,741
Nonpoint Source Implementation Grants	66.460	1,231,828
Wetlands Grants	66.461	443
Water Quality Cooperative Agreements	66.463	(51,117)
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	23,944
Capitalization Grants for Drinking Water State Revolving Fund (See Note 1)	66.468	8,730,762
Beach Monitoring and Notification Program Development Grants	66.472	1,843
Environmental Protection Consolidated Research	66.500	349,853
Performance Partnership Grants	66.605	9,552,880
Surveys, Studies, Investigations and Special Purpose Grants	66.606	312,458
Training and Fellowships for the Environmental Protection Agency	66.607	22,979
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	9,601
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	124,882
TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	66.707	398,970
Pollution Prevention Grants Program	66.708	252,110
State and Tribal Environmental Justice	66.713	10,300
Superfund State, Political Subdivision and Indian Tribe Site - Specific Cooperative Agreements	66.802	369,967
State and Tribal Underground Storage Tanks Program	66.804	21,337
Leaking Underground Storage Tank- Trust Fund	66.805	480,999
Superfund State and Indian Tribe Core Program - Cooperative Agreements	66.809	233,208
Brownfield Pilots Cooperative Agreements	66.811	112,625
Environmental Education Grants	66.951	7,202
Total Environmental Protection Agency		38,131,949
Nuclear Regulatory Commission		
Radiation Control-Training Assistance and Advisory Counseling	77.001	39,552

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Energy		
Petroleum Escrow Funds	81.000	455,677
National Energy Information Center	81.039	10,355
State Energy Program	81.041	714,930
Weatherization Assistance for Low-Income Persons	81.042	2,174,077
Office of Science Financial Assistance Program	81.049	6,262,227
Regional Biomass Energy Programs	81.079	16,129
Fossil Energy Research and Development	81.089	84
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	543,731
State Energy Program Special Projects	81.119	62,505
Total Department of Energy		10,239,715
Federal Emergency Management Administration		
Various Programs (See Note 12)	83.000	11,919
Hazardous Materials Assistance Program	83.012	2,802
Community Assistance Program-State Support Services Element	83.105	147,962
Disaster Assistance	83.516	107,206
Flood Mitigation Assistance	83.536	157,621
Crisis Counseling	83.539	497,007
Individual and Family Grants	83.543	(108,120)
Public Assistance Grants	83.544	(41,196)
Disaster Housing Program	83.545	25,762
First Responder Counter-Terrorism Training Assistance	83.547	15,478
Project Impact-Building Disaster Resistant Communities	83.551	55,864
Emergency Management Performance Grants	83.552	2,106,211
Total Federal Emergency Management Administration		2,978,516
Department of Education		
Special Education Cluster:		
Special Education-Grants to States	84.027	67,423,728
Special Education-Preschool Grants	84.173	4,863,150
Total Special Education Cluster		72,286,878
TRIO Cluster		
TRIO - Student Support Services	84.042	707,913
TRIO - Talent Search	84.044	254,958
TRIO - Upward Bound	84.047	705,499
Total TRIO Cluster		1,668,370
CT Careers Resource Network	84.000	126,156
Various Programs (See Note 12)	84.000	250,133
Adult Education-State Grant Program	84.002	7,012,578

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Title 1 Grants to Local Educational Agencies	84.010	74,221,799
Migrant Education-State Grant Program	84.011	2,614,558
Title 1 Program for Neglected and Delinquent Children	84.013	1,132,711
International: Overseas--Group Projects Abroad	84.021	56,105
Special Education-Personnel Development and Parent Training (See Note 12)	84.029	23,659
Higher Education - Institutional Aid	84.031	333,446
Public Library Services	84.034	1,018
Vocational Education-Basic Grants to States	84.048	9,133,223
Leveraging Educational Assistance Partnership	84.069	715,801
Special Education - Postsecondary Education Programs for Persons with Disabilities	84.078	24,261
Fund for Improvement of Postsecondary Education (See Note 12)	84.116	253,444
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	19,630,757
Chapter 2 - State Block Grants	84.151	22,225
Secondary Educ. & Transitional Serv. for Youth with Disabilities	84.158	185
Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind	84.160	42,440
Rehabilitation Services--Client Assistance Program	84.161	120,396
Immigrant Education	84.162	1,305,191
Eisenhower Professional Development-Federal Activities	84.168	82,532
Independent Living - State Grants	84.169	286,729
Rehabilitation Services-Independent Living Services for Older Indiv. Who are Blind	84.177	222,946
Special Education - Grants for Infants and Families with Disabilities	84.181	4,011,658
Safe and Drug-Free Schools and Communities -National Programs	84.184	815,295
Byrd Honors Scholarships	84.185	470,375
Safe and Drug-Free Schools and Communities -State Grants	84.186	3,978,769
Supported Employment Services for Individuals with Severe Disabilities	84.187	517,679
Bilingual Education Support Services	84.194	49,622
Bilingual Education-Professional Development (See Note 12)	84.195	306,830
Education for Homeless Children and Youth	84.196	295,604
Graduate Assistance in Areas of National Need	84.200	224,007
Even Start- State Educational Agencies	84.213	2,085,278
Fund for the Improvement of Education	84.215	1,121,620
Capital Expenses	84.216	100,527
Assistive Technology	84.224	395,206
Program of Protection and Advocacy of Individual Rights	84.240	86,008
Tech-Prep Education	84.243	790,958
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	66,274
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	1,617,168
School to Work Opportunities - Local Partnership Implementation Grant	84.278	2,233,442
Eisenhower Professional Development State Grants	84.281	3,906,210
Charter Schools	84.282	317,332
Twenty-First Century Community Learning Centers	84.287	6,766
Foreign Languages Assistance	84.293	365
Innovative Education Program Strategies	84.298	4,055,875
National Institute on Student Achievement, Curriculum, and Assessment	84.305	12,348

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Even Start--Statewide Family Literacy Program	84.314	198,004
Technology Literacy Challenge Fund Grants	84.318	3,110,032
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	586,125
Special Education-Research and Innovation to Improve Services and Results for Children with Dis.	84.324	3,612
Special Education-Tech Assist/Dissemination to Improve Services/Results for Children with Dis.	84.326	106,778
Advanced Placement Program	84.330	512,846
Grants to States for Incarcerated Youth Offenders	84.331	191,960
Comprehensive School Reform Demonstration	84.332	2,641,297
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	344,820
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,903,641
Teacher Quality Enhancement Grants	84.336	470,700
Reading Excellence	84.338	277,961
Class Size Reduction	84.340	15,084,276
Preparing Tomorrow's Teachers to Use Technology (See Note 12)	84.342	189,406
Assistive Technology--State Grants for Protection and Advocacy	84.343	25,059
Title I Accountability Grants	84.348	2,095,229
Early Childhood Educator Professional Development	84.349	507,443
Transition to Teaching	84.350	60,400
School Renovation Grants	84.352	740,353
Total Department of Education (See Also Student Financial Assistance Cluster)		248,082,699
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	36,904
Department of Health and Human Services		
Medicaid Cluster:		
Medical Assistance Program	93.778	1,787,088,288
State Survey and Certification of Health Care Providers and Suppliers	93.777	7,940,287
State Medicaid Fraud Control Unit	93.775	678,979
Total Medicaid Cluster		1,795,707,554
Child Care Cluster:		
Child Care and Development Block Grant	93.575	20,583,771
Child Care Mandatory and Matching Funds of the Child Care & Development Fund	93.596	36,930,097
Total Child Care Cluster		57,513,868
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Supportive Services	93.044	4,390,072
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	7,063,430
Total Aging Cluster		11,453,502
Various Programs	93.000	592,893
Public Health and Social Services Emergency Fund	93.003	299,341

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	62,176
Special Programs for the Aging-Title III Part D-Disease Prev. & Health Promotion Services	93.043	278,232
Special Programs for the Aging-Title IV-and Title II- Discretionary Projects (See Note 12)	93.048	217,921
National Family Caregiver Support	93.052	1,651,520
Maternal and Child Health Federal Consolidated Programs	93.110	291,026
Biological Response to Environmental Health Hazards	93.113	660
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	966,769
Grants for Technical Assistance Activities	93.119	41,809
Mental Health Planning and Demonstration Projects	93.125	3
Emergency Medical Services for Children	93.127	125,310
Primary Care Services-Resource Coordination and Development	93.130	207,767
Injury Prevention and Control Research and State and Community Based Programs	93.136	18,361
Protection and Advocacy for Individuals with Mental Illness	93.138	323,218
Cooperative Agreements for Collaborative Demonstration Program for Homeless Indiv.	93.148	(63,886)
Projects for Assistance in Transition from Homelessness (PATH)	93.150	459,334
Health Program for Toxic Substances and Disease Registry	93.161	417,432
Grants for State Loan Repayment	93.165	210,996
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	875,295
Consolidated Knowledge Development and Application Program	93.230	5,755,788
Abstinence Education	93.235	434,685
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	34,939
State Rural Hospital Flexibility Program	93.241	94,496
Mental Health Research Grants	93.242	184,648
Advanced Education Nursing Grant Program	93.247	7,338
Universal Newborn Hearing Screening	93.251	116,889
Immunization Grants (See Note 3)	93.268	10,802,003
Alcohol Research Programs	93.273	2,000
Drug Abuse National Research Service Awards for Research Training	93.278	171,767
Mental Health National Research Service Awards for Research Training	93.282	55,567
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3)	93.283	6,113,430
Advanced Education Nursing Traineeship	93.358	82,549
Academic Research Enhancement Award	93.390	16,007
Abandoned Infants	93.551	503,381
Promoting Safe and Stable Families	93.556	2,773,405
Temporary Assistance for Needy Families	93.558	257,348,445
Child Support Enforcement (See Note 11)	93.563	40,612,000
Refugee and Entrant Assistance-State Administered Programs	93.566	2,068,564
Low-Income Home Energy Assistance	93.568	37,485,004
Community Services Block Grant	93.569	7,352,779
Community Services Block Grant -Discretionary Awards	93.570	30,000
Refugee and Entrant Assistance - Discretionary Grants	93.576	308,164
Empowerment Zones Program	93.585	165,448
State Court Improvement Program	93.586	89,782
Community-Based Family Resource and Support Grants	93.590	224,080

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Welfare Reform Research, Evaluations and National Studies	93.595	578,905
Grants to States for Access and Visitation Programs	93.597	118,976
Head Start	93.600	128,134
Adoption Incentive Payments	93.603	370,843
Runaway and Homeless Youth	93.623	125,000
Developmental Disabilities Basic Support and Advocacy Grants	93.630	847,339
University Centers for Excellence in Developmental Disabilities Education, Research and Services	93.632	11,411
Children's Justice Grants to States	93.643	159,032
Child Welfare Services-State Grants	93.645	1,831,677
Social Services Research and Demonstration	93.647	292,014
Adoption Opportunities	93.652	70,386
Foster Care-Title IV-E	93.658	75,189,335
Adoption Assistance	93.659	15,665,339
Social Services Block Grant	93.667	53,684,978
Child Abuse and Neglect State Grants	93.669	309,511
Family Violence Prevention and Services-Grants to States and Indian Tribes	93.671	1,323,312
Chafee Foster Care Independent Living	93.674	1,555,692
State Children's Insurance Program	93.767	12,835,769
Medicaid Infrastructure Grants to Support the Competitive Employment of People w/ Disabilities	93.768	310,131
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	553,609
Area Health Education Centers	93.824	357,433
Lung Diseases Research	93.838	47,142
Microbiology and Infectious Diseases Research	93.856	29,422
Population Research	93.864	7,769
Health Care and Other Facilities	93.887	906,198
Alcohol Research Center Grants	93.891	57,685
Resource and Manpower Development in the Environmental Health Sciences	93.894	61,658
Grants to States for Operation of Offices of Rural Health	93.913	70,014
HIV Emergency Relief Project Grants	93.914	196,158
HIV Care Formula Grants	93.917	10,134,466
Coop. Agreements for State-Based Comp. Breast and Cervical Cancer Early Detect.	93.919	1,010,511
Health Start Initiative	93.926	74,196
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	275,190
HIV Prevention Activities-Health Department Based	93.940	6,984,855
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	384,546
Human Immunodeficiency Virus /Acquired Immunodeficiency Virus Syndrome Surveillance	93.944	695,591
Assistance Programs for Chronic Disease Prevention and Control	93.945	372,543
Block Grants for Community Mental Health Services	93.958	3,968,792
Block Grants for Prevention and Treatment of Substance Abuse	93.959	16,811,779
Special Minority Initiatives (See Note 12)	93.960	14,099
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	1,319,924
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	301,687
Preventive Health and Health Services Block Grant	93.991	2,299,188
Maternal and Child Health Services Block Grant To The States	93.994	4,616,669

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		2,461,443,167
Corporation for National and Community Service		
State Commissions	94.003	157,748
Learn and Serve America-School and Community Based Programs	94.004	193,745
AmeriCorps	94.006	2,449,707
Training and Technical Assistance	94.009	29,183
Total Corporation for National and Community Service		2,830,383
Social Security Administration		
Social Security-Disability Insurance	96.001	15,062,060
Social Security-Benefits Planning, Assistance, and Outreach Program	96.008	140,555
Total Social Security Administration		15,202,615
Various Programs		
Other Federal Assistance (See Note 12)	99.000	554,198
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants	84.007	1,876,378
Federal Family Education Loan Program (See Note 6)	84.032	90,494,346
Federal Work-Study Program	84.033	2,978,877
Federal Perkins Loan Program-Federal Capital Contributions (See Note 4)	84.038	25,329,515
Federal Pell Grant Program	84.063	26,090,120
Federal Direct Student Loan	84.268	16,056,364
Total Department of Education		162,825,600
Department of Health and Human Services		
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (See Note 5)	93.342	1,980,232
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		164,805,832
RESEARCH AND DEVELOPMENT CLUSTER:		
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 and NOTE 12)		
Department of Agriculture		
Agricultural Research Service	10.RD	1,102,495
Animal and Plant Health Inspection Service	10.RD	36,246

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Cooperative State Research, Education, and Extension Service	10.RD	2,899,617
Forest Service	10.RD	107,190
Miscellaneous Programs	10.RD	26,030
Total Department of Agriculture		4,171,578
Department of Commerce		
National Oceanic and Atmospheric Administration	11.RD	3,935,899
Miscellaneous Programs	11.RD	20,809
Total Department of Commerce		3,956,708
Department of Defense		
Department of the Army, Office of the Chief of Engineers	12.RD	(1,924)
Department of the Navy, Office of the Chief of Naval Research	12.RD	2,590,779
National Guard Bureau	12.RD	(45)
U.S. Army Medical Command	12.RD	124,730
U.S. Army Materiel Command	12.RD	485,813
Office of the Secretary of Defense	12.RD	69,559
Department of the Air Force, Materiel Command	12.RD	2,686,316
National Security Agency	12.RD	14,815
Advanced Research Projects Agency	12.RD	257,715
Miscellaneous Programs	12.RD	13,706
Total Department of Defense		6,241,464
Department of Housing and Urban Development		
Office of Fair Housing and Equal Opportunity	14.RD	76,990
Office of Policy Development and Research	14.RD	10,468
Total Department of Housing and Urban Development		87,458
Department of the Interior:		
U.S. Fish and Wildlife Service	15.RD	3,980
Geological Survey	15.RD	95,117
National Park Service	15.RD	4,780
Miscellaneous Programs	15.RD	18,871
Total Department of the Interior		122,748
Department of Justice		
National Institute of Justice	16.RD	83,125
Department of State		
Bureau of Educational and Cultural Affairs	19.RD	45,430
Miscellaneous Programs	19.RD	(213)
Total Department of State		45,217
Department of Transportation		

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Federal Highway Administration	20.RD	1,865
Research and Special Programs Administration	20.RD	105,799
Bureau of Transportation Statistics	20.RD	81,041
Total Department of Transportation		188,705
National Aeronautics and Space Administration	43.RD	1,152,200
National Foundation on the Arts and the Humanities		
National Endowment for the Humanities	45.RD	(279)
National Science Foundation	47.RD	9,398,724
Environmental Protection Agency		
Office of Water	66.RD	57,492
Office of Administration	66.RD	566,319
Office of Enforcement and Compliance Assurance	66.RD	22,077
Office of Research and Development	66.RD	456,894
Miscellaneous Programs	66.RD	40,102
Total Environmental Protection Agency		1,142,884
National Gallery of Art	68.RD	24,000
Department of Energy	81.RD	1,578,904
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	21,874
Office of Educational Research and Improvement	84.RD	1,897,769
Office of Postsecondary Education	84.RD	596,980
Miscellaneous Programs	84.RD	33,543
Total Department of Education		2,550,166
National Archives and Records Administration	89.RD	1,014
Department of Health and Human Services		
Food and Drug Administration	93.RD	4,868
Agency for Health Care Policy and Research	93.RD	53,040
Administration on Aging	93.RD	1,078
Substance Abuse and Mental Health Services Administration	93.RD	32,038
National Institutes of Health	93.RD	9,853,759
Administration for Children and Families	93.RD	70,800
Centers for Disease Control	93.RD	37,526
Health Resources and Services Administration	93.RD	(327,675)
Miscellaneous Programs	93.RD	157
Total Department of Health and Human Services		9,725,591

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Various Programs	99.RD	654,788
Agency for International Development	02.RD	350,993
TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT		41,475,988
UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2 and NOTE 12)		
Department of Agriculture		
Cooperative State Research, Education, and Extension Service	10.RD	71,806
Department of Defense		
Department of the Navy, Office of the Chief of Naval Research	12.RD	10,756
U.S. Army Medical Command	12.RD	97,726
U.S. Army Materiel Command	12.RD	68,498
Total Department of Defense		176,980
Department of Justice		
Miscellaneous Programs	16.RD	276,583
Office of Personnel Management	27.RD	117,563
National Aeronautics and Space Administration	43.RD	148,846
National Science Foundation	47.RD	740,279
Department of Veterans Affairs		
Miscellaneous Programs	64.RD	10,876
Environmental Protection Agency		
Office of Air and Radiation	66.RD	46,215
Office of Research and Development	66.RD	8,850
Total Environmental Protection Agency		55,065
Department of Energy	81.RD	18,073
Department of Education		
Office of Educational Research and Improvement	84.RD	81,776
Office of Special Education and Rehabilitative Services	84.RD	1,237,172
Miscellaneous Programs	84.RD	69,168
Total Department of Education		1,388,116
Department of Health and Human Services		

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Substance Abuse and Mental Health Services Administration	93.RD	663,583
National Institutes of Health	93.RD	42,470,814
Health Resources and Services Administration	93.RD	2,201,912
Centers for Disease Control	93.RD	1,166,796
Office of Population Affairs	93.RD	69,090
Agency for Health Care Policy and Research	93.RD	799,174
Administration for Children and Families	93.RD	412,711
Miscellaneous Programs	93.RD	257,548
Total Department of Health and Human Services		48,041,628
TOTAL HEALTH CENTER RESEARCH GRANTS		51,045,815
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		92,521,803
TOTAL FEDERAL ASSISTANCE		**$ 4,967,158,575**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the State of Connecticut and is presented on the cash basis of accounting, except that certain expenditures from Federal programs with the following Catalog of Federal Domestic Assistance (CFDA) numbers 14.117, 14.103, 17.225, 66.458 and 66.468 are presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the State's basic financial statements. Such information, however, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Note 2 - Research Programs at the University of Connecticut

Federally funded research programs at the University of Connecticut and its Health Center have been reported as discrete items. The major Federal departments and agencies providing research assistance have been identified. The research programs at the University and its Health Center are considered one Major Federal Financial Assistance Program for purposes of compliance with the Federal Single Audit Act.

Note 3 - Non-cash Assistance

Non-cash Federal Financial Assistance reported on this Schedule was provided to Connecticut by the following Federal agencies:

Department of Agriculture:	
Food Stamps (10.551)	$143,070,241
Food Distribution (10.550)	10,669,996
Department of Health and Human Services:	
Childhood Immunization Grants (93.268)	7,712,223
Preventive Health Services - Sexually Transmitted Diseases Control (93.977)	143,267
Diabetes Reduction (93.988)	111,833
Bioterrorism (93.283)	98,657
Department of Defense:	
Federal Surplus Property (12.000)	1,627
General Services Administration:	
Donation of Federal Surplus Personal Property (39.003)	204,436

Note 4 – Federal Perkins Loan Program

The total presented for the U.S. Department of Education's Perkins Loan Program (84.038) represents the Federal contributions to the loan pool, administrative cost allowances and loans outstanding. Total loans outstanding at June 30, 2002, were $25,321,586.

Note 5 - Health Professions Student Loans

The total presented for the U.S. Department of Health and Human Services' Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students program (93.342) represents the Federal contributions to the loan pool and loans outstanding. Total loans outstanding at June 30, 2002, were $1,980,232.

Note 6 - Federal Family Education Loan Program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

New loans made to students at the State Colleges and Universities under the U.S. Department of Education's Federal Family Education Loan Program (84.032) during the fiscal year ended June 30, 2002, totaled $90,349,431.

Note 7 - WIC Program Rebates

The total amount presented for the WIC Program includes cash rebates received from milk, infant formula and cereal manufacturers in the amount of $11,273,587 on the sales of formula and cereal to participants in the U.S. Department of Agriculture's WIC program (10.557). Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16 (m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs.

Note 8 - Connecticut Housing Finance Authority

The Connecticut Housing Finance Authority (CHFA) is a quasi-public agency, which is part of the State's financial reporting entity. The CHFA participates in the Mortgage Insurance - Homes program (14.117). During the year ended December 31, 2001, the CHFA expended $58,393,565 of Federal funds under that program. CHFA also expended $1,443,632 under the Section 236 Interest Subsidy program (14.103).

Note 9 - Economic Adjustment Assistance Program

Total loans outstanding for the Economic Adjustment Assistance Program (11.307) at June 30, 2002, were $329,818, and there were no new loans made under the program during the 2001-2002 fiscal year.

Note 10 – State Unemployment Insurance Funds

State Unemployment Taxes and the government and non-profit contributions in lieu of State taxes must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the Federally approved State Unemployment law. In accordance with OMB Circular A-133 Compliance Supplement, State Unemployment Insurance Funds, as well as Federal Funds, shall be included in the Schedule of Expenditures of Federal Awards with CFDA Number 17.225. The State Funds expended from the Federal Unemployment Trust Fund amounted to $731,334,914. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $4,735,933. The $50,289,228 in Unemployment Insurance program administrative expenditures was financed by the U.S. Department of Labor.

Note 11 – Child Support Enforcement Program

During the fiscal year ended June 30, 2002, the Department of Social Services expended a total of $40,506,845 (Federal share) to accomplish the goals of the Child Support Enforcement Program (93.563). However, the State received $18,965,091 of the $40,506,845 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $21,541,754 of the Federal share of expenditures is reimbursed to the State directly from the Federal government.

Note 12 – Pass - Through Grants

Federal Assistance received from pass-through grantors is identified by CFDA Number, Grantor, Grantor ID and Expenditure Amount. This information is presented in the following pages.

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
Department of Agriculture				
10.000	*7301*	University of Vermont	LTR 2-10-96	11,416
10.000	*7301*	Colorado State University	PO # 305726	25,236
10.203	*7301*	University of Delaware	NE-127 TRUST	561
10.500	*7301*	Cornell	14152001217	1,717
10.500	*7301*	Virginia Tech	CR 4904-545755	(572)
Total Department of Agriculture				38,358
Department of Defense				
12.002	*7802*	South Eastern CT Enterprise Region	N/A	112,236
Department of Housing and Urban Development				
14.854	*7802*	Housing Authority - City of New Britain	N/A	2,196
Department of Labor				
17.000	*7805*	Workforce Investment Board	N/A	182,399
Department of State				
19.000	*7301*	Wadsworth Anthenium	Agreement D. 6/1/01	12,970
Department of Transportation				
20.701	*7301*	MIT	MIT#5710001325	30,000
National Aeronautics and Space Administration				
43.001	*7301*	University of Hartford	303110 SUB-UCONN	1,000
43.001	*7805*	University of Hartford	314800-SUB ECSU	2,691
Total National Aeronautics and Space Administration				3,691
National Foundation on the Arts and the Humanities				
45.160	*7301*	Brown University	NEH Fellow 3/21/00	1,431
National Science Foundation				
47.074	*7802*	Woods Hole Oceanographic Institution	N/A	24,960
47.075	*7301*	National Research Council	AGR 8/14/00	3,125
47.076	*7301*	UMASS	02-522689 D 00	7,798
Total National Science Foundation				35,883

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Federal Emergency Management Agency				
83.000	*7301*	Danbury School	AGR 07-01-01	11,919
Department of Education				
84.000	*7301*	Danbury School	AGR 07-01-01	6,269
84.029	*7301*	Hampshire Education Collaborative	H029A70152	858
84.116	*7301*	University of New Hampshire	AGR #01-480	5,605
84.195	*7802*	City of Waterbury	N/A	159,971
84.342	*7805*	Thinkquest	N/A	10,191
Total Department of Education				182,894
Department of Health and Human Services				
93.048	*7301*	University of Massachusetts	UMB REF. 5-25382	(789)
93.960	*7301*	University of Rhode Island	AGR. 110194/530153	(6,447)
Total Department of Health and Human Services				(7,236)
Various Programs				
99.000	*7301*	Technoserve	IPSI 519-C-99-90064	63,191
99.000	*7802*	The Eurasia Foundation	W98-0246 & W01-0062	76,226
Total Various Programs				139,417
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				746,158
RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS: (SEE NOTE 2)				
Department of Agriculture				
Cooperative State Research, Education, and Extension Service				
10.RD	*7301*	Cornell University	Cornell #37013-6175	355
10.RD	*7301*	University of Florida	K53065-K53068	228
10.RD	*7301*	N. East Reg. Aqua Ctr	98-6A:ACCT#556505	8,414
10.RD	*7301*	NE Small Far	Agreement No. 17 A	14,701
10.RD	*7301*	USDA APHIS	01-8100-0742CA	8,146
10.RD	*7301*	University of Rhode Island	PO# U189000	382
10.RD	*7301*	University of Delaware	UD #3541213005	1,432
10.RD	*7301*	University of Rhode Island	110700/535957	21,121
10.RD	*7301*	University of Rhode Island	URI#102600/535958	38,227
10.RD	*7301*	University of Vermont	LNE01-144	4,545

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
10.RD	*7301*	University of Vermont	LNE01-143	15,481
Total Cooperative State Research, Education, and Extension Service				113,032
Forest Service				
10.RD	*7301*	Town of South Windsor	MOA 10/13/00	13,229
Miscellaneous Programs				
10.RD	*7301*	University of Vermont	ENE99-48	12,255
Total Department of Agriculture				138,516
Department of Commerce				
National Oceanic and Atmospheric Administration				
11.RD	*7301*	NOAA SEA GRT	PRE AWARD	11,688
11.RD	*7301*	University of Rhode Island	110801/532155	306
11.RD	*7301*	SUNY	PO#R41308 # 431-1244B	101,428
Total National Oceanic and Atmospheric Administration				113,422
Miscellaneous Programs				
11.RD	*7301*	Kent Seafarms	AGR. 3-1-99	20,675
Total Department of Commerce				134,097
Department of Defense				
National Guard Bureau				
12.RD	*7301*	Connecticut Military Academy	AGR 9-29-95	(45)
U.S Army Materiel Command				
12.RD	*7301*	Purdue University	530-1617-04	156,569
12.RD	*7301*	Yardney Tech	AGR 8-24-01	72,553
Total U.S Army Materiel Command				229,122
Department of the Air Force, Materiel Command				
12.RD	*7301*	Syracuse University	K000003015#3531145	229,752
12.RD	*7301*	University of Southern California	PO# 014373	(225)
12.RD	*7301*	Laser Fare	AGR 12-5-97	20,435
12.RD	*7301*	Polycomp Tech	AGR 00-STTR-01	57,361
12.RD	*7301*	Metal Matrix	AGR 7-31-00	104
12.RD	*7301*	Optimetries	PO#18998	22,386
12.RD	*7301*	Eumi Sys Cor	AGR 6-7-01	17,179
12.RD	*7301*	UTC P&W	PO#F820048	161,022

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
12.RD	*7301*	Wayne State	PO# Y-301703	21,425
Total Department of the Air Force, Materiel Command				529,439
Department of the Navy, Office of the Chief of Naval Research				
12.RD	*7301*	E-Lite Corp	BMDO 98-011	172,241
12.RD	*7301*	Rutgers	4-26448	199
12.RD	*7301*	Honeywell	PO 48095	29,199
Total Department of the Navy, Office of the Chief of Naval Research				201,639
Office of the Secretary of Defense				
12.RD	*7301*	Cornerstone	PO#000087	(145)
12.RD	*7301*	Intell Auto	AGR 3-12-99	39,753
Total Office of the Secretary of Defense				39,608
Advanced Research Projects Agency				
12.RD	*7301*	IBM	IBM No. 2524	30,751
12.RD	*7301*	University of Houston	155010743912K155025	63,949
12.RD	*7301*	Raytheon	PO#S7-6AP004X	28,541
12.RD	*7301*	Boeing	PO#Z10661	96,228
Total Advanced Research Projects Agency				219,469
Miscellaneous Programs				
12.RD	*7301*	Raytheon	71-36V1-BR-0006	2,328
12.RD	*7301*	Science Apps. Intnl Co.	4400003721	961
12.RD	*7301*	Science Apps. Intnl Co.	4600001832	9,431
Total Miscellaneous Programs				12,720
Total Department of Defense				1,231,952
Department of Housing and Urban Development				
Office of Fair Housing and Equal Opportunity				
14.RD	*7301*	Urban Institute	UI#06977-000-00	76,990
Department of Transportation				
Research and Special Programs Administration				
20.RD	*7301*	MIT	PO 5710000759	(820)
20.RD	*7301*	MIT	PO 5710000760	1,086
20.RD	*7301*	MIT	MIT No 5710001174	51,011
20.RD	*7301*	MIT	5710001324	31,439
20.RD	*7301*	University of Vermont	5710001180	17,083
Total Research and Special Programs Administration				99,799

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Federal Highway Administration				
20.RD	*7301*	Penn State University	1583UCCOP359704 WO#8	(71)
20.RD	*7301*	Penn State University	1583UCCOP359704 WO73	1,936
Total Federal Highway Administration				1,865
Bureau of Transportation Statistics				
20.RD	*7301*	University of Kentucky	464850-02-013	30,431
Total Department of Transportation				132,095
National Aeronautics and Space Administration				
43.RD	*7301*	Northeastern University	#551430-P204234	34,633
43.RD	*7301*	Material Technical Corp	PO# 96-016	135
43.RD	*7301*	University of Hartford	PO#P0035096	(4,260)
43.RD	*7301*	DACCO SCI, INC	Sub AGR 5-10-99	18,530
43.RD	*7301*	Giner Inc.	SBIR 97-2 10.04 7270	1,528
43.RD	*7301*	University of Hartford	MOA 7/29/99	(3,978)
43.RD	*7301*	University of Hartford	303110 Sub-UCONN FR	2,503
43.RD	*7301*	University of Hartford	NASA EPSCOR 01-02	45,547
43.RD	*7301*	Intell AUTOM	SUB C # 237	1,448
43.RD	*7301*	Intell AUTOM	SUB C # 238	2,718
43.RD	*7301*	Intell AUTOM	SUB C # 243	1,260
43.RD	*7301*	University of Hartford	TA#1	(234)
43.RD	*7301*	University of Hartford	TA#2	(5,933)
43.RD	*7301*	University of Hartford	TA#3	(392)
43.RD	*7301*	University of Hartford	TA#4	(142)
43.RD	*7301*	University of Hartford- Space	Year 2 TA#1	8,071
43.RD	*7301*	University of Hartford- Space	Year 2 TA#3	1,450
43.RD	*7301*	Qualtech	0008-SC-1002	18,823
43.RD	*7301*	Inframat Cor	AGR 3-5-01	26,748
43.RD	*7301*	University of Hartford	AGR 6-19-96	(2,467)
43.RD	*7301*	Arizona State University	Sub # 99-122SC	21,244
Total National Aeronautics and Space Administration				167,232
National Science Foundation				
47.RD	*7301*	Carnegie Mellon University	1120155-120701	13,558
47.RD	*7301*	Software Frm	NSF SBIR AGR 12/21/01	29,917
47.RD	*7301*	John Carroll University	SUBCON 1-12-99	35,169
47.RD	*7301*	OPTO Sys Inc	AGR 10-17-01	16,642

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
47.RD	*7301*	Physical Opt	POC#359-UCONN	55,016
47.RD	*7301*	University of Kentucky	464172-02-012	16,743
47.RD	*7301*	University of Maryland	COOP AGR 98-15	6,003
47.RD	*7301*	ATM -962947	Y-97-0113	(2,823)
47.RD	*7301*	MIT	5710001373	45,169
47.RD	*7301*	Duke University	PO# 4520059639 6-5-00	(1)
47.RD	*7301*	University of Arizona	PO Y702124	22,239
47.RD	*7301*	Duke University	01-SC-NSF-1008	745
47.RD	*7301*	Duke University	PO 4520106896	5,218
47.RD	*7301*	University of Georgia	RR 229-208/2000817	287,668
47.RD	*7301*	Univ CAL-DAV	Agmt No. 00RA2548	15,655
47.RD	*7301*	Institute of Ecosystems	AGR #745/4016	(425)
47.RD	*7301*	University of Minnesota	T66166245101	36,165
Total National Science Foundation				582,658
Department of Environmental Protection				
Office of Water				
66.RD	*7301*	Cornell University	Agmt # 33346-6472	4,758
Office of Research and Development				
66.RD	*7301*	John Hopkins University	8112-48274	50,652
Miscellaneous Programs				
66.RD	*7301*	Marine Biology Lab	PO#5215	40,088
Total Department of Environmental Protection				95,498
Department of Energy				
81.RD	*7301*	Energy Research	PO# 2573-000	20,771
81.RD	*7301*	Pratt & Whitney	PO# 986122	331
81.RD	*7301*	NC State University	88-1426-03 AMD#19	45,052
81.RD	*7301*	West Virginia University	97-494	3,480
81.RD	*7301*	University of California	PO#25686-001-01 2T	72,966
81.RD	*7301*	Solar Turb	PO#HD0002206	77,379
81.RD	*7301*	Worchester Technology	S/C 02-218190-1	77,358
81.RD	*7301*	IONOMEM Corp	AGR 3/1/02	54,785
81.RD	*7301*	Plant Biotech	AGR #OR22072-97	48,311
81.RD	*7301*	Plant Biotech	AGR #OR22072-45A	(42)
81.RD	*7301*	Plant Biotech	AGR #OR22072-109	3,979
81.RD	*7301*	Clemson University	No. 00-01-SR081	122,629

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
81.RD	*7301*	Clemson University	01-01-SR-91	46,944
81.RD	*7301*	Clemson University	02-01-SR097	14,810
81.RD	*7301*	Fluent Inc	FY000112UCT	31,279
Total Department of Energy				620,032
Department of Education				
Office of Educational Research and Improvement				
84.RD	*7301*	Danbury School	AGR 10-21-98	17,142
Miscellaneous Programs				
84.RD	*7301*	National Writing Project	92-CT01	33,543
Total Department of Education				50,685
Department of Health and Human Services				
Administration on Aging				
93.RD	*7301*	Eastern CT Area Agency on Aging	#F-01-10	1,078
Agency for Health Care Policy and Research				
93.RD	*7301*	University of Washington	NO. 231059	32,658
93.RD	*7301*	University of Washington	NO. 425342	20,382
Total Agency for Health Care Policy and Research				53,040
Administration for Children and Families				
93.RD	*7301*	Catholic Families	AGR for SER D10-1-01	38,752
93.RD	*7301*	Catholic Families	Agreement D 10/01/00	32,048
Total Administration for Children and Families				70,800
Centers for Disease Control				
93.RD	*7301*	ATPM	SUBAGREE D. 1/15/02	37,526
National Institutes of Health				
93.RD	*7301*	University of Pennsylvania	536642 7R01DE115407	59,337
93.RD	*7301*	Yale University	2 RO1 DC00283-15	58,250
93.RD	*7301*	University CAL-IRV	F00-DA12413-UC	61,410
93.RD	*7301*	University of Maryland	R01-NR04926-01A1	7,600
93.RD	*7301*	Child Res In	Contract #1688-01-02	52,156
93.RD	*7301*	Cortex Pharm	AGR 1-2-01	69,612
93.RD	*7301*	App Biophysics	AGR 5-11-00	40,885
93.RD	*7301*	Spheres Inc	AGR 4-12-01	18,283

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*7301*	Beth Israel Hospital	5P01HD20806-14	(2,259)
93.RD	*7301*	Beth Israel Hospital	P01 HD20806-15	185,685
93.RD	*7301*	University CAL-IRV	E01-HD-26939	9,441
93.RD	*7301*	University of Maryland	AGMT No. CG0210	12,349
93.RD	*7301*	Haskins Lab	AGR 05-09-02	4,515
93.RD	*7301*	Allpied Biop	AGR 10-1-01	87,830
93.RD	*7301*	Emory University	AGMT DTD 10/29/01	1,007
93.RD	*7301*	Allegheny University	R01-AG-18237	63,816
Total National Institutes of Health				729,917
Substance Abuse and Mental Health Services Administration				
93.RD	*7301*	City of Stamford	AGR 12-18-00	13,297
93.RD	*7301*	City of Stamford	AGR 10-26-01	17,214
93.RD	*7301*	City of New Haven	A01-0793	1,527
Total Substance Abuse and Mental Health Services Administration				32,038
Total Department of Health and Human Services				924,399
Various Programs				
99.RD	*7301*	Biotech Research	AGR. 8-1-99	70,572
99.RD	*7301*	Lucent Tech	PO# FSG332075	7,885
99.RD	*7301*	Electric Boat	PO# SNL109-014	60,341
99.RD	*7301*	QS Heritage	AGR 1-11-01	58,495
99.RD	*7301*	Cornerstone	PO#01038	25,475
99.RD	*7301*	SAIC	4600001832	405,119
99.RD	*7301*	BAT PAT NW	Cont No. 408508-A-J2	4,478
99.RD	*7301*	AM Egg Board	MOA D 1/11/02	7,156
99.RD	*7301*	CHC	LTR. 3-6-00	15,267
Total Various Programs				654,788
Agency for International Development				
02.RD	*7301*	Technoserve	519-C-99-90064-00	66,391
02.RD	*7301*	University of Georgia	RC710-013/4092044	80,868
Total Agency for International Development				147,259
TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS				4,956,201

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2)				
Department of Energy				
Miscellaneous Programs				
81.RD	*7302*	Brookhaven National Laboratory	53419	18,073
Department of Education				
Miscellaneous Programs				
84.RD	*7302*	Orelena Hawks Puckett Institute	H024S60008	34,709
84.RD	*7302*	Federation for Children with Special Needs	6101-879	3,223
84.RD	*7302*	Orelena Hawks Puckett Institute	H024S960008	23,062
Total Miscellaneous Programs				60,994
Department of Health and Human Services				
Agency for Health Care Policy and Research				
93.RD	*7302*	Multiple Sclerosis	PP0703	(196)
Office of Population Affairs				
93.RD	*7302*	Planned Parenthood League of CT	01-H-000038-31-0	69,090
Administration for Children and Families				
93.RD	*7302*	University of Illinois	02-208	3,379
93.RD	*7302*	CT Development Disabilities Council	900-4100-05340-027	41,131
Total Administration for Children and Families				44,510
Centers for Disease Control				
93.RD	*7302*	Association of Teachers Preventive Med	431-16/16	232,626
National Institutes of Health				
93.RD	*7302*	Buffalo	150-4689B	94,050
93.RD	*7302*	University of Rochester	411283-G	22,142
93.RD	*7302*	Univ MED / DENT of New Jersey	DE 10592	25,791
93.RD	*7302*	Univ MED / DENT of New Jersey	R01DE13732-01	23,924
93.RD	*7302*	University of Rochester	411581-G	7,429
93.RD	*7302*	University of Rochester	411649-G	3,832
93.RD	*7302*	University of California at Berkley	SA1609 JB	(947)
93.RD	*7302*	University of California at Berkley	SA 2918PG	19,341
93.RD	*7302*	University of Miami	M636161	60,043
93.RD	*7302*	University of Massachusetts	B1-6-32122-5800	29,431
93.RD	*7302*	Institute for Community Research	1R25 MH58772-01	16,244
93.RD	*7302*	Yale University	AA11330	10,818
93.RD	*7302*	Yale University	AA11197-02	43,625

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*7302*	Unspecified Mixed Sources	1R03 AA12434	14,162
93.RD	*7302*	Yale University	DA12849-01	(4,400)
93.RD	*7302*	Yale University	DA12849-03	276,904
93.RD	*7302*	Yale University	DA09241-04	14
93.RD	*7302*	Yale University	DA13334	71,966
93.RD	*7302*	Yale University	DA09241	250,429
93.RD	*7302*	Yale University	DA12690	224,593
93.RD	*7302*	Yale University	DA12422	216,528
93.RD	*7302*	Chestnut Health Systems	LI0007	8,539
93.RD	*7302*	University of Pennsylvania	5-34709-A	38,355
93.RD	*7302*	Yale University	5 R01 NR04744-03	16,540
93.RD	*7302*	Arizona	CA49764-10	998
93.RD	*7302*	City of Hope - NMC	5P01 CA30206	1,352
93.RD	*7302*	John Hopkins Oncology Center	8103-45777	14,829
93.RD	*7302*	UCLA - University CA at Los Angeles	016674	167
93.RD	*7302*	Northshore University Hosp.	11222C	10,223
93.RD	*7302*	Univ of Texas MD Anderson Cancer Ctr	5 U10 CA45809-12	1,092
93.RD	*7302*	Tufts University	1R01 DE13405-01	76,491
93.RD	*7302*	Tufts University	CA39088	92,841
93.RD	*7302*	Pittsburgh	P5400-5425	22,943
93.RD	*7302*	Pittsburgh	BC0107-185	48,950
93.RD	*7302*	CTRC Research Foundation	S0000	1,053
93.RD	*7302*	University of Virginia	GC10641	73,441
93.RD	*7302*	American Red Cross	HL54710	17,634
93.RD	*7302*	Temple University	HL45700	1,045
93.RD	*7302*	Duke University	SCD -HEFT023	1,924
93.RD	*7302*	Arizona	01-086	1,105
93.RD	*7302*	UMASS	GC80905	(315)
93.RD	*7302*	UMASS	GC91051	13,355
93.RD	*7302*	UMASS	AI32907	4,523
93.RD	*7302*	UMASS	GC00424	179,349
93.RD	*7302*	Yale University	5-U01-AI46347-02	11,491
93.RD	*7302*	UMASS	SP10255	67,794
93.RD	*7302*	Research Foundation for Mental Hygiene	002458	1,036
93.RD	*7302*	State University of NY at Brooklyn	412-2782J	386
93.RD	*7302*	State University of NY at Brooklyn	412-2782K	47,740
93.RD	*7302*	State University of NY at Brooklyn	412-2782L	583,265
Total National Institutes of Health				2,744,065
Health Resources and Services Administration				
93.RD	*7302*	Worchester Memorial Hospital	116648-02	2,358

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*7302*	Worchester Memorial Hospital	6H30 MC00037-03	34,869
93.RD	*7302*	Worchester Memorial Hospital	SP 10051	10,655
93.RD	*7302*	Worchester Memorial Hospital	SP 10236	25,468
93.RD	*7302*	Children's Hospital Medical Center	H4B MC000-55-02	1,828
93.RD	*7302*	City of Hartford	6058B	90
93.RD	*7302*	City of Hartford	1608K	12,826
93.RD	*7302*	Yale University	1H4A-HA00013-01	170
93.RD	*7302*	University of Massachusetts	SP 10093	(2,114)
93.RD	*7302*	University of Massachusetts	SP 10179	52,052
93.RD	*7302*	CT Primary Care Association	99F2-300	(3,986)
93.RD	*7302*	CT Primary Care Association	UNCONN01/RWIV	21,183
93.RD	*7302*	CT Primary Care Association	UNCONN02/RWIV	155,443
93.RD	*7302*	CT Primary Care Association	00F2-300	557
93.RD	*7302*	CT Primary Care Association	02S2-300/RW II	30,066
Total Health Resources and Services Administration				341,465
Substance Abuse and Mental Health Services Administration				
93.RD	*7302*	City of Stamford	1 H TI12358-01	9,570
93.RD	*7302*	GR Bridgeport Adolescent Pregnancy Progr	N/A	24,401
Total Substance Abuse and Mental Health Services Administration				33,971
Miscellaneous Programs				
93.RD	*7302*	Aetna Foundation	HQ/95/0013392	8
Total Department of Health and Human Services				3,465,539
TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS				3,544,606
TOTAL PASS-THROUGH GRANTS				$ 9,246,965

*	- **Identification of State Agencies:**
7301	- University of Connecticut
7302	- University of Connecticut Health Center
7802	- Central Connecticut State University
7805	- Eastern Connecticut State University

Schedule of Findings and Questioned Costs

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2002
INDEX OF SCHEDULE OF FINDINGS AND QUESTIONED COSTS

	Status	Page
I. Department of Transportation		
1. Davis-Bacon Act – Metro-North Projects	B	F-115
2. Allowable Costs/Cost Principles – Unclaimed Costs	B,C	F-117
J. Department of Mental Health and Addiction Services		
1. Matching, Level of Effort, Earmarking	B,C	F-121

STATUS

A. Material instances of non-compliance with Federal requirements
B. Reportable conditions of internal control process deficiencies
C. Material weaknesses of the internal control process
D. Known or likely questioned costs which are greater than $10,000 for a type of compliance requirement for a major program
E. Known questioned costs which are greater than $10,000 for a Federal program which is not audited as a major program
F. Circumstances resulting in other than an unqualified opinion unless such circumstances are otherwise reported as an audit finding under code A. above
G. Known fraud affecting a Federal award
H. Repeat of a prior year finding
I. Instances resulting from audit follow-up procedures that disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2002
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified opinion on all major programs except for *Foster Care-Title IV-E* (CFDA #93.658), which is qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.117	Mortgage Insurance - Homes
14.238	Shelter Plus Care
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
17.225	Unemployment Insurance
17.258, 17.259 and 17.260	WIA Cluster
20.500 and 20.507	Federal Transit Cluster
66.605	Performance Partnership Grants
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, and 93.342	Student Financial Assistance Cluster
84.027 and 84.173	Special Education Cluster
84.181	Special Education - Grants for Infants and Families with Disabilities
84.340	Class Size Reduction
93.230	Consolidated Knowledge Development and Application Program
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.658	Foster Care-Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.778, 93.775 and 93.777	Medicaid Cluster
93.940	HIV Prevention Activities – Health Department Based
93.959	Block Grants for Prevention and Treatment of Substance Abuse
N/A	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $14,901,476

Auditee qualified as a low risk auditee? No

SECTION II

FINANCIAL STATEMENT RELATED FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

There were no financial statement related findings required to be reported in accordance with *Government Auditing Standards*.

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SECTION III

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. DEPARTMENT OF SOCIAL SERVICES

III.A.1. Eligibility

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Criteria: Individuals are required to submit a written application for medical assistance as a condition of receiving Medicaid benefits. Once determined eligible to receive benefits, recipients are required to complete a re-determination form at least every 12 months and submit such form to the Medicaid agency. The application/re-determination form must be maintained in the recipient's case record along with any supporting documentation in support of the Medicaid agency's decision on the eligibility determination. Medicaid benefits should only be provided on behalf of eligible individuals. (42 CFR 435.907, 42 CFR 435.916, DSS Uniform Policy Manual, Section 1545)

Condition: Our review of program eligibility identified the following three conditions:

Condition #1
Eligibility determinations for certain medical coverage groups were not performed in a timely manner in three instances. Several years ago, the Department's policy had been to institute a two year redetermination policy for certain stable elderly and disabled recipients. When we informed the Department at that time that all Medicaid beneficiaries must have an annual redetermination, the Department changed its policy to meet the Medicaid requirement. However, the Department has been slow in establishing sufficient controls to ensure that all of these types of recipients are redetermined annually.

Condition #2
Medical services were paid on behalf of one recipient who was in spenddown and ineligible to receive services.

Our audit sample consisted of 60 claims with a dollar value of $54,606 selected from an audit universe of 6,602,947 claims with a dollar value of $1,439,988,205 for the fiscal year ended June 30, 2002.

Effect: The above conditions lessen the Department's assurance that only eligible recipients are receiving Medicaid services. Medical services valued at $1,700 were provided to an ineligible recipient.

Cause: Condition #1
The Department has taken action to change the redetermination periods for these medical coverage groups. A work request to modify its eligibility management system to shorten the redetermination period has been initiated. In addition, district offices were notified via E-mail to manually shorten the cycles. However, in the course of our current review, we noted re-determination periods for some recipients in our sample that have not been shortened.

Condition #2
Case workers must manually change the Medicaid eligibility status of spenddown recipients in the Department's Eligibility Management System at the conclusion of each redetermination period. The system automatically carries over the eligibility status from the previous redetermination period. In this particular case, the recipient met the spenddown amount in the previous redetermination cycle and thus the active eligibility status carried over to the next period. However, during the next redetermination period, the recipient did not meet the spenddown amount during the period, which should have made the recipient ineligible for services, but because the recipient's status was not changed by the worker, the recipient remained eligible. The Department has a pending work request to automate the return of the status of the case to spenddown which would require the worker to change the status back to active if the redetermination determines that the recipient is eligible.

Recommendation: The Department should reiterate to its offices to shorten redetermination periods of recipients currently shown to be on the obsolete two-year redetermination cycles and prioritize Eligibility Management System changes to shorten the redetermination periods and automate the return of a recipient's eligibility status to spenddown when redeterminations are completed.

Agency's Response: "The Department agrees with this finding. The Department submitted data processing work requests to correct the two types of errors cited.

One work request will shorten the maximum Medicaid redetermination period from 24 to 12 months. This request should be completed in 2003. In the interim, the Department has issued notices to staff reminding them to manually reset future redetermination periods to 12 months.

Another work request will have all spenddown cases automatically reverted to spenddown status after a redetermination instead of having workers manually putting these cases into spenddown status. It is expected that the project will be completed during the first quarter of 2003. In the meanwhile, a notice is being issued to remind staff to manually change these cases."

III.A.2. Activities Allowed or Unallowed: Medicare Part B Premiums

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: Medicare Part B buy-in processing involves analyzing client information from the Medicaid Management Information System (MMIS) eligibility master file, the MMIS buy-in master file, a Bendex file, a State Data Exchange (SDX) file and buy-in transactions received from the Centers of Medicare and Medicaid Services (CMS). A pre-defined buy-in selection criterion programmed into MMIS identifies clients eligible to be bought in for. Through this process, accretion, deletion, change of information and premium transactions are created and sent to CMS for processing. As the result of buy-in accretion/premium transactions, buy-in claims for premiums are created and brought into the MMIS claims processing system and posted to history. The State was reimbursed approximately $18,000,000 in the fiscal year ended June 30, 2002, for buy in premium payments by the Federal government.

Criteria: A state may enroll certain Medicare-eligible recipients under Medicare Part B and pay their premiums. Payments made by states on behalf of a cash assistance recipient, deemed cash recipient, a Qualified Medicare Beneficiary, a Specified Low Income Medicare Beneficiary, or Qualifying Individuals qualify for Federal reimbursement. Payments made on behalf of certain non-cash medical recipients do not qualify for Federal matching (42 CFR section 431.625, State Buy-In Manual and Section 4732 of BBA of 1997).

Condition: The Department pays for Medicare Part B coverage on behalf of certain individuals who are not entitled to receive such coverage.

Effect: Federal financial participation for premium payments is erroneously being claimed on behalf of these individuals.

A review of 164 cases performed by the Department in November/December of 2001 of clients receiving buy-in benefits identified 28 cases in which the client was not entitled to receive the coverage. Total premiums incorrectly paid totaled $29,210 including $14,605 reimbursed by the Federal government.

Cause: The claims processing buy-in selection criteria is inconsistent with Department policy on who is entitled to receive such coverage. The Department did attempt to correct the problem by modifying MMIS' buy-in selection criteria through programming changes. However, subsequent production runs to correct the problem resulted in additional errors.

Recommendation: The Department should amend its procedures to claim Medicare Part B premium payments to ensure that payments are made only on behalf of recipients entitled to receive such coverage and that the payment qualifies for Federal reimbursement.

Agency Response: "The Department agrees with this finding. While most of the cases are correct, the Department has been working on various updates to the buy-in process to ensure that all premiums are paid correctly. Most of the changes that were being worked on were implemented in the fall of 2002. There is still one outstanding processing change that is being tested and reviewed for accuracy. Once the Department completes testing, the data processing change will be put into production."

III.A.3. Activities Allowable or Unallowed: Disproportionate Share Hospital

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: 05-0205CT5028

Background: The Department's Medicaid State Plan identifies five sections under which Disproportionate Share Hospital (DSH) payments may be made. States are free to establish their own criteria for determining whether a hospital qualifies as a DSH subject to certain minimums specified in the law. Federal financial participation is available through the Medicaid program to assist states with the cost of the DSH program. A ten percent standard of Medicaid or low income utilization was negotiated with the Health Care Financing Administration for the State Plan. In 1993, Congress passed legislation that set the minimum utilization criteria at one percent.

Criteria: According to the Department's Medicaid State Plan, in order to qualify for a DSH payment under the General Assistance (GA) and Department of

Children and Families (DCF) DSH components, providers must have a low income utilization rate of at least ten percent and a Medicaid inpatient utilization rate of at least one percent. In order to qualify for the Uncompensated Care (UC) DSH, providers must only meet the one percent Medicaid inpatient utilization rate. No hospital is eligible to receive a DSH payment under any section of the State Plan if it has a Medicaid inpatient utilization rate of less than one percent. (Medicaid State Plan)

Condition: The Department made GA, DCF and UC payments to hospitals without determining whether the hospitals met the low-income and/or Medicaid inpatient utilization rate criteria specified in the State Plan. Based on information available at the Department, we determined that all hospitals receiving payments did have Medicaid inpatient utilization rates of at least one percent. However, information was not available at the Department to determine whether the hospitals receiving payments under the GA and DCF DSHs met the ten-percent low-income utilization requirement.

Effect: Payments may have been made to hospitals not qualified to receive them.

Cause: The cause was not determined.

Recommendation: The Department should ensure that hospitals receiving DSH payments meet the criteria stated in its Medicaid State Plan prior to making payments to the hospitals.

Agency Response: "The Department agrees with this finding. A systematic effort has not been made to assess whether each hospital has met the 10% threshold to receive disproportionate share payment adjustments under the SAGA and DCF section of the State Plan. However, the 10% test is an out of date measure, which was superseded by a one percent test in Federal law. We will amend the Plan to replace the 10% test with the Federal 1% standard."

III.A.4. Allowable Costs: Drug Rebates

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: The Department contracts with its fiscal intermediary to administer the Medicaid drug rebate program.

Criteria: Drug manufacturers are required to pay interest charges on late rebate payments made under the Medicaid Drug Rebate program. The drug manufacturer (labeler) is responsible to calculate and pay the interest. Interest accrues on the total amount of the late rebate payment and only stops accruing on the date the check is disbursed. The date of disbursement is considered to be the date the check is mailed by the labeler as evidenced by the postmark on the envelope. The state Medicaid agency is responsible to ensure that interest is collected and calculated at the correct rate (Medicaid Drug Rebate Operational Training Guide).

Condition: Our review of the fiscal intermediary's internal controls for identifying, collecting and calculating interest on late payments from labelers disclosed that they were insufficient. Specifically, we noted that the intermediary's procedures to identify labelers who failed to submit interest with their late payments and procedures to determine whether the interest payment amount submitted by labelers was correctly calculated were deficient.

Effect: Amounts collected from some drug manufacturers did not include interest or included interest that was calculated incorrectly.

Cause: In an effort to address interest payment control deficiencies identified in our prior report, the intermediary implemented new procedures to identify and calculate interest payments. However, based on our current testing, it was determined that the new procedures are inadequate.

Recommendation: The fiscal intermediary in conjunction with the Department should improve their identification and collection processes of interest on late rebate payments. They should also adhere to the procedures and guidelines the Department of Health and Human Services has set forth in recalculating interest on late rebate payments.

Agency Response: "The Department agrees with this finding. The process for identifying and collecting interest owed to the State of Connecticut outlines specific criteria to afford the most meaningful collections. It is important to take into account that CMS allows the states to write-off/discount any payments including interest owed under $50. The primary objective of the drug rebate program is to collect maximum rebate through an efficient and effective dispute resolution process. To begin disputing interest amounts with the manufacturers becomes counterproductive. While the Department feels that the procedures developed and implemented by the fiscal intermediary are a substantial improvement from past years, we will commit additional resources to the interest collection process and will further revise the interest report calculation to more precisely adhere to the procedures and guidelines published by the Department of Health and Human Services."

III.A.5. Reporting: PSC 272

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: The Department of Health and Human Services, Division of Payment Management (DPM), operates the Payment Management System (PMS). After a Federal agency awards a grant, DPM is responsible for controlling payments to the recipient, receiving collections for unexpended funds, accounting for disbursement information provided by the recipient and reporting data equivalent to the SF-272, *Federal Cash Transaction Report*, to the recipient and Federal agency.

Federal awarding agencies enter authorization amounts in PMS to allow recipients to draw Federal funds. Once a quarter, using the authorization amounts provided by the Federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PSC 272 reports.

Criteria: Recipients of Federal grant awards are required to report actual disbursements made against award authorizations on the PSC 272-A, *Federal Cash Transaction Report*, each quarter.

Condition: Our review of the Department's procedures for reporting disbursements on the PSC 272-A report relative to the Medicaid program disclosed that the Department does not report actual disbursements. The amounts reported by the Department vary from report period and can include a combination of actual disbursements and/or authorized Federal awards.

Effect: Payment information reported to the Centers for Medicare and Medicaid Services (awarding Federal agency) is inaccurate.

Cause: Actual expenditure information from the current and sometimes earlier quarterly Medicaid Statement of Expenditure Reports (CMS-64) is not available when the Department prepares the PSC 272 report. The CMS-64 report is due 30 days after the close of each calendar quarter. The PSC 272 report is due 45 days after the close of the quarter. However, the Department routinely submits the CMS-64 report late and after the filing of the PSC 272 report.

Recommendation: The Department should prepare the PSC 272-A report in accordance with the

Division of Payment Management requirements.

Agency Response: "The Department agrees with this finding. Historically, the Department has provided the best information available at the time the PSC 272 report is due (45 days after the close of each quarter). The next PSC 272 quarterly report is updated by replacing the award information with actual disbursement (claim) data for the now previous quarter, in effect using actual cumulative data as soon as it is available (lagging one quarter behind).

It is important to note that the PSC 272 for the quarter ending September 30, 2002, used actual fourth quarter FFY 2002 expenditure data (generated as of the filing date of that PSC 272) from the CMS-64 Division of Fiscal Analysis claim system.

The Department is implementing a new automated system and it is anticipated that it will enable us to file the CMS-64 more timely so as to be included in the preparation of each quarter's PSC 272 report in the future."

III.A.6. Special Tests and Provisions – Inpatient Hospital Audits

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Criteria: Each state Medicaid agency pays for inpatient hospital services and long-term facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficient and economically operated providers. The state Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The state Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR Section 447.253).

Condition: The Department has not required audits of inpatient hospital providers since July 1999. The most recent year in which audits of cost reports have been completed is through the fiscal year ended September 30, 1995.

Effect: The Department has lessened its assurance that rates used to pay for inpatient hospital services are based on cost information that is complete, accurate and reasonable.

Cause: The Department's contract to have these audits performed by an independent vendor expired in July 1999. There currently is no contract to have this service done.

Recommendation: The Department should provide for the periodic audits of financial and statistical records of participating providers as required by Federal Regulations.

Agency Response: "The Department agrees with this finding. The Department's rate setting method for inpatient hospital services is based upon the Federal Medicare cost report. The Department contracted for over fifteen years with Anthem Blue Cross/Blue Shield of CT, the Medicare fiscal intermediary for Connecticut hospitals, to process and audit hospital cost report filings. The contract expired in July 1999 when Anthem resigned as a Medicare intermediary.

It has not been a high priority to reinstate hospital audits because under the reimbursement method approximately two-thirds of a hospital's rate is subject to an operating cost limit. Audit adjustments rarely have a significant impact on past Medicaid payments. However, the Department will attempt to enter into a contract with Empire Health of New York, the new Medicare fiscal intermediary, to continue this work. We will also consider utilizing Department audit staff to conduct these reviews. We had planned to reinstate audits by June 30, 2001; however, due to competing priorities no progress was made. The Department remains committed to reinstate hospital cost reports in the 2003 fiscal year."

III.A.7. Special Tests and Provisions: Utilization Control and Program Integrity

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Criteria: A Medicaid agency's methods for investigating and dispositioning complaints of fraud and abuse contemplates that complaints be investigated and resolved in a timely manner (42 CFR 455.13).

Condition: Our review of 37 complaint files made during the fiscal year ended June 30, 2002, noted 18 instances in which complaints remained open, were unresolved or their status was pending despite having been received by the Department several months earlier.

Effect: Failure to resolve complaints in a timely manner may allow fraud or abuse, if occurring, to continue unnecessarily.

Cause: The Department's internal controls do provide for timely investigation and resolution of complaints of fraud and abuse. However, these controls were not always followed during the audited period.

Recommendation: The Department should review its internal controls over the investigation and resolution of complaints of Medicaid fraud and abuse to ensure that internal controls are operating in accordance with management's directives.

Agency Response: "The Department agrees with this finding. One of the major issues in successfully dispositioning complaints is coordination and investigation through the use of existing technology. In order to enhance the full spectrum of activities concerning fraud and abuse the Department is implementing new technology in the form of a data warehouse/decision support system. Developing the specifications for the system, issuing an RFP for services and reviewing the proposals submitted required temporary reassignment of a Quality Assurance supervisor. As the RFP contractor selection process is in its final stages, a supervisor has now been reassigned responsibility for the coordination of complaint investigations. Implementation of the data warehouse project will also facilitate the disposition of complaints, since the availability of real time claim information will speed the investigation process."

III.A.8. Special Tests and Provisions: Provider Eligibility/ Health and Safety Standards

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: The Department of Public Health (DPH) performs Medicaid survey/certifications on long term care facilities and intermediate care facilities for the mentally retarded to determine whether these institutions are meeting prescribed health and safety standards. At the conclusion of the survey, DPH prepares a standardized certification and transmittal form that is forwarded to the Department indicating whether the facility is eligible to participate in the program. DPH also forwards required disclosure information on ownership and control prepared by the providers and the provider agreement signed by the facility.

Criteria: A state Medicaid agency's internal controls should include procedures that ensure that complete survey and certification documentation has been received prior to making payment to a facility.

Condition: Our review of documentation of 13 providers for evidence that the providers met health and safety standards disclosed one instance in which the certification and transmittal form was not on file at the Department during the time of our review in June of 2002. The survey/certification process for this provider was initiated by DPH in October of 2001. We also noted three disclosures of ownership and control interest statements that were accepted by the Department despite being incomplete.

Effect: The Department has lessened assurance that providers receiving payments have met the prescribed health and safety standards and have made the required disclosures.

Cause: The Department's quality assurance procedures do provide for follow-up of certification and transmittal forms not received from DPH and incomplete disclosure statements. However, these procedures were not being followed during the audited period.

Recommendation: The Department should review its internal controls over the certification and transmittal process to ensure that internal controls are operating in accordance with management's directives.

Agency Response: "The Department agrees with this finding. The Department of Public Health (DPH) forwards Certification & Transmittal (C&T) forms and signed provider agreements to the Department. The Department will review its internal controls to ensure that these controls are operating in accordance with management directives."

III.A.9. Special Tests and Provisions: Provider Eligibility

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Criteria: A state plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to abide by certain provisions of the program as set forth in the agreement (42 CFR 431.107).

Condition: We were informed by the Department that several nursing facilities had not signed provider agreements as part of the survey and certification process performed by the Department of Public Health. These facilities continue to provide services to clients and receive reimbursement from the Department despite the absence of an executed provider agreement in place.

Effect: The Department has lessened assurance that nursing facilities are in compliance with State and Federal requirements applicable to the program.

Cause: The Department revised and updated its nursing facility provider agreement in November of 2001. Several of the nursing facilities questioned the legality of the revised agreement and were advised by their legal counsel not to sign the agreement.

Recommendation: The Department, in consultation with the Attorney General's Office, should seek to resolve timely issues raised by the nursing facilities with the ultimate goal of producing a provider agreement that is agreeable to both parties.

Agency Response: "The Department agrees with this finding. The Department, in consultation with and at the direction of the Attorney General's office has resolved the issues raised by the nursing facilities in relation to the signing of their provider agreements. Department staff worked closely with the Attorney General's office to produce and approve new provider agreements. New provider agreements were mailed out to each nursing facility the first week of January 2003 for their signature. Singed agreements are now being returned to the Department. It is felt this audit finding has been resolved."

III.A.10. Suspension and Debarment

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Criteria: State Medicaid agencies are prohibited from contracting with any person(s) (defined as any individual, corporation, partnership, association, unit of government or legal entity, however organized) who are debarred or suspended from a Federal assistance program. Person(s) contracting with State Medicaid agencies are required to certify that the person(s) are not proposed for debarment, debarred, suspended, declared ineligible, or voluntarily excluded from participation in a Federal program. The State Medicaid agency may rely upon the certification of the person unless it knows that the certification is erroneous (Title 45 CFR 76).

Condition: Our review of the Department's procedures to enroll nursing facilities and intermediate care facilities for the mentally retarded disclosed that the Department does not require these providers to certify that they are not debarred, suspended or excluded from Federal programs as a condition of enrollment in the Medicaid program.

Effect: The Department has lessened assurance that it is conducting business only with responsible persons.

Cause: The cause was not determined.

Recommendation: The Department should amend its nursing facility and intermediate care facility for the mentally retarded provider enrollment procedures by obtaining certifications from these provider types indicating that they are not debarred, suspended, or excluded from Federal programs when making application to enroll in the Medicaid program.

Agency Response: "The Department agrees with this finding. The Department has revised the Nursing Facility Enrollment Agreement effective December 2002. The revised agreement requires specific disclosures that will adequately protect the Department from enrolling, or continuing to enroll, a provider that has been debarred, suspended or excluded from a Federal program."

III.A.11. Allowable Costs - Targeted Case Management

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: 05-0205CT5028

Criteria: The payment rate for Targeted Case Management (TCM) services should be updated annually based on actual cost and statistical information from the previous cost year. (OMB Circular A-87 and State Regulations 17-134d-148 & 149)

Condition: The Department of Mental Health and Addiction Services (DMHAS) did not submit annual rate requests to the Department of Social Services to update the TCM cost rates for the fiscal years ended June 30, 2000, 2001 and 2002. The Department continued using the rate that had been established for TCM services for the fiscal year ended June 30, 1999.

Effect: The TCM cost rate was not updated to reflect current cost and statistical information.

Cause: Delays in rate settings were due to difficulties experienced by DMHAS in establishing a rate system that incorporated cost and statistical information from a recently implemented automated system into a format that was consistent with rate setting methodology.

Recommendation: The Targeted Case Management rate should be updated annually based on allowable costs and actual statistical information from the most recently completed cost year.

Agency Response: "The Department agrees with this finding. In October 2002, the Department of Mental Health provided cost schedules for Department staff and private agency case management services pertaining to 2000 and 2001. Based upon the cost and service volume data provided, the per diem case management rate would increase significantly. This increase warrants further review and verification before issuance of revised rates for SFY 2001 and forward. It is anticipated that the review and rate issuance processes will be completed by the end of SFY 2003."

III.A.12. Allowable Costs/Cost Principles - Third Party Liability (TPL)

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third party resources should be exhausted prior to paying claims with program funds. Where a third party liability (TPL) is established after the claim is paid, reimbursement from the third party should be sought. In reviewing the State's system, we found several weaknesses.

Criteria: The following requirements should be essential parts of a state's system:

1. Within 60 days, a state Medicaid agency must follow up on information identifying legally liable third party resources for incorporation into the recipient's case record and third party database and recovery unit (42 CFR 433.138). In addition, TPL information identified by outside sources that differs from information on Department records should be reviewed to determine the accuracy of the information, and, if

appropriate, be incorporated into the Medicaid agency's third party records.

2. A state Medicaid agency must take action to identify and follow up on those paid claims for Medicaid recipients that contain certain trauma-related diagnosis codes. Methods an agency uses to follow up on such claims must include a procedure for periodically identifying trauma codes that yield the highest third party collections and giving priority to following up on those codes (42 CFR 433.138).

3. A state Medicaid agency should make reasonable efforts to recover reimbursement from liable third parties prior to suspending or terminating collection efforts. Federal regulations require that:

   "(1) An agency must seek reimbursement from a liable third party on all claims for which it determines that the amount it reasonably expects to recover will be greater than the cost of recovery. Recovery efforts may be suspended or terminated only if they are not cost effective. (2) The state plan must specify the threshold amount or other guideline that the agency uses in determining whether to seek recovery of reimbursement from a liable third party, or describe the process by which the agency determines that seeking recovery of reimbursement would not be cost effective. (3) The state plan must also specify the dollar amount or period of time for which it will accumulate billings with respect to a particular liable third party in making the decision whether to seek recovery of reimbursement" (42 CFR 433.139(f)).

Condition: We found the following situations that relate to the aforementioned criteria:

1. Our review of the Department's process for following up on internally-identified liable third party resources disclosed that the Department was not consistently processing such information in a timely manner.

   Additionally, as part of our overall review of the TPL process, we noted that the Department still does not routinely perform formal reviews of Eligibility Management System (EMS) reports that indicate conflicts or discrepancies between TPL information identified by the contractor and information on the Department's records.

2. The Department's fiscal agent reviews all paid claims with trauma diagnosis codes. The fiscal agent refers each case to the Department for follow up action. No further action is taken by the Department to follow up on the referred trauma cases.

3. According to the State Plan, the Department "initiates recovery action in all cases when health insurance is discovered on a retroactive basis without regard to dollar amount." Upon identification and verification of retroactive recipient health insurance resources, the Department bills insurance carriers. A second billing is sent four months after the initial billing if no payments (or insurance carrier denials) were received. If there is no activity on the receivable for one year, the account receivable is automatically closed and no further action is taken. For the fiscal year ended June 30, 2002, 15,549 claims representing $2,571,278 in claims receivable were automatically closed without any explanation as to why they were closed.

Effect: The Department of Social Services (DSS) is not taking the necessary actions to maximize either the potential preemptive benefits of cost avoidance or the amount of Medicaid third party liability collections.

Cause: The Department had not established an effective monitoring routine for ensuring the timely processing of internally-identified liable third party resources. Additionally, the Department does not routinely review EMS exception reports due to staffing workloads.

The Department has not assigned the personnel to review the validated trauma-related cases.

The practice of closing account receivables after one year, based solely on age without considering if they are valid or can be collected, has been in existence for several years. The reasoning behind this practice predates current management.

Recommendation: Management should develop internal control systems to ensure compliance with Federal third party liability requirements and make reasonable efforts to recover reimbursement from liable third parties prior to suspending or terminating collection efforts.

Agency Response: "The Department agrees with this finding in part. The Department agrees that TPL accretions are not always processed in a timely manner. The volume of items on all EMS discrepancy reports is too large for staff to address within 60 days. Accordingly, staff work on items with the greatest chance of recovery and significant dollar amounts. The discrepancy reports are addressed as time allows.

The Department agrees that not all trauma cases referred by the fiscal agent is acted on. However, post review of the cases referred by the fiscal agent to the Department has not resulted in identification of significant numbers of cases unknown to the Department. The Department's most effective sources for identifying trauma cases are clients and providers. Clients self-report when they have a cause of action and DAS liens the client's settlement to recover paid medical services. Medical providers are required to notify the Department when they receive an inquiry from an attorney regarding an accident. These notifications are forwarded to DAS who liens the settlement. In addition, the Department is having a vendor develop a trauma case search protocol to improve the identification process.

The Department does not agree that receivables are closed inappropriately. Review of the report of auto- closed account receivables at the fiscal agent does not give an accurate picture of the Department's efforts at third party liability collections. A significant number of the auto-closed account receivables are not collectible. Of the balance, a significant number are collected and posted at the carrier level. Nevertheless, the Department has begun discussions to initiate contracting with a vendor to pursue all account receivables for medical recovery."

III.A.13. Allowable Costs/Cost Principles - Third Party Liability (TPL)

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: The Medicaid program is the payor of last resort. If a Medicaid client has applicable third party insurance coverage, the insurance benefits provided through these private insurers must be fully exhausted prior to claim submission to the Medicaid program. With respect to pharmacy services, all participating providers are required to submit payment claims to the Department's authorized fiscal agent through an electronic "paperless" system. This system will automatically cost avoid or deny any pharmacy claim where the Department has identified the existence of applicable third party insurance coverage. Any pharmacy can, however, override these system-generated denials, though the act of overriding is only appropriate under certain limited conditions.

Criteria: Pharmacies submitting electronic claims to the Department's fiscal agent on behalf of Medicaid clients are not required to submit any documentation received from private insurance carriers as part of the payment request process. Pharmacies are, however, required to retain Explanation of Benefits (EOB) documentation to demonstrate that an identified private insurer was billed and a denial or payment was actually received. (Connecticut Medical Assistance Program Pharmacy Provider Manual).

Condition: We performed a test involving ten judgmentally selected recipients who were identified from Eligibility Management System data as recipients who had private insurance. That test identified prescription claims that had been submitted via an override on behalf of two of the ten recipients. Our review of 12 claims submitted by two unrelated pharmacies related to these two recipients through the use of system overrides disclosed that, in all instances, the two involved pharmacies were not able to provide required EOB documentation. Said paid claims were submitted on behalf of two individual Medicaid clients and amounted to $934.

Effect: The Department has lessened assurance that pharmacy claims are being properly paid through the Medicaid program. As it remains unclear whether the Medicaid program was actually the payor of last resort in the above-referenced transactions, we have identified $934 in questioned costs. The $934 in questioned costs cannot be extrapolated to the population in any meaningful manner.

Cause: The involved pharmacies did not provide adequate supporting documentation upon request.

Recommendation: The Department should ensure that all participating pharmacies maintain and make available sufficient documentation to clearly demonstrate that the Medicaid program is the payor of last resort whenever cost avoidance safeguards have been overridden. Additionally, the Department should investigate more closely the details of the above-referenced transactions and seek recoupment of any such claims found to have been inappropriately paid under the Medicaid program.

Agency Response: "The Department agrees with this finding. The Department is considering the option of adding a TPL indicator to future pharmacy claims randomly selected for audit. The TPL indicator will prompt the auditor to review the records for appropriate denial from the third party payor. Lack of appropriate documentation would result in a disallowance of the paid claim and an extrapolation of the disallowance to the paid claim universe. However, prior to implementing this option, it is necessary to perform an in depth analysis of the potential impact on the pharmacy providers and the delineation of the responsibilities between the Audit Unit and TPL Unit."

III.A.14. Activities Allowed or Unallowed - Connecticut Home Care Program for Elders (CHCPE)

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: The Department administers the CHCPE through contracts with three access agencies to manage and coordinate client care throughout five regions of the State. These agencies conduct comprehensive assessments of all applicants, develop plans of care, and arrange for the provision of services by home care agencies to each individual. These agencies also monitor and coordinate individuals' services through care management.

Criteria: According to Section 17b-342-2 of the Regulations of Connecticut State Agencies, an access agency is required to make home visits to each of its clients, at least once every six months, to determine the appropriateness of the service plan and to assess any changes in the client's condition.

Condition: We reviewed three clients at each of five different access agencies for a number of different requirements. Our review of Medicaid client file documentation maintained by each of the access agencies disclosed that one access agency failed to perform the required six-month home visit for two of its three clients chosen for review.

Effect: With respect to its elderly clients residing within the South Western region of the State, the Department has lessened assurance that home care services provided to ensure the health and welfare of these individuals are both appropriate and adequate, and that such services are consistent with the nature and severity of each client's level of disability.

Cause: Although aware of the requirement for conducting the six-month home visit, one of the access agencies had not consistently performed such visits.

Recommendation: The Department should conduct a more thorough review of the referenced access agency's care management practices to determine what corrective action may be necessary to effect satisfactory compliance with CHCPE requirements.

Agency Response: "The Department agrees with this finding. The Connecticut Home Care Program has implemented a more thorough review of the Access Agency in the southwest region to assure that care management practices conform to the Connecticut Home Care Program regulations."

III.A.15. Eligibility – Determinations

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001and 2001-2002
Federal Award Numbers: G0101CTTANFand G0201CTTANF

Criteria: A family must meet the State's eligibility requirements as provided in the State Plan (42 USC 602). Section B Part III of the State Plan states that "Connecticut's objective criteria for delivery of benefits and determination of eligibility for Temporary Family Assistance (TFA) include standards of promptness for the determination of eligibility, periodic reviews of eligibility, standards of verification, determination of good cause for not complying with employment services requirements and treatment and limits on income and resources." These criteria are described in official State policies and regulations.

In accordance with Section 8520.40 D. of the Uniform Policy Manual (UPM), the Department requires verification of information when specifically required by Federal or State law or regulations, or when the Department considers it necessary to corroborate an assistance unit's statements pertaining to an essential factor of eligibility.

UPM Section 8520.35 states that when eligibility has been determined to no longer exist, the ending date of eligibility is the last day of the last month during which eligibility existed. Benefits paid to the assistance unit after the ending date of eligibility result in an overpayment and are subject to recoupment.

UPM Section 8540.30 requires that to be eligible for TANF a child must be living with a parent or a caretaker relative who is a blood relative of any degree, adoptive relative, or a spouse or former spouse of a blood relative.

Condition: Our review of a sample of 40 benefit payments, totaling $17,389, made on behalf of TANF recipients disclosed one instance totaling $546 in which the recipient exceeded the income limits and no overpayments were pursued. Our review also disclosed one instance totaling $814 in which benefits were not discontinued when the eligibility period expired. The second instance was not part of our original sample.

Our review also disclosed two instances totaling $845 in which there was inadequate source documentation in the casefile to verify the blood relationship between the head of household and the minor child.
The above transactions were randomly selected from a total of 322,483

payments totaling $127,991,311.

Effect: Overpayments occurred totaling $1,391 related to the sample payments tested and $814 that was not related to the sample payments tested. If determinations and/or re-determinations are not adequately performed by obtaining appropriate source documentation, the Department cannot ensure that recipient eligibility requirements are met.

Cause: The Department is not following established procedures.

Recommendation: The Department should follow procedures to ensure that benefit payments are discontinued when the period of eligibility expires and recoupments are pursued and should follow established procedures for obtaining required source documentation.

Agency Response: "The Department agrees in part with this finding. The Department agrees with the recommendation that staff follow existing procedures to assure that benefit payments are discontinued timely, recoupments are pursued, and proper verification is secured to establish factors of eligibility. The Department will follow-up with the specific staff involved in the cases where an overpayment was not pursued and relationship was not documented in the case record. However, the frequency of these findings is such that broader corrective action is not needed. In particular, the documentation of relationship has not been demonstrated to be an error prone issue in years of quality control findings based on statistically reliable samples.

Regarding the failure to discontinue a case in a timely manner, the Department disagrees with the auditors' finding. The client reported the change in income on January 22, 2002, and the worker discontinued the case effective February 28, 2002. Due to adverse action notice requirements this was the earliest possible date of discontinuance."

III.A.16. Eligibility – Law Enforcement Information

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2000-2001and 2001-2002
Federal Award Numbers: G0101CTTANFand G0201CTTANF

Criteria: 42 USC 608(a)(9)(A) requires that a state may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or who is violating a condition of probation or parole imposed under Federal or state law.

42 USC 608(a)(8) requires that a state may not use funds to provide cash assistance to an individual during the ten-year period that begins on the date that the individual is convicted in Federal or state court of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more States under TANF, Title XIX or the Food Stamp Act of 1977, or benefits in two or more States under the Supplemental Security Income program under Title XVI of the Social Security Act.

21 USC 862a requires that an individual convicted under Federal or state law or any offense which is classified as a felony and which involves the possession, use or distribution of a controlled substance (as defined by 21 USC 802(6)) is ineligible for assistance if the conviction was based on conduct occurring after August 22, 1996. However, a state may by law exempt individuals or limit the time period of this prohibition.

Section 17b-112d of the Connecticut General Statutes requires that a person convicted of an offense under 21 USC 862a shall be eligible for benefits if such person is satisfactorily serving a sentence or a period of probation or is in the process of completing or has completed a sentence imposed by a court of mandatory participation in a substance abuse treatment program or mandatory participation in a substance abuse testing program.

The Department requires each individual applying for assistance, during the application process, to sign a W-1129 Law Enforcement Information form indicating whether the individual, or any member of the household of the individual has been convicted of a Federal or State felony, has been convicted of a drug felony, is running to avoid prosecution or custody or confinement, or is violating a condition of parole or probation.

Condition: Our review of 40 TANF cases disclosed that 19 cases did not contain a W-1129 Law Enforcement Information form signed by the client. In addition, although the Department has policies in its Uniform Policy Manual regarding simultaneously receiving benefits in two or more States, the Department does not have procedures in place to document that recipients have met this requirement.

Effect: The Department cannot ensure that recipient eligibility requirements are met.

Cause: Regional office caseworkers failed to follow established procedures to ensure that all required forms were included in the case file. In addition, the Department does not have procedures in place to prevent issuing benefits to clients who have been convicted of simultaneously receiving benefits in two or more states.

Recommendation: The Department should follow established procedures for completing the W-1129 Law Enforcement Information form and should institute procedures to ensure that the requirements of 42 USC 608(a)(8) are met.

Agency Response: "The Department agrees with this finding. The Department has revised the comprehensive application form, the W-1E Eligibility Determination Document, so that it now incorporates the information on the W-1129. In addition, the Department will add the information to EMS so that the issue will be addressed during the interactive interview at application or redetermination. Furthermore, it will be included on the signature page produced during the interactive process.

Regarding the 42 USC 608(a)(8) requirement that clients that have been convicted of duplicate program participation be disqualified for ten years, the Department will instruct staff to inquire about such a conviction when contacting other states to verify discontinuance. The frequency with which this type of conviction occurs is very low and therefore does not justify any additional effort."

III.A.17. Financial Reporting/Allowable Costs/Matching – Maintenance of Effort

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2000-2001
Federal Award Number: G0101CTTANF

Criteria: 45 CFR Section 265.3 requires that each state must file quarterly expenditure data on the state's use of Federal TANF Funds, state TANF expenditures, and state expenditures of maintenance of effort (MOE) funds in separate state programs.

The instructions for the preparation of the ACF-196 require that all amounts reported must be actual expenditures or obligations made in accordance with all applicable statutes and regulations.

Condition: Our review of the TANF ACF-196 Financial Report for the quarter ended September 30, 2001, relative to the Federal fiscal year, submitted on September 12, 2002, disclosed the following errors.

- Expenditures totaling $2,804,849 for employment services child care were reported on line 6b (Expenditures on Non-Assistance – Child Care) and should have been reported on line 5b (Expenditures on Assistance – Child Care).

- Expenditures totaling $35,523,021 for the School Readiness program were reported on line 6b (Expenditures on Non-Assistance – Child Care) and should have been reported on line 6m (Expenditures on Non-Assistance – Other).

- Expenditures totaling $582,797 and $4,431,006 for the Transitionary Rental Assistance Program and Rental Assistance Program respectively, were reported on line 6m (Expenditures on Non-Assistance – Other) and should have been reported on line 5c (Expenditures on Assistance – Other Supportive Services). In addition, per the Department's supporting documentation for the Rental Assistance Program, the amount reported for the Rental Assistance Program should have been $2,332,613.

- Expenditures totaling $157,087 for the Children and Youth Development program were reported, but $90,013 should have been reported.

- The Department reported grant advances in the amount of $1,971,359 instead of actual expenditures for the Department of Mental Health and Addiction Services (DMHAS) Grants for Substance Abuse, Grants for Mental Health, Managed Service System, and Governor's Partnership. Although the Department reduced the amount claimed by ten percent, a reconciliation of the amount reported against actual expenditures was not performed as of November 2002. In addition, the $440,698 in grant advances for Grants for Substance Abuse reported on line 6h was not well-supported. The Department claimed expenditures for 16 service providers, but client data was available for only three providers. An average eligibility rate was determined based on the data for the three providers who submitted client data and applied to the other thirteen. It is not reasonable to determine an average eligibility rate from so few providers.

- The Department reported expenditures of $7,388,336 for the State Department of Education (SDE) Priority School Districts program. The Department matched grant payments with the projected spending plan for each priority school district. The Department identified the percentage of the grants that were going to be spent on services allowable under TANF and multiplied the grant payments by these percentages. The Department did not reconcile the amount claimed to the actual expenditures for the allowable categories of services to determine whether the Department's estimates were reasonable.

Effect: These circumstances indicate non-compliance with instructions for the ACF-196. In addition, total expenditures reported on the ACF-196 were overstated by at least $2,165,927, which represents questioned costs. These questions costs are made up of expenditures totaling $67,074 for the OPM Children and Youth Development Program, which were double-counted, and expenditures totaling $2,098,303 in reported Maintenance of Effort costs for the Rental Assistance Program, which were unsupported.

Cause: Numerous revisions were made to the ACF-196, which were not properly processed by the Department's automated reporting system. In addition, it does not appear that the claim was compared to the State Plan for determining placement of expenditures. Grant advances were not reconciled to actual expenditures because the Department has not received expenditure information from DMHAS. The Department of Education did not provide the DSS with actual expenditures by category of service for the priority school districts.

Recommendation: The Department should implement the necessary internal controls to ensure that TANF Federal financial reports contain complete and accurate information and should make necessary revisions to the ACF-196.

Agency Response: "The Department agrees, in part with this finding.

The Department agrees with the $2,804,849 adjustment concerning employment services child care. This adjustment was made for FFY 2002 on our December 27, 2002, submission of our TANF-196 report for the quarter ending September 30, 2002. We will continue to report this item in the future in accordance with this finding. Please note that this finding has no effect on our Federal claim amount.

The Department agrees with the $35,523,021 adjustment relative to the School Readiness Program. This adjustment was made for FFY 2002 on our December 2002 submission of our TANF-196 report for the quarter ending September 30, 2002. We will continue to report this item in the future in accordance with this finding. Please note that this finding has no effect on our Federal claim amount.

The Department agrees the $582,797 and $4,431,006 adjustments to the rental programs. The adjustment for posting to the improper line was made for FFY 2002 on our December 27, 2002, submission of our TANF-196 report for the quarter ending September 30, 2002. We will continue to report this item in the future in accordance with this finding. Please note that this portion of the finding has no effect on our Federal claim amount. In addition, the adjustment for the incorrect amount for Rental Assistance was corrected in the quarter ending September 2001 report filed December 27, 2002.

The Department agrees with the adjustment for the Children and Youth Development Program. This adjustment was made on our December 27, 2002, submission of our TANF-196 report for the quarter ending September 30, 2001.

The Department agrees with the reported DMHAS finding in part. DMHAS allows contractors six months after the close of the State Fiscal Year to reconcile expenditures. The Department is waiting for this reconciliation and will revise the expenditures to actual amounts when the data becomes available.

Regarding the average eligibility rate applied to the thirteen providers, the Department believes that the methodology applied is reasonable. Although the TANF eligibility rate of three providers is used to arrive at an average TANF eligibility rate for thirteen other providers, these three providers comprise close to 20 percent of the total grant payments for all sixteen providers. Furthermore, staff at DMHAS has reported to us that the client populations in all sixteen provider programs are fairly similar in that all of the programs target low-income clients with substance abuse issues. Therefore, the financial situation of the clients at the three programs is representative of the clients at the other thirteen programs.

The Department disagrees with the $7,388,336 adjustment relative to the Priority School Districts program. The Department revised the grant expenditures to actual expenditures for the Priority School Districts and filed this revision with the quarter ending March 31, 2002, report. SDE provided a final reconciliation which was incorporated into that report."

Auditors' Concluding Comment:

The actual expenditures for the Priority School Districts were used in the report; however, the individual TANF allowable category amounts used are calculated based on the percentage rate determined from the Connecticut State Department of Education projected spending plan. Without information on actual expenditure amounts for the allowable categories, it cannot be determined if these calculated amounts are reasonable.

III.A.18 Performance Reporting

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2000-2001
Federal Award Number: G0101CTTANF

Criteria: 45 CFR Section 265.3 requires that each state must collect on a monthly basis, and file on a quarterly basis, the data specified in the TANF Data Report. Each state must file disaggregated information on families receiving TANF assistance in section one of the report. This section specifies identifying demographic data and information such as the type and amount of assistance received, educational level, employment status, work participation activities, earned and unearned income. Each state must file disaggregated information on families no longer receiving TANF assistance in section two of the report. This section specifies the reasons for case closure and data similar to the data in section one. Each state must file aggregated information on families receiving, applying for, and no longer receiving TANF assistance in section three of the report. This section of the report requires aggregated figures in such areas as the number of applications and their disposition, the number of recipient families, adult recipients, child recipients, the number of births and out-of-wedlock births for families receiving TANF assistance.

45 CFR Section 265.3 requires that if a state claims maintenance of effort (MOE) expenditures under a separate State program(s) (SSP) it must collect and file disaggregated and aggregated data on families receiving assistance and families no longer receiving assistance under the separate State program(s) if (1) the State wishes to receive a high performance bonus or; (2) a State wishes to qualify for caseload reduction credit. The State must file disaggregated and aggregated data similar to that of the TANF Data Report.

Condition: Our review of the TANF Data Report for the quarter ended September 30, 2001, disclosed numerous errors, omissions and/or discrepancies in data elements such as reporting the educational level of child recipients, the number of countable months remaining under the State's time limit, the number of months countable toward the Federal time limit, employment status, amount of earned income, and the total number of family members. During the audit period the Department made changes to its Eligibility Management System (EMS) to track the education level of recipients, the number of countable months remaining under the State's time limit, and the number of months countable toward the Federal time limit, but as of July 2002, these changes have not been used in the preparation of the TANF Data Report.

Our review of the SSP-MOE Data Report for the quarter ended September

30, 2001, disclosed numerous omissions in the data reported for the Safety Net and Transitionary Rental Assistance Programs. Our review also disclosed errors in data elements such as the education level of child recipients, the number of members in the assistance unit, and the amount of Food Stamps assistance.

Effect: Failure to comply with Federal regulations may result in the State being penalized in accordance with 45 CFR Section 265.8. The State might not qualify for a high performance bonus or caseload reduction credit.

Cause: The Department has not revised its Federal file data crosswalk used to translate EMS codes into the required Federal format to include the changes that were made to EMS. The Department's subcontractors did not track and provide the Department with all of the required information for the SSP-MOE Data Report.

Recommendation: The Department should institute procedures to ensure that all of the required data is tracked and reported in accordance with Federal instructions when preparing the TANF Data Report and SSP-MOE Data Report.

Agency Response: "The Department agrees with this finding. The Department has made a number of changes since the date of the auditors' sample (quarter ended September 30, 2001) to improve the TANF sample selection and data extraction process on EMS. The changes relative to the TANF dates include:

1. Improved data on the education level of children – this was implemented in May 2002 in the EMS eligibility screens, but there will be a time lag before the information is complete, since workers are allowed to enter the data at the next redetermination. This data should be updated by May 2003.
2. Improved data on the number of countable months toward the State and Federal time limits – these changes to the data cross-walk process were implemented in September 2002.
3. Improved data on earned income and employment status – an automated routine to match the FTDRS sample files against the CMIS files at the Labor Department (completed in November 2002). DOL administers the employment and training component of TANF policy, and has frequent contact with the clients relative to employment. For that reason, the routine gives preference to CMIS data over EMS data for these items. The first two quarters of TANF for FFY02 were processed against the CMIS files and re-transmitted to HHS. The remaining data will be processed within the next six weeks.

There is another set of changes in final testing that will be implemented for the sample month of January 2003 to reflect the shift of certain exempt cases to SSP. Included in this is a correction to the number of family members.

The data for the non-EMS portion of the SSP report are more problematic since they involve files from outside contractors. The Department has been working with the contractors to improve their data collection efforts. EMS will be used to supplement the data from the contractors.

As a general approach, incorrect data fields in all strata are revised and the cases are retransmitted to HHS prior to the final deadline for the Federal fiscal year."

III.A.19. Special Tests and Provisions – Child Support Non-Cooperation

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G0101CTTANF and G0201CTTANF

Background: The Bureau of Child Support Enforcement issues Form "F0024S, IV-A Sanction Notice" (F0024S) to initiate sanctions when a determination of child support non-cooperation is made after benefits have been granted on behalf of an eligible recipient. The F0024S is also used to notify the Title IV-A eligibility worker that a formerly uncooperative recipient has satisfied the cooperation requirement. The sanction notices sampled for our review were selected from all the F0024S notices issued during our audit period. It should be noted that we were unable to specifically identify the universe of notices related to initiating Title IV-A sanctions or the dollar amount associated with the sanction notices for the following reasons. First, the F0024S is used to give notice of both non-cooperation and cooperation. Secondly, the mere issuance of a sanction notice does not ensure that a reduction or disallowance of benefits should or will occur.

Criteria: 42 USC Section 608 (a)(2) states that if the State agency responsible for administering the State plan approved under part D of this subchapter determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, the State agency (A) shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance, and (B) may deny the family any assistance under the State program. The Department of Social Services' Uniform Policy Manual (UPM) in section 8540.65, effective July 1, 1997, requires that, if an individual does not cooperate with the establishment of paternity and the securing of child support without good cause, the entire assistance unit is ineligible.

Condition: Our review of ten randomly selected F0024S IV-A Sanction Notices revealed two instances in which the caseworkers failed to comply with the penalty requirement for child support non-cooperation as set forth in the UPM, effective July 1, 1997. In addition, we noted that in these two instances there was no evidence that the IV-A Sanction Notice was received by the regional caseworker.

Our review also disclosed one instance in which the caseworker did not initiate the penalty process, and there was no evidence in the casefile that the regional caseworker was notified when the client began cooperating via a F0024S IV-A Sanction Notice. A penalty was not required in this case.

Effect: We question costs of $1,814 which represents benefit payments made to recipients who at the time were not cooperating with child support requirements and therefore were not eligible. If the State fails to comply with paternity establishment and child support enforcement requirements, the Federal government may reduce the TANF grant payable to the State for the immediate succeeding fiscal year by not more than five percent.

Cause: For some unknown reason regional office caseworkers continue not to comply with the requirements of Section 8540.65 of the UPM, effective July 1, 1997.

Recommendation: The DSS should ensure that all regional office staff are aware of, and comply with, the penalty requirements for non-cooperation with child support efforts as set forth in the Uniform Policy Manual.

Agency Response: "The Department agrees with the finding. Both questioned cases were found in the New Haven office and appear to be related to a breakdown in communication between child support and eligibility staff in that office, rather than a statewide systemic problem. The Department will investigate the cause of this communication breakdown and take any necessary corrective action. The other case involved a failure to document the eligibility record of the client's cooperation with child support requirements and the necessary corrective action has been taken."

III.A.20. Special Tests and Provisions – Penalty for Refusal to Work

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: G0201CTTANF

Criteria: 45 CFR Section 261.14 requires that if an individual refuses to engage in work, the State must reduce or terminate the amount of assistance payable to the family subject to any good cause or other exceptions the State may establish.

Section 8540.22 of the DSS' Uniform Policy Manual (UPM) requires that a mandatory employment services participant must appear for all scheduled assessment appointments or interviews related to the establishment of an employment plan. The penalty for failing to appear without good cause for any appointment or interview related to the establishment of an employment plan is ineligibility of the entire assistance unit.

Condition: Our review of 12 TANF recipients who were not working during the benefit month selected in our sample revealed that benefits were not discontinued in a timely manner for one case in which the client failed to participate in a service needs assessment.

Effect: Benefits totaling $443 were overpaid to the client who did not comply with work activities. The $443 of overpayments cannot be extrapolated to the population in any meaningful manner because of the way in which this sample had to be chosen and because of the variations in possible penalty amounts. If the State fails to impose penalties against individuals, the State may be penalized by an amount between one and five percent of the grant for the fiscal year that immediately follows the Federal final determination of the penalty amount.

Cause: It appears that more guidance and training may be needed to help case workers at the Department of Social Services reach appropriate decisions regarding work activities.

Recommendation: The Department of Social Services should follow established procedures for penalizing recipients for non-compliance with work activities.

Agency Response: "The Department agrees in part with this finding. An error was made in the one cited case, but this is not a systemic problem requiring statewide corrective action. The Department's Family Support Unit staff has been conducting periodic briefings of regional eligibility staff on recent TFA policy changes, including the disqualification of clients who fail to appear for interviews relative to the development of their Jobs First employment plan.

These briefings will continue to be provided at the request of regional management. The Department has been closing approximately 200 cases each month for this reason, indicating substantial compliance with the provision. We do not believe that further corrective action is needed."

III.A.21. Special Tests and Provisions - Controls Over Income and Eligibility Verification System

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2000-2001and 2001-2002
Federal Award Numbers: G0101CTTANFand G0201CTTANF

Criteria: In January 2001, the Federal Office of Family Assistance (OFA) posted Questions and Answers on TANF policy. One of the questions was "Does [the] IEVS requirement apply to any applicant or recipient receiving benefits under the TANF program or does it apply only if someone receives 'assistance'?" OFA's response was as follows: "The IEVS requirement applies to any applicant or recipient receiving benefits under the TANF program where income or citizenship and alienage are a condition of eligibility. Section 1137(a)(1) of the Social Security Act specifies that 'the State shall require, as a condition of eligibility for benefits under [TANF], that each applicant for or recipient of benefits under that program furnish to the State his social security account number (or numbers, if he has more than one number) and the State shall utilize such account numbers in the administration of that program so as to enable the association of the records pertaining to the applicant or recipient with account number.' Thus the requirements apply to all benefits, not just 'assistance'."

Condition: Our review of the Income and Eligibility Verification System (IEVS) data matching process disclosed that the Department does not have procedures in place to include various non-assistance services claimed under the TANF program.

Effect: The U.S. Department of Health and Human Services (HHS) may reduce the grant payable to the State for the immediately succeeding fiscal year by an amount equal to not more than two percent of the State family assistance grant.

Cause: Until the OFA Question and Answer in January 2001, the Department had considered it unnecessary to have the clients of non-assistance services be subjected to the IEVS process. In November 2001 the Department requested from HHS a waiver from the IEVS requirements for non assistance services. In February 2002 the Department was notified by HHS that they were unable to grant Connecticut a waiver. The Department has not established IEVS procedures for non-assistance programs due to the wide array of TANF services that are provided by various State agencies.

Recommendation: The Department should institute procedures to ensure that the IEVS matches are performed for all required services and benefits under the TANF program.

Agency Response: "The Department agrees with this finding. Current TANF law requires IEVS matches for all recipients of TANF benefits, whether the benefit is assistance or a service. The Department performs all required IEVS matches for recipients of TANF assistance under the Temporary Family Assistance Program. We are not performing matches for recipients of TANF services for the reasons cited in the finding.

We have also been informed that there is agreement in Congress and by the administration to amend the Federal statute as part of TANF reauthorization to make it clear that the TANF IEVS provision only applies to assistance applicants and recipients. Since reauthorization will likely occur during the next few months the Department does not believe it is a prudent use of limited State resources to develop the complex mechanisms to perform such matches for the service programs, mechanisms which will likely become obsolete in short order. At this time we intend to postpone any action to address this finding until the TANF reauthorization legislation is enacted this year."

III.A.22. Allowable Costs – Costs Claimed Under Two Federal Programs

Temporary Assistance to Needy Families (TANF) (#93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G0101CTTANF and G0201CTTANF

Background: Per Section 100 of Title 45 Code of Federal Regulations (CFR) Part 205, the Department of Social Services (DSS) has been designated Connecticut's single State agency to administer TANF.

Section 11 of Title 45 CFR Part 263 provides that the State may use Federal TANF funds for expenditures for which the State was authorized to use Title IV-A (Social Security Act) funds under prior law, as in effect on September 30, 1995. Further, the preamble to the TANF final rule, at 62 FR 17839, interprets the covered activities to be those that were included in the State's approved State Aid to Families with Dependent Children (AFDC) Plan as of September 30, 1995.

The IV-A State Plan (TN# 94-AFDC-6) that was in effect as of September 30, 1995, authorized the State of Connecticut to provide Emergency Assistance (EA) to needy families with children. This IV-A Plan states that EA includes payment for protective services to eligible children, including payment for services to other eligible household members necessary to deal with the emergency that caused the need for protective services. Protective services are those services identified by the Department of Children and Families (DCF) as being necessary to meet the needs of the child. This service is limited to 12 consecutive months.

During the State fiscal year ended June 30, 2002, DSS claimed for Federal reimbursement expenditures incurred by DCF on behalf of supporting the EA program that was in effect as of September 30, 1995. Included in the DCF expenditures that were claimed for Federal reimbursement by DSS was \$8,711,881 for foster care board and care payments paid to foster homes or residential facilities during the period October 1, 2000, to June 30, 2002. These payments were for the cost of children placed in DCF's care between the fifth through twelfth months of foster care placement.

These claims for Federal reimbursement were for out of home placement expenditures made by DCF that were not otherwise eligible for the Foster Care-Title IV-E program. DCF performs the Foster Care-Title IV-E eligibility determinations for children placed in foster care. The initial Foster Care-Title IV-E eligibility determinations may subsequently be adjusted based on new information reviewed during DCF's annual eligibility redeterminations. Hence, children initially determined not to be eligible under the Foster Care-Title IV-E program can subsequently be determined to be eligible for Title IV-E.

Criteria: Paragraph C of the Federal Office of Management and Budget (OMB) Circular A-87 lists factors affecting the allowability of costs. This paragraph indicates that to be allowable under Federal awards, costs must not be included as a cost of any other Federal award in the current or prior period.

Condition: We reviewed the documentation provided to us that supports the DCF expenditures claimed for Federal reimbursement by DSS under the TANF program. These expenditures were reported on the Federal fiscal years 2000-2001 and 2001-2002 TANF ACF-196 Financial Reports submitted on September 12, 2002, and September 17, 2002, respectively. For our audit tests, we selected the board and care payments claimed by DSS under the EA program that were expended by DCF during the period October 1, 2000, to December 31, 2001. The total amount claimed for this period was $7,864,441.

Our sample represented 13 board and care payments totaling $21,943 made on behalf of five children. Our test disclosed two payments totaling $1,046 made on behalf of one child that were claimed for Federal reimbursement under two Federal programs; Foster Care-Title IV-E and TANF.

Effect: As a result of our testing of a random sample of transactions, we found that the DSS's TANF claims included $1,046 in expenditures that we questioned as unallowable because these expenditures were also claimed under the Foster Care-Title IV-E program.

Cause: The Department of Social Services did not adjust the TANF claim to reflect retroactive adjustments to the Foster Care-Title IV-E eligibility made by DCF.

Recommendation: The Department of Social Services should adjust the TANF claim for the costs made on behalf of foster care children who are also being claimed under the Foster Care-Title IV-E program.

Agency Response: "The Department agrees with this finding. The $1,046 of questioned costs will be credited from the TANF claim for the quarter ended March 31, 2001. In addition, procedures will be developed to prevent this from occurring in the future."

III.A.23. Reporting

Temporary Assistance to Needy Families (TANF) (#93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: G0201CTTANF

Background: Per Section 100 of Title 45 Code of Federal Regulations (CFR) Part 205, the Department of Social Services (DSS) has been designated Connecticut's single State agency to administer TANF.

As part of the Department of Children and Families' (DCF) operations, DSS claimed for Federal reimbursement under TANF expenditures for case management services and investigative services incurred by DCF. The case management and investigation expenditures incurred by DCF were allocated to TANF in accordance with benefits received, as specified in DCF's

Federally approved Cost Allocation Plan (CAP).

These case management and investigation expenditures were included on Line 6j "Administration," Line 6l "Non-Assistance Authorized Under Prior Law," and Line 6m "Other" of the TANF ACF-196 Financial Reports. We reviewed the documentation used to accumulate the DCF expenditures incurred during the quarters ended September 30, 2001, and March 31, 2002, on behalf of TANF. Our review of the reports prepared for the Federal fiscal years ended September 30, 2001 and 2002, that were submitted on September 12, 2002, and September 17, 2002, respectively, to the Department of Health and Human Services (DHHS) disclosed errors in the amounts reported.

Criteria: The State must file quarterly expenditure data on the State's use of Federal TANF funds, State TANF expenditures, and State expenditures of maintenance of effort funds in separate State programs. This information is required to be reported on the *TANF Financial Report*. (45 CFR section 265.3(c))

Condition: Our review disclosed that the procedures used by DSS to report the expenditures incurred by DCF on the TANF ACF-196 Financial Reports do not provide reasonable assurance that the amounts reported are correct. Further, because these reports are used as the basis for claiming Federal reimbursement for expenditures incurred on behalf of administering the TANF program, the procedures used by DSS do not provide reasonable assurance that the DCF expenditures claimed for Federal reimbursement are appropriate. Our review disclosed improper amounts reported on Lines 6j, 6l and 6m of the TANF ACF-196 Financial Reports submitted for the Federal fiscal years ended September 30, 2001 and 2002, as follows were calculated inconsistently.

- DSS used DCF CAP allocation statistics that were inconsistent between reporting periods to report the expenditure amounts on Lines 6j, 6l and 6m of the TANF ACF-196 for the costs incurred by DCF during the quarter ended September 30, 2001. The costs reported on Line 6j were based on the quarter ended <u>March 31, 2002</u>, DCF CAP allocation statistics; however, the costs reported on Lines 6l and 6m were based on the quarter ended <u>September 30, 2001</u>, DCF CAP allocation statistics. The use of different DCF CAP allocation statistics to calculate DCF expenditures incurred on behalf of TANF resulted in the reporting of inconsistent expenditure amounts on Lines 6j, 6l and 6m of the TANF ACF-196 report that was submitted for the Federal fiscal year ended September 30, 2001, on September 12, 2002.

- DSS did not record the correct DCF expenditure amount on the DSS worksheet used to calculate the amounts reported on Lines 6l and 6m, which indirectly affected Line 6j of the TANF ACF-196. The amount recorded on the DSS worksheet used to calculate the DCF expenditures incurred for the quarter ended March 31, 2002, was $17,460,290. However, the amount that should have been recorded on the DSS worksheet was $14,893,087. The error recorded on the worksheet resulted in the expenditure amounts reported on Lines 6j, 6l and 6m of the TANF ACF-196 that was submitted for the Federal fiscal year ended September 30, 2002, to be incorrect.

- DSS improperly reported on Line 6m "Other" of the TANF ACF-196 Financial Report administration costs related to DCF investigations that were incurred during the quarter ended March 31, 2002. These costs should have been reported on Line 6j "Administration" of the TANF ACF-196 Financial Report that was submitted for the Federal fiscal year ended September 30, 2002.

- DSS does not adjust the TANF ACF-196 Financial Reports for the final DCF CAP allocation statistics used to allocate costs to TANF. DCF adjusts its initial CAP allocation statistics quarterly, for the subsequent seven quarters, as a result of changes to the Foster Care-Title IV-E eligibility determinations of foster care children. The changes are based on new information reviewed by DCF during its annual eligibility redeterminations. Even though DCF does appropriately adjust its allocation statistics, DSS does not adjust the TANF ACF-196 Financial Report for the final DCF allocation statistics. Therefore, erroneous expenditure amounts would be reported on Lines 6j, 6l and 6m of the TANF ACF-196.

Effect: The internal controls do not provide reasonable assurance that the amounts reported on the TANF ACF-196 Financial Reports are correct and are for expenditures that should be reimbursed under TANF. However, the errors noted in our audit did not result in questioned costs. This is because DSS does make an overall adjustment to reduce its claim for Federal reimbursement.

Cause: Part of the condition apparently resulted from administrative oversight by DSS and part of the condition was because DSS does not have procedures in place to adjust the TANF ACF-196 for the final DCF allocations statistics.

Recommendation: The Department of Social Services should develop procedures that would assure that the proper expenditure amounts are being reported on the TANF ACF-196 Financial Report.

Agency Response: "The Department agrees in part with this finding.

The Department agrees that different allocation statistics were used in the 9/30/01 quarterly report. The Department began the retroactive adjustment of prior quarters during the quarter ending March 31, 2002. Cost Allocation tables provided by DCF stated that the only changes were to Total Admin sheets and no changes were made to the Cost Pool sheets. These changes were only applied to the Administrative portion of the claim thus underreporting the amount claimable to TANF. This will be corrected in the next filing of the ACF-196.

The Department agrees that it did not record the correct DCF expenditure amount on the DSS worksheet used to calculate the amounts reported on Lines 6l and 6m of the ACF-196. We will correct the amount reported with the next filing of the ACF-196.

The Department agrees that it improperly reported "Other" administration costs incurred during the Quarter ending 3/31/02. The Department will adjust its claiming methodology. It is anticipated that the adjustment will be made in time for the claim submission for the quarter ending March 31, 2003.

The Department does not agree that it must adjust TANF reports for the final DCF CAP allocation statistics. To account for retroactive changes in Title IV-E eligibility, the Department applies a 10 percent adjustment factor to the potential claim amounts. This function is performed each quarter for the claim submitted for the prior quarter. Our research has shown that this 10 percent adjustment factor more than accounts for the retroactive adjustments to IV-E. Additionally, the Department retroactively adjusts the TANF Financial report once per year in the December filing quarter for the previous fiscal year. This allows DCF ample time to change the eligibility determinations of the children in its care. When these annual retroactive changes are applied, the Department still takes a 5% adjustment to cover any problems in coding.

The Department filed retroactive changes in the quarter ending March 31, 2002 report for costs for FFY 2001. Going forward, we intend to file retroactive changes once per year for the previous fiscal year."

III.A.24. Allowable Costs/Cost Principles – Improper Allocation of Costs

Temporary Assistance to Needy Families (TANF) (#93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G0101CTTANF and G0201CTTANF

Background: During the State fiscal year ended June 30, 2002, the Department of Social Services (DSS) claimed for Federal reimbursement expenditures incurred by the Department of Children and Families (DCF) in support of administering the Temporary Assistance for Needy Families (TANF). The administrative costs incurred by DCF are allocated to TANF as specified in the DCF Cost Allocation Plan (CAP).

The DCF CAP includes programmatic cost pools (e.g., Children Services Administration, IV-E administration, etc.) to facilitate equitable distribution of expenses to the cost objectives served. The costs included in the programmatic cost pools are subsequently allocated to Federal and State programs in accordance with the approved CAP formulas. The formulas are based on the results of the Random Moment Time Study (RMTS) and a proportion of foster care and adopted children. The RMTS generates statistically valid Department-wide estimates of the distribution of the DCF staff time among various activities or programs.

DSS splits out the costs allocated to TANF between TANF Purpose 1 and Emergency Assistance (EA). This split is based on the RMTS codes that cover activities that support either TANF Purpose 1 or EA. Per the DCF CAP, RMTS Code F "Training" should be used when the DCF staff member is engaged in, or preparing for training, whether as a trainer of other agency staff or as a trainee, provided the subject of the training is related to the development of skills utilized in the Department's program for children and families. Code F "Training" should only be used for the training of employees, not the training of foster care providers. Costs claimed under EA are for those costs incurred on behalf of children placed in foster care and costs claimed under TANF Purpose 1 are attributable to children who remain in their own homes.

Our review disclosed that the costs attributable to RMTS Code F were not allocated to all the benefiting programs.

Criteria: The Federal Office of Management and Budget (OMB) Circular A-87 provides that all administrative costs (direct and indirect) of State public assistance agencies are normally charged to Federal awards by implementing a public assistance cost allocation plan. Further, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Condition: We reviewed the methodology used by DSS to distribute costs incurred by DCF between TANF Purpose 1 and EA.

We noted that DSS distributes all the costs related to RMTS Code F "Training" to TANF Purpose 1 (in-home services). However, costs related to RMTS Code F were also incurred on behalf of children who were provided Emergency Assistance (out-of-home foster care services). Therefore, DSS should have distributed the costs related to RMTS Code F between TANF Purpose 1 and EA. We noted that the costs distributed to EA would be claimed under the TANF program at a percentage rate that is approximately 35 percent lower than the costs distributed to TANF Purpose 1. Therefore, distributing some of the RMTS F costs to EA would result in DSS decreasing its claim for Federal reimbursement under the TANF program.

Effect: DSS is claiming for Federal reimbursement under TANF costs that are not allowable at the percentage being claimed. We did not determine the potential questioned costs because we could not determine the appropriate distribution of the costs attributable to RMTS Code F.

Cause: DSS did not realize that the costs attributable to RMTS Code F "Training" were also targeted to children who were in foster care (Emergency Assistance).

Recommendation: The Department of Social Services should distribute some of the Department of Children and Families' costs that are attributable to the Random Moment Time Study Code F "Training" to Emergency Assistance to ensure that the proper costs are being claimed for Federal reimbursement under the Temporary Assistance for Needy Families program.

Agency Response: "The Department agrees with this finding. Effective for the December 2002 quarter, the Department has implemented procedures to split expenditures attributed to RMTS code F training costs between in-home and out-of-home clients."

III.A.25. Subrecipient Monitoring

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-010CTCOSR, G-0201CTSOSR and G-0101CTSOS2
Temporary Assistance to Needy Families (TANF) (CFDA #93.558)

Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CTTANF and G-0201CTTANF

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA #93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001,and 2001-2002
Federal Award Numbers: G0101CTCCDF, and G0201CTCCDF

Criteria: Title 45 CFR 92.26, which applies to the Temporary Assistance to Needy Families, the Child Care and Development Block Grant and the Child Care Mandatory and Matching Funds of the CCDF, and Title 45 CFR 96.31, which applies to the Social Services Block Grant, provides that grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 and revised Office of Management and Budget (OMB) Circular A-133 and that States and local governments shall determine whether subgrantees spent Federal assistance funds provided in accordance with applicable laws and regulations.

OMB Circular No. A-133 Audits of States, Local Governments, and Non-Profit Organizations, Subpart D - Section 400 (d) states that a pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is Research and Development (R&D), and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: Our review of contracts for expenditures that were claimed either as Federal SSBG funds, TANF funds, TANF maintenance of effort, or TANF and CCDF maintenance of effort disclosed that the DSS did not identify to the subrecipient, the Federal award information, including the CFDA title and number, award name and number, name of Federal agency, and award year, for twenty-six (26) out of the thirty-one (31) contracts within our sample.

Our review of twenty-one (21) SSBG contracts disclosed that the status or monitoring reports, required by the contract, were not received or could not be found for seven (7) of the subrecipients. Reports from eleven (11) subrecipients were not submitted to the agency within the time allotted by the provisions of the contract. Also, the audit reports of four (4) subrecipients were not received or could not be found.

Our audit also disclosed that the Department of Children and Families (DCF) is not informing its subrecipients that some of the funds provided to them are Federal funds awarded under TANF. Further, the contracts between the DCF and its subrecipients do not include provisions that advise the subrecipients of the Federal requirements imposed on them. Also, the subrecipients are not providing audits to the DCF in accordance with OMB Circular A-133.

Effect: The contracts are not in compliance with OMB Circular A-133. The Department cannot ensure that Federal funds are used for allowable activities.

The subrecipients are not in compliance with the provisions of their contracts. Accurate reports were not prepared regularly or in a timely manner.

Cause: The Department does not have procedures in place to include the Federal award information in the contracts for which Federal funds are provided.

The subrecipients either failed to submit the required reports or failed to submit them within the time frame allotted by the provisions of the contract.

The Department of Children and Families Contracts Unit was not aware that the funds awarded to the subrecipient were subsequently claimed for Federal reimbursement by the Department of Social Services under TANF.

Recommendation: The Department should implement procedures to ensure that subrecipients, including those that will be claimed under TANF at the Department of Children and Families, are properly monitored and to comply with OMB Circular A-133, Subpart D - Section 400 (d), concerning its responsibilities as a pass-through entity.

Agency Response: "The Department agrees with this finding. The Department will take steps to ensure that all subrecipients of TANF funds (including SSBG, and TANF maintenance of effort, or TANF and CCDF maintenance of effort) are notified of the required Federal award information.

Concerning the finding that DCF is not informing its subrecipients that some of the funds provided to them are Federal funds. This is not completely accurate since all of the providers have been extensively trained on TANF eligibility determination procedures and are fully aware that their programs are funded in part with TANF funds. The Department's contractor has provided in-depth training to all of the provider programs on how to complete required TANF forms and how to submit the required data to DCF. These training sessions occurred in November 2000 and December 2001. In addition DCF has provided several follow-up training sessions. Nevertheless, the Department will notify DCF that they should ensure that they identify in the contract when some of the funds provided are being claimed under the TANF program.

Concerning the finding that the subrecipients are not providing audits to DCF in accordance with OMB Circular A-133, this item should be addressed when future contracts identify the amount of Federal funds included in the grant. In addition, the Department will notify DCF that specific language should be included in contracts specifying the audit requirements and that monitoring of compliance should be performed."

III.A.26. Special Tests and Provisions – Electronic Benefits Transfers

Food Stamp Program (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: 4CT400400

Temporary Assistance for Needy Families Program (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: G0201CTTANF

Background: The Department of Social Services entered into a contract with Citibank to issue State and Federal benefits through the Electronic Benefits Transfer (EBT) system. The EBT system is the electronic transfer of government benefit funds to individuals through the use of card technology and Automated Teller Machines (ATMs) and Point of Service (POS) terminals.

Criteria: Federal Regulation 7 CFR 274.11(c)(v) requires that a state agency provide, at the minimum, security and control procedures for the subsequent control records maintained through the point of issuance or use for all accountable documents (i.e., EBT Connect Cards.)

Federal Regulation 7 CFR 274.12(h)(3)(v)(H) mandates the availability of a complete audit trail that, at a minimum, must be able to provide a complete transaction history of each individual system activity that affects an account balance and shall include the tracking of issuances from system file updates.

Condition: Our review of the internal control for the issuance of, and security for, Emergency EBT Connect Cards revealed the following:

- The Eligibility Management System (EMS) did not reflect the issuance of four of the 35 (11 percent) emergency replacement cards issued in June 2002.

The Department's Office of Quality Assurance issued an August 2001 audit report on the Department's controls over *Card Activation and the Personal Identification Number (PIN) Selection (CAPS)* equipment. Unresolved findings identified by it are as follows:

- Controls were lacking for the physical security and record-keeping procedures for the receiving, logging and delivery of EBT cards and for the separation of duties within the process in all the regional offices.
- Departmental workers were sharing their CAPS user identifications and passwords.

Effect: EBT benefits may be accessed and used without the proper authorization.

Cause: Established procedures were not followed for the issuances of emergency replacement cards. EMS was not automatically updated when emergency replacement cards were issued.

The Office of Quality Assurance noted control deficiencies involving the lack of established physical security and record-keeping procedures for receiving, logging and delivery of the EBT cards and the lack of segregation of duties.

Recommendation: The Department should follow established procedures for the control over Emergency EBT Connect Cards and should implement the unresolved recommendations made by the Department's Office of Quality Assurance in its report on EBT Card-Related Services.

Agency Response: "The Department agrees with this finding. The Department's new internal control procedures were implemented in October 2002 and the auditors' tests were conducted in June 2002 which would account for the deficiency finding."

III.A.27. Special Tests and Provisions - Controls Over Income and Eligibility Verification System

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: 05-0205CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: G0201CTTANF

Food Stamp Program (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: 1F9402400

Criteria: Federal Regulation 42 CFR 435.948 requires that the Agency request information and verify Medicaid eligibility. 42 USC Section 1320b-7 requires that each state have in effect an Income and Eligibility Verification System (IEVS) for the Medicaid, Food Stamp and TANF Programs. The IEVS provides for matches involving the Department of Labor (DOL) wage information, Social Security wage and earning files, and Internal Revenue Services (IRS) unearned income files.

Condition: Although the Department has taken steps toward corrective action, our review of three alert codes displayed on the Agency's Eligibility Management System (EMS) between October 1, 2001, and December 31, 2001, disclosed problems. We found that no alerts were dispositioned (investigated, resolved and removed as appropriate) prior to their due dates, and as of May 8, 2002, 7,369 of 7,955 total alerts for the TANF, Food Stamps and Medicaid Programs had not been dispositioned. In addition our review of twenty alerts that were dispositioned disclosed that three alerts were not properly investigated, updates were not made to EMS and apparently the alerts were simply removed from IEVS. In addition, our review disclosed that alerts were not generated on IEVS when wages reported by the Department of Labor were in excess of the wages reported on EMS.

Effect: Conditions exist that allow Department determinations of eligibility and benefit amounts for applicants and beneficiaries of public assistance programs to be completed without an adequate and thorough review of all available income and eligibility information

Cause: Matches routinely performed cause numerous system alerts, many of which are based on out-dated information. Because of these large numbers, proper review and disposition of alerts is not taking place. The excess wages alerts were not generated due to computer programming problems.

Recommendation: The DSS should provide the necessary resources and institute procedures to ensure that all information resulting from eligibility and income matches is used to ensure that correct payments are made to, or on behalf of, eligible clients.

Agency Response: "The Department agrees with this finding. It should be noted, however, that a vast majority of alerts do not affect eligibility or the benefit level of clients. Nevertheless, there is presently a workgroup that has reviewed this issue and submitted work requests that have been acted upon but it still has not alleviated the entire problem. Consequently, additional EMS programming changes have been made to improve the accuracy of data matches and eliminate unproductive and/or duplicative hits. Desk guides have been produced and worker training conducted to inform and instruct workers in the proper way to process alerts.

An alerts management report has been put into production to identify backlogs and processing timeliness. The report lists total numbers of alerts received and processed by workers and indicates whether pending alerts are current (under 30 days) or overdue. The report also ages the overdue alerts by one to 30 days, 31 to 60 days, 61 to 90 days, 90 to 180 days and over 180 days. Early results indicate that most workers are processing the vast majority of their alerts timely; however, there are still concerns that in some situations workers may be disposing alerts as processed without doing the necessary research to validate or invalidate the information. We will continue to address this facet of the problem at the worker level through managers and supervisors in the regional offices.

The workgroup will continue to evaluate the necessary changes that need to be made. Additionally, our OSD staff is planning in-depth training on this topic for SFY 2004 after the mandatory workload management training is completed."

III.A.28. Allowable Costs/Cost Principles – Payroll and Personnel

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: G01B1CTLIEA

Criteria: OMB Circular A-87 allows direct costs to be charged to Federal Awards. A typical direct cost is "compensation of employees for the time devoted and identified specifically to the performance of those awards."

42 USC Section 8624 subsection (b)(1)(D) provides that the State may use Low-Income Home Energy Assistance Program (LIHEAP) funds to plan, develop and administer the LIHEAP.

Condition: Payroll expenses of four Department employees were funded entirely from the LIHEAP resources. The employees all worked in the Department's Energy Services Unit. However, we were informed that the four employees did not work full-time on LIHEAP. The Department did not maintain documentation to support an allocation of these employees' salaries to the LIHEAP.

Effect: Inappropriate charges were made to the LIHEAP resources. We were unable to determine the exact amount of the questioned costs.

Cause: We were unable to determine why the Department did not allocate these costs.

Recommendation: The Department should determine all programs these employees work on and allocate their salaries accordingly.

Agency Response: "The Department agrees with this finding. The Energy Services Unit will be making adjustments in how salaries are charged. Salaries of four employees were fully charged to LIHEAP, however, only two employees spent 100% of their time on LIHEAP. The other two employees do spend some time on the USDOE Weatherization Assistance Program. Accordingly, in order to properly assign costs to both programs we have identified that 5% of the Manager's salary and 2% of the Secretary's salary shall be charged to the USDOE program and the balance to LIHEAP."

III.A.29. Cash Management

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2001-2002
Federal Award Number: G01B1CTLIEA

Criteria: Department of Treasury 31 CFR Part 205 specifies that:

- States are expected to administer subgrants along the same principles as grants from the Federal Government to the States;
- A State shall request funds not more than three business days prior to the day on which it makes a disbursement; and
- States should time the transfer of funds to subrecipients, to the maximum extent practicable, with the subrecipients' actual immediate fund requirements in carrying out the program or project.

Condition: The subrecipients, Community Action Agencies (CAA), were maintaining excessive cash balances over actual fund requirements.

We reviewed eight dates during the audited period for all of the Community Action Agencies. Our review disclosed that for four of these dates all of the Community Action Agencies had excessive cash balances. On the other four dates, only some of the CAAs had excessive cash balances.

For the dates reviewed, the net balance of cash on hand above needed program expenditures ranged between $4,828,803 in September 2001 and $37,362 in September 2002. The subrecipients had more than $2,600,000 on hand during the two-month period October 15, 2001, to December 23, 2001.

Effect: The Federal government incurs interest costs because money is advanced to subrecipients before the subrecipients need the money to support expenditures.

Cause: The Department of Social Services makes grant payments to subrecipients based on anticipated needs rather than to support an immediate cash outlay. The amounts often cover anticipated expenditures for an extended period of time.

Recommendations: The Department should develop controls to ensure that Federal grant programs are administered in accordance with all applicable regulations.

Agency Response: "The Department agrees with this finding. Although the Energy Services Unit has made an extreme effort in trying to address this finding, the condition continues to exist.

The Department has notified the Executive Directors of the importance of expending LIHEAP funds within 72 hours of receipt, as required by the Cash Management Improvement Act of 1990. The Department also continues to include a paragraph reiterating this requirement in Part III of the contracts with the CAAs.

It is difficult to operate the program on a reimbursement basis, because of the type of program and the need for the agencies to have funds available to make payments promptly. This past year, the Department generated and submitted 400 payment requisitions under CEAP on behalf of the CAAs.

The net balance of $4,828,803 of cash on hand at the agencies as explained in last year's response was used to cover Federal Fiscal Year 2002 CEAP program expenditures for the first quarter while waiting for contracts to be processed. The amounts left at the agencies September 2002 was only $37,362, and while it means that funds are still remaining at the agencies, the amount has been significantly reduced from prior year ending balances. We continue to make an effort to adhere to the criteria through frequent reviews of the CAA reports and subsequent disbursement of funds."

III.A.30. Activities Allowed or Unallowed – Housing Assistance Payments

Section 8 Housing Choice Voucher Program (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development (HUD)
Award Year: State Fiscal Year Ended June 30, 2002
Federal Award Number: Annual Contribution Contract ACC CT 901 VO

Criteria: Chapter 20 of HUD's Housing Choice Voucher Guidebook requires that the Department of Social services (DSS) maintain a Housing Assistance Payments Register (HAP Register). The HAP Register must record, among other information, the amount of the monthly housing assistance payments.

The Department's contract with the subrecipient requires that the subrecipient "… assure match between the total amount of checks issued by month with the HAP Register" and that the subrecipient submit the HAP Register to the Department by the fifteenth of each month.

Condition: HAP Registers were not available for five months during our audited period.

For those HAP Registers that were available the Department did not reconcile housing assistance amounts per the HAP Registers to the payments to the subrecipient.

Effect: The Department could be paying incorrect amounts if payments are not based on the actual units that are leased to Section 8 tenants.

Cause: We were informed that the subrecipient was not able to produce all the HAP Registers.

The Department has not implemented procedures to independently verify and reconcile the amounts paid to the subrecipient against the actual amount of housing assistance payments.

Recommendation: The Department should maintain on file all required HAP Registers and reconcile housing assistance amounts per the HAP Registers with Department payments to the subrecipient.

Agency Response: "The Department agrees with this finding. Administration of the Department's Section 8 Program was transferred to a new contractor on January 1, 2001. The transfer was hampered by the limited and incomplete data provided by the previous contractor. These problems have been resolved and the Department has been receiving accurate monthly HAP registers since January 2002.

The Department reconciles advances to the contractor with the amounts presented in the financial statements submitted each month and determines at the end of the fiscal year whether the contractor was advanced more funds than needed or is due a reimbursement for funds expended. The payment request submitted by the contractor is based on the previous month's housing assistance payments, administrative fee and an estimate of anticipated additional units to be leased. The HAP register generally does not present mid-month payments processed by the contractor; however, the financial statements do. The Department will require the contractor to break down future payment requests to indicate the number of units and amount from the current month's HAP register as well as estimates of anticipated lease-ups."

III.A.31. Allowable Costs – Housing Assistance Payments

Section 8 Housing Choice Voucher Program (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development (HUD)
Award Year: State Fiscal Year June 30, 2002
Federal Award Number: Annual Contributions Contract ACC CT 901 VO

Criteria: Code of Federal Regulations Title 24 Section 982.404(3) provides that the State should not make any housing assistance payments for dwelling units that fail to meet housing quality standards, unless the owner corrects the defect within the period specified by the State (generally 24 hours for emergency situations and 30 days for non-emergency defects) and the State verifies the correction.

Condition: We reviewed a sample of the Department's on-site inspections of ten tenant files and housing units. We noted that, for three housing units, the Department identified noncompliance with housing quality standards and notified the subrecipient that corrective action was needed. However, the Department did not verify that the corrective action was taken. The Department also did not verify whether housing assistance payments were discontinued until corrective actions were taken.

Effect: Noncompliance with Federal requirements resulted in overpayments of at least $17,260, which represents additional housing assistance payments that were made after the payments should have been stopped. This amount is based on the available Housing Assistance Payments Registers (HAP Register). The $17,260 in questioned costs cannot be extrapolated to the population in any meaningful manner. As reported in our activities allowed finding III.A.30., HAP registers were not available for five months during our audited period.

Cause: We were informed that the Department failed to complete monitoring of the subrecipient because the Department spent its staff time providing technical support to the subrecipient.

Recommendation: The Department should confirm, or require that the subrecipient confirm, that corrective actions were taken on housing quality standards (HQS) noncompliance. Housing assistance payments should not be made for HQS violations that are not corrected in a timely manner.

Agency Response: "The Department agrees with this finding. Contractor monitoring has been restructured effective October 1, 2002. A more manageable timetable has been implemented to accomplish the required monitoring, evaluation, preparation of management reports and verification that proper corrective action was taken. The contractor's deadline for response has been extended to 60 days to allow time for most required activities to be addressed."

III.A.32. Subrecipient Monitoring – Section 8 Housing Choice Voucher Program

Section 8 Housing Choice Voucher Program (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Year: State Fiscal Year Ended June 30, 2002
Federal Award Number: CT 901 V

Background: The Section 8 Housing Choice Voucher Program is funded by the U.S. Department of Housing and Urban Development (HUD). It is a program to fund tenant-based rental assistance for very low-income families. Expenditures are comprised of housing assistance payments and administrative costs of the Department of Social Services (DSS) and the subrecipient.

The Department contracts with a subrecipient to administer this program. The subrecipient subcontracts with housing authorities to administer the program in their areas. The Department paid over $31,000,000 to the subrecipient during the fiscal year ended June 30, 2002. This represents over 95 percent of the expenditures for this program for that year.

The subrecipient is responsible for areas of compliance with HUD requirements including:

- Eligibility
- Reporting on Form HUD-50058 Family Report
- Selection from the waiting list
- Reasonable rent
- Utility allowance schedule
- Housing quality standards inspections and enforcement
- Activities allowed and allowable costs

Criteria: The Code of Federal Regulations Title 24 Section 982.151 provides that the State shall administer the Section 8 Housing Choice Voucher Program in accordance with HUD regulations and requirements.

Code of Federal Regulations Title 24 Sections 982.158, 982.201, 982.204, 982.404, 982.405, 982.507 and 982.517 contain requirements for the compliance requirements listed above.

The Office of Management and Budget (OMB) Circular A-133 requires that the State:

- Inform subrecipients of the CFDA title and number, award name and

number, award year and the name of the Federal agency.
- Advise subrecipients of Federal and State requirements imposed on them.
- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes.

The OMB Circular A-133 Compliance Supplement lists sample monitoring activities including reviewing reports submitted by subrecipients, performing site visits to review financial and programmatic records and observe operations, reviewing single audit or program-specific audit results, and evaluating audit findings and corrective actions.

The Department has a contract with the subrecipient for the period of August 29, 2000, through December 1, 2003. That contract requires that the contractor shall:
- Provide for an annual financial audit acceptable to the Department for any expenditure of State-awarded funds made by the contractor.
- Administer the program in accordance with HUD Regulations, the Department's Administrative Plan, and the Department's Agency Plan.
- Comply with all Federal Regulations, HUD memos, and notices.
- Implement internal processes to ensure programmatic compliance including but not limited to independent audits of financial processes, independent audits of program functions, supervisory staff review of 5-10 percent of reexaminations, 5-10 percent review of new applications, 5-10 percent review of HQS Inspections…
- Perform specific administrative tasks that … assure efficient and effective program administration. To fulfill this requirement the contractor shall … conduct independent programmatic audits of each subcontractor and a financial and programmatic audit of the program's check issuance process… prepare and submit on a monthly basis electronic data files to the Department of Housing and Urban Development as required by HUD's Multifamily Tenant Characteristic System (MTCS), by the 15th of each month…"

That contract also requires that DSS conduct quality control reviews of the contractor's performance at six-month intervals.

The Housing and Urban Development's (HUD) Housing Choice Voucher Program Guidebook and the Department of Social Services Administrative Plan for the Section 8 Certificate and Voucher Programs contain requirements for the compliance requirements listed above.

Condition: The Department did not adequately monitor the activity of the subrecipient to ensure that the program was administered in compliance with Federal and State requirements.

General Noncompliance:
The Department did not identify Federal award information and compliance requirements to the subrecipient.

The Department did not obtain an audit from the subrecipient. Also, the Department did not obtain or review audit reports for the subcontractors.

The Department did not require the subrecipient to review 5-10 percent of subcontractor activity as required by the DSS contract. We noted that these reviews were actually performed by the Department, which resulted in the Department paying for services not received.

HUD Review:
On May 22, 2002, HUD issued a report of its management review of the Section 8 program at the Department of Social Services. That report contained 17 findings regarding:

a. Selection from the Waiting List
b. Rent Reasonableness
c. Utility Allowance Schedule deficiencies and calculations of payments
d. Housing Quality Standards Inspections and Enforcement
e. Missing information and forms on tenants
f. Lack of execution of required documents
g. Information on HAP Register disagrees with tenant files
h. Noncompliance with income targeting requirements
i. Some required policies are not included in DSS Administrative Plan
j. Annual reexaminations of family income and composition were not performed

Correspondence from HUD dated October 9, 2002, indicated that HUD had reviewed the Department's response to the above findings and found that the Department had corrected findings regarding areas c, e, f, g, h and j, shown above.

Review of DSS On-site Inspections:
We reviewed a sample of the Department's on-site inspections of ten tenant files and housing units. We noted that the Department identified noncompliance and the Department notified the subrecipient that corrective action was needed. However, the Department did not verify that the corrective action was taken. We also noted that the Department did not pursue tenant files that presented a problem when initially reviewed (e.g. if information was missing from the files or if the tenant did not provide access to the rented unit for inspection). These cases should be given attention because of the indication of a problem with the case.

Effect: The subrecipient may not have administered the Section 8 Housing Choice Voucher Program in compliance with Federal requirements.

The Department paid the subrecipient administrative fees for services that were not received. The amount of questioned costs was not determined.

Cause: We were informed that the Department failed to complete monitoring of the subrecipient because the Department spent its staff time providing technical support to the subrecipient.

Recommendation: The Department should ensure that the subrecipient performs all contracted services and is monitored for compliance with all Section 8 Housing Choice Voucher Program requirements. Also the Department should take appropriate action when performance problems arise.

Agency Response: "The Department agrees in most part with this finding. The Department will provide the CFDA title and number, award name and number, award year and name of the Federal agency to the contractor. The contractor has entered into a contract with an audit firm and the audit is to be completed by March 2003.

The Department performs quality assurance reviews on 10% of the subcontractor files in addition to the quality control reviews done by the contractor. The contractor performs all HQS inspections required by SEMAP, coordinates and prepares thorough responses to the Department regarding monitoring findings and follows up on unresolved monitoring issues that require longer than the newly extended 60 day response deadline.

HUD performed an on-site monitoring visit in December 2002 and according to the HUD exit interview, the only remaining finding is Rent Reasonableness. The Department is awaiting notification in writing from HUD and will address this issue.

Contractor monitoring has been restructured effective October 1, 2002, which allows for a more manageable timetable to accomplish the required monitoring, evaluation, preparation of management reports and verification of corrective action. The contractor's deadline for response has been extended to 60 days to allow time for most required activities to be addressed. As part of this process, the department will ensure that adequate follow-up on deficiencies is performed."

III.A.33. Special Tests and Provisions – Monitoring Beneficiary Complaints

Medical Assistance Program – Title XIX (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Criteria: To assure quality health care, State Medicaid agencies operating Medicaid managed care waivers should have a system in place to handle beneficiary complaints of not receiving necessary care. This system, at a minimum, should include sufficient information documenting the basis of the complaint, action taken by the Medicaid State agency regarding the complaint and information regarding the resolution. (State Plan Waiver)

Condition: Information related to seven of the twelve beneficiary complaints reviewed disclosed that not all beneficiary complaints and subsequent resolutions were documented.

Effect: The above condition lessens the Department's assurance that beneficiaries are receiving quality health care.

Cause: The cause was not determined.

Recommendation: The Department should improve its procedures to monitor beneficiary complaints to ensure that information regarding the complaint is sufficiently documented to determine the course of action taken by the Department to resolve such complaint.

Agency Response: "The Department agrees with this finding. Although HUSKY division staff followed-up on each individual client appeal/complaint with the HUSKY health plans, their follow-up activities and ultimate resolution were not always properly documented in the tracking system or individual case file. Measures are being taken to provide better oversight of staff responsible for updating the tracking system and case files.

The Department has had a tracking system in place for at least five years. All appeals received by the Department relating to receipt of medical care or services are entered into the tracking system. The tracking system captures information related to receipt date, type of service, health plan, outcome of internal plan review, scheduled fair hearing date, outcome of fair hearing process, etc. Additionally, a file folder is created for each individual client and documentation related to each appeal is filed in the client's file."

III.A.34. Special Tests and Provisions – ADP Risk Analysis and System Security Reviews

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 05-0105CT5028 and 05-0205CT5028

Background: There are four main Automatic Data Processing (ADP) installations used to administer Health and Human Service (HHS) programs at the Department of Social Services. The Eligibility Management System (EMS) provides automated eligibility determinations for the Medicaid program, issues benefit and service payments to clients and providers and provides management support for program administration. The Medicaid Management Information System (MMIS) is used to process payments for medical services and provides other critical administrative functions in the operation of the Medicaid program. Advanced Information System (AIM/Client Server) is used to process payments for primarily pharmaceutical claims in the operation of the Medicaid program. The Connecticut Child Support Enforcement System (CCSES) is used in the child support enforcement process where child support orders are maintained, billings are established, and collections are recorded.

Criteria: Title 45 CFR 95.621 states that State agencies shall review the ADP system security of installations involved in the administration of Health and Human Service (HHS) programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports of their biennial ADP system security reviews.

Condition: The Department has not performed ADP system security reviews for installations that are involved in the administration of HHS programs.

Effect: The Department's assurance that their ADP installations are secure is lessened.

Cause: The Department has not finalized their plan to perform the review of the MMIS and AIM/Client Server system.

Recommendation: The Department should implement procedures to perform ADP system security reviews on a biennial basis as required by Federal regulations.

Agency Response: "The Department agrees with this finding. The Department is in the process of evaluating proposals for a comprehensive data warehouse system that will include MMIS functions such as SURS, MARS, etc. The Department will evaluate the practicality of having an audit on the current system performed considering that the recommendations for improvement, if any, would probably not be applicable once the substantial system change has been made."

B. DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

III.B.1. Allowable Costs/Cost Principles

Home Investment Partnership Program (HOME) (CFDA #14.239)
Federal Award Agency: Department of Housing and Urban Development (HUD)
Award Year: State Fiscal Year Ended June 30, 2002
Federal Award Number: M-98-SG-09-0100

Background: The Integrated Disbursement and Information System (IDIS) is a computerized disbursement and information system established by the Department of Housing and Urban Development (HUD) for its Federal programs. The IDIS tracks projects and demonstrates compliance with various Federal requirements. The Department of Economic and Community Development (DECD) sets up projects and draws down funds using IDIS.

Criteria: Title 24 Section 92.502 requires the participating jurisdiction (the State) to set up a new construction project in IDIS once the "participating jurisdiction executes the HOME Investment Partnership Agreement, submits the applicable banking and security documents, complies with the environmental requirements under 24 CFR Part 58 for release of funds and commits funds to a specific local project." Commits is defined in Title 24 Section 92.2 for a new construction project as the "participating jurisdiction and project owner have executed a written legally binding agreement under which HOME assistance will be provided to the owner for an identifiable project…"

Title 24 Section 92.504 requires that "before disbursing HOME funds to any entity, the participating jurisdiction must enter into a written agreement with that entity.

In order for the Finance and Administration Division of the DECD to make a payment to a subrecipient, project managers must certify on a request for payment form that "this project/activity is eligible for payment under a fully executed contractual agreement approved by the Attorney General."

Condition: A project was set up in IDIS on April 10, 2000, and $300,000 was committed for this project. The commitment was subsequently increased by $500,000 to $800,000. Two DECD project managers certified the request for payment form submitted to the Finance and Administration Division on June 20, 2002, that there was a fully executed contractual agreement approved by the Attorney General for the project. However, our review revealed that there was not a fully executed agreement on file prior to the project set up in IDIS and prior to the payment of funds to the subrecipient. The DECD made full payment of $800,000 to the subrecipient in June 2002. However, an agreement was not fully executed with the subrecipient until December 31, 2002.

Effect: A project was set up in IDIS prior to the execution of a HOME agreement. Internal controls are weakened when a subrecipient is not made aware of program requirements in a written agreement prior to the receipt and expenditure of Federal funds. Internal controls are also weakened when the Finance and Administration Division makes a payment based on certifications by employees that state that there is a fully executed agreement on file when in fact that agreement does not exist.

Cause: This project was funded with two Federal grants: HOME and the Community Development Block Grant (Small Cities). The project manager had misfiled the Small Cities contract documents in the HOME folder and believed that a contract had been executed for the HOME project.

The DECD maintains a master list of HOME projects and the amounts that have been committed for these projects. However, this list does not show the date the HOME assistance agreement was executed. The DECD has assigned the responsibility of ensuring that contracts are executed to each project manager.

Outside counsel was assigned to prepare the HOME contract documents in January 2001. However, it appears that outside counsel was remiss in preparing the contract documents. When we informed the project manager that there was not a contract for HOME, the outside counsel was contacted and the contract documents were prepared in November 2002.

Recommendation: The Department should ensure that there is a fully executed written agreement on hand prior to making payments to subrecipients. The Department should also document contract execution date and contract period on its master listing of HOME committed projects spreadsheet.

Agency Response: "We agree with this finding in part.

The Department had relied upon staff certification of contract execution in its approval process of payments. However, noting that this policy could result in inconsistencies, the Department established a process whereby the Master File librarian transfers a copy of the contract face sheet to the payments and billing sections of the Finance and Administration Division as applicable. The procedure was made effective July 2002.

The HOME Committed Project Spreadsheet is not the proper tool for tracking contract execution and is being used solely as an interim measure until the Department fully implements the Housing and Development Software database system currently under design. The Department will consider tracking in its design of the new software."

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C. DEPARTMENT OF LABOR

III.C.1. Reporting – Overpayment Detection and Recovery Activities

Unemployment Insurance (UI) (CFDA 17.225)
Federal Award Agency: Department of Labor
Award Year: State Fiscal Year 2001-2002
Federal Award Numbers: UI10926FM and UI11810HY

Criteria: The UI Reports Handbook No. 401, ETA 227 Overpayment Detection and Recovery Activities, Section D., General Reporting Instructions, states that all applicable data on the ETA 227 report should be traceable to the data regarding overpayments and recoveries in the State's financial accounting system.

Condition: Our review of the Department's ETA 227 report for the quarter ended March 31, 2002, disclosed that not all amounts reported could be traced to the Department's financial accounting system. We noted where the Department had adjusted line amounts to agree with the calculated ending balance without any supporting documentation, where the Department adjusted a line amount even though supporting documentation indicated another amount in order to agree with the calculated ending balance figure and where the Department had reported a figure for benefit offsets, which did not agree with supporting documentation.

The Department manually maintains a listing of amounts written off each quarter. These amounts, however, did not always agree with the Unemployment System's Benefit Payment Control Unit (BPCU) screens. Although, the Department provided additional support (i.e., bankruptcy notifications, screen prints prior to the write off, etc.), the current BPCU screens (i.e., as of the review date) did not provide an adequate audit trail for the write off of these overpayments.

Effect: The amounts reported on the Department's ETA 227 report could be incorrect.

Cause: The Department was forcing amounts reported on the ETA 227 report in order for the ending balance of overpayments to be in agreement with the calculated amounts. In addition, the Department apparently was not investigating inconsistent amounts reported with the supporting documentation.

The Department's system does not provide an adequate audit trail for the accounting of overpayments.

Recommendation: The Department should establish a reporting system that would accurately account for overpayments reported on the ETA 227 report. These amounts should have adequate supporting documentation on file.

Agency Response: "We agree with this finding in part. Report ETA 227, Overpayment Detection and Recovery Activities, is the U.S. Department of Labors' initiative to track Benefit Payment Control activities on a quarterly basis. Since each states' overpayment system is governed by its own statutes and regulations, the ETA 227 report has changed over the years to better reflect the activities in the state environment. The latest changes were incorporated in the report for the quarter ended March 31, 2002, which is the report reviewed by the auditors.

We agree that a portion of the data did not concur with the supporting documentation; however, all of the programming changes were not in place during the completion of the ETA 227 in April 2002. We attempted to capture the new data which reconciles the differences in the Federal and Federal formats. Benefit Payment Control Unit (BPCU) staff had contacted the regional office of the U.S. Department of Labor regarding the formal changes.

Since January 2002, BPCU staff has been working with IT to automate the ETA 227 report. Our goals were to eliminate the manual maintenance of amounts deemed uncollectable and written off each quarter and provide a viable audit trail. The project will be completed with the installation of a new screen that will allow for the integration of supporting documentation with other overpayment data. This functionality will be available in the first quarter of 2003. During the second quarter of 2003, the automation of the ETA 227 is slated to be completed. At that point an audit trail will be available with little or no manual intervention."

D. DEPARTMENT OF PUBLIC HEALTH

III.D.1. Cash Management – Subrecipient Cash Balances

Immunization Program (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Calendar Years 2001 and 2002
Federal Award Numbers: H23/CCH104484-11 and H23/CCH104484-12

HIV Prevention Program (CFDA #93.940)
Federal Award Agency: Department of Health and Human Services
Award Years: Calendar Years 2001 and 2002
Federal Award Numbers: U62/CCU101002-16 and U62/CCU102002-17

Criteria: 45 CFR 92.20(b)(7) requires that grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

45 CFR 92.21(c) provides that subgrantees shall be paid in advance, provided they demonstrate the ability to minimize the time elapsing between the transfer of funds and the subsequent disbursement. 45 CFR 92.21(e) states that an awarding agency shall advance cash to a grantee to cover its estimated disbursement needs for an initial period generally geared to the grantee's disbursing cycle. Thereafter, the awarding agency shall reimburse the grantee for its actual cash disbursements. Such a process shall not be used by grantees or subgrantees if the reason for using such method is the unwillingness or inability of the grantee to provide timely advances to the subgrantee to meet the subgrantee's actual cash disbursements.

Condition: With the exception of the Women, Infants and Children (WIC) Program, the Department of Public Health typically provides advance funding to subrecipients. Subsequent payments are normally made based on pre-determined timelines or grant budgets. The Department does not have a process in place to monitor the actual cash balances of its subrecipients prior to issuing subsequent payments.

In the *Summary Schedule of Prior Audit Findings,* the Department has targeted July 1, 2003, for implementation of corrective action. However, as of December 2002, the Department had not yet formalized corresponding procedures. These procedures must be in place in advance of July 1, 2003, in order to be incorporated into the contractual language of agreements beginning on that date.

Effect: Federal cash management requirements are not being adhered to.

Cause: The Department had not previously considered the need for cash management for most of its grant programs.

Recommendation: The Department of Public Health should take steps to ensure that an appropriate cash management process is in place by the targeted date.

Agency Response: "We agree with this finding. The Department will be implementing necessary procedures to comply with 45 CFR 92.20(b)(7) and 45 CFR 92.21(c) and (e). Contractual language will be changed to indicate that payments will be based upon receipt of reports supporting cash needs.

Initial payments will be evaluated and disbursed in accordance with initial needs. Subsequent payments will be based upon submission of a Cash Needs Statement, which will be submitted quarterly for contracts between $300,000 and $500,000, or bi-monthly for contracts over $500,000. The only exception is the WIC grant, which has more frequent payments."

III.D.2. Subrecipient Monitoring – Performance of Management Evaluation Reviews

Special Supplemental Nutrition Program for Women, Infants and Children (WIC) (CFDA #10.557)
Federal Award Agency: United States Department of Agriculture
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Number: 4CT700700

Criteria: Both 7 CFR 246.19(b)(3) and the Connecticut State Plan for the WIC Program state that management evaluation reviews (MERs) of the local WIC agencies should be done every two years.

Condition: Our review of the two-year period ended September 30, 2002, found that the Department had only performed management evaluation reviews of seven of the 17 local agencies. Six local agencies had not been subjected to an MER since 1997, although limited-scope reviews had been periodically performed.

During the last year, the Department of Public Health (DPH) had increased monitoring efforts. However, as a result of a Federal review, DPH changed the process by which it performs the required financial review segment of the MERs. Business office staff currently perform these steps rather than program staff. A comparison of the local WIC agencies receiving visits from each group revealed that the visits were not necessarily performed in conjunction with each other. As a result, the four MERs conducted since

July 2002 were not complete.

Effect: The failure to perform the required reviews reduces the level of assurance that local agencies are performing in accordance with program requirements.

Cause: The business office staff person performing the financial reviews was assigned initially to the smaller local agencies to obtain the necessary experience.

Recommendation: The Department of Public Health should increase ongoing efforts to ensure that complete management evaluation reviews are scheduled and performed as required.

Agency Response: "We agree with this finding. The Department has developed a schedule for management evaluation reviews of the local agencies as required. The financial reviews are now also assigned in accordance with a coordinated schedule to assure that local agencies are performing in accordance with all program requirements."

III.D.3. Special Tests and Provisions – Accountability of Vaccines

Immunization Program (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Calendar Years 2001 and 2002
Federal Award Numbers: H23/CCH104484-11 and H23/CCH104484-12

Criteria: 45 CFR 92.20(b)(3) provides that effective control and accountability must be maintained for all grant cash and other assets. Grantees and subgrantees must adequately safeguard all such assets and assure that they are used solely for authorized purposes. Approximately $6,180,000 worth of vaccines flowed through the Department of Public Health's inventory system during the year ended June 30, 2002.

Condition: Our prior audit found that inventory quantities on hand were not in agreement with perpetual records. In addition, we noted a rather large number of unexplained adjusting entries were made to the inventory records.

Our current review found that inventory records appeared to be accurate at the time of our inspection. However, we noted in excess of 100 adjusting entries during the year, most of which were not explained.

Effect: Frequent unexplained adjusting entries can suggest that accepted practices are not being adhered to.

Cause: The process did not appear to be a priority for the Department.

Recommendation: The Department of Public Health should improve the controls over the maintenance of vaccine inventories with the objective of reducing and properly documenting adjusting entries.

Agency Response: “We agree with this finding. The Immunization Program is aware of the importance of inventory records and is making several changes to the system to improve quality control. Beginning in February 2003, the Program is changing its distribution to a third party vendor, Bellco Corporation of New York, who will be responsible for shipping all vaccines directly to each provider. Orders will continue to be processed by the Department, and the reason for making an adjustment to an order will be noted. The Program will continue to train staff on the importance of minimizing mistakes made during the ordering process, including data entry errors.”

E. DEPARTMENT OF CHILDREN AND FAMILIES

III.E.1. Allowable Costs/Cost Principles – Improper Expenditure Codes

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1401 and G-0201CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1407 and G-0201CT1407

Temporary Assistance for Needy Families (TANF) (#93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G0101CTTANF and G0201CTTANF

Background: The Department of Children and Families (DCF) uses the State's centralized personnel and payroll processing systems. In particular, DCF's personnel information is maintained on the Department of Administrative Services' Automated Personnel System (APS), DCF's timesheets are maintained on the Department of Information Technology's Time and Attendance System (TAS), and DCF's payroll is processed through the State Payroll System. Further, the data maintained in the TAS is electronically interfaced with the State Payroll System, and the payroll expenditures processed through the State Payroll System are subsequently recorded in the State Central Accounting System.

Each DCF employee is assigned a function and an activity expenditure code. The payroll expenditures are processed through the State Payroll System based on these codes. The State Central Accounting System accumulates the payroll expenditures by the recorded codes and generates the reports that DCF uses to record the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to Federal and State programs as specified in the Department's Federally approved Cost Allocation Plan (CAP). Costs that are allocated to TANF are claimed for Federal reimbursement by the Department of Social Services.

Criteria: The Federal Office of Management and Budget (OMB) Circular A-87 provides that all administrative costs (direct and indirect) of State public assistance agencies are normally charged to Federal awards by implementing public assistance cost allocation plans. Also, OMB Circular A-87 states that indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Condition: Our review disclosed seven out of the 25 payroll transactions tested were not coded to the proper expenditure codes. We noted differences between the function and activity expenditure codes recorded in the State's APS and the function and activity expenditure codes recorded in the State's Payroll System. In addition, timesheets for four out of the 25 payroll transactions tested did not indicate the function and activity expenditure codes. The Department informed us that the APS system should accurately reflect an employee's function and activity code.

Effect: None of the errors noted in our audit effected the allocation of costs being charged to Federal programs. However, charging expenditures to improper function and activity codes does not provide reasonable assurance that only allowable costs are being claimed for Federal reimbursement.

Cause: The Department's Personnel Unit made changes to personnel assignments on APS. However, the Personnel Unit did not forward the changes to the Payroll Unit. Therefore, the Payroll Unit did not adjust the function and activity expenditure codes recorded on TAS.

Recommendation: The Department of Children and Families should ascertain that its employees' salaries are charged to the proper function and activity expenditure codes to ensure the proper allocation of expenditures to Federal and State programs.

Agency Response: "We agree with this finding. The APS Unit of the Human Resources Division has implemented a process of transmitting personnel changes to the Payroll Unit on a monthly basis, and the Payroll Unit Director will institute a review process to assure that the changes are coded."

III.E.2. Reporting – Quarterly Claims

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1401 and G-0201CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1407 and G-0201CT1407

Background: The Department of Children and Families' Statewide Automated Child Welfare Information System, commonly known as "LINK," maintains the data related to the board and care payments made from the Department's Board and Care Checking Account on behalf of each Department placed child. However, the Department informed us that LINK does not generate reliable reports needed to prepare the Federal financial report Form ACF-IV-E-1. Therefore, the Department uses quarterly reports produced by a consultant to prepare Form ACF-IV-E-1. The consultant's computer system produces the quarterly reports by merging the data pertaining to each child's eligibility status for Federal reimbursement entered by the Department's Revenue Enhancement Unit with the data from the board and care payments made on behalf of each child that was downloaded from the LINK system. We noted errors in the consultant's reports used by the Department to prepare Form ACF-IV-E-1. The Department submits Form ACF-IV-E-1 to the Department of Health and Human Services (DHHS) for reimbursement of its expenditures incurred in support of Foster Care-Title IV-E and Adoption Assistance. It should be noted that the LINK system does generate monthly reports that provide the total disbursements made from the Department's Board and Care Checking Account.

Criteria: Required reports for Federal awards should include all activity of the reporting period, be supported by applicable accounting records, and be fairly presented in accordance with program requirements. Further, paragraph C.1.j of the Federal Office of Management and Budget (OMB) Circular A-87 states that allowable costs should be adequately documented.

Condition: We reviewed the Department's quarterly reconciliations for the State fiscal year ended June 30, 2002, of the total board and care payments reported on the consultant's reports to the total board and care payments reported on the LINK reports. We noted that the Department's reconciliations of the board and care payments recorded on both reports had "unlocated differences" for each quarter of the State fiscal year ended June 30, 2002. These differences were ($13,734), $14,688, $29,771 and $12,033 for the quarters ended September 30, 2001, December 31, 2001, March 31, 2002, and June 30, 2002, respectively, totaling $42,758 more in board and care total maintenance costs included on the consultant's reports than apparently were paid from the Department's Board and Care Checking Account.

Effect: Quarterly claims submitted to DHHS for reimbursement may not accurately reflect the Department's disbursements. Thus, it appears likely that the amounts being reimbursed by the Federal government for its share of the expenditures do not accurately reflect the amounts due to the State.

Cause: The Department stated that the differences in board and care payments noted between the two reports are because the reports account for adjustments differently. Further, the Department has not attempted to identify the specific causes of "unlocated differences" when preparing quarterly reconciliations, as it considers the differences to be immaterial.

Recommendation: The Department of Children and Families (DCF) should establish controls to ascertain that the maintenance costs recorded on the report used to prepare the Federal financial report Form ACF-IV-E-1 agree with the disbursements made from the Board and Care Checking Account to ensure that the claims submitted to the Department of Health and Human Services for reimbursement are based on expenditures actually made by DCF.

Agency Response: "We agree with this finding. DCF Information Systems will produce an ongoing report that reconciles the Link Board and Care extract with the Maximus Payments and Checks extract."

III.E.3. Reporting – Payment Management System

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1401 and G-0201CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1407 and G-0201CT1407

Background: To receive reimbursement for the Foster Care-Title IV-E and Adoption Assistance programs, the Department of Children and Families (DCF) submits quarterly claims to the Department of Health and Human Services (DHHS). The quarterly claims include maintenance payments made on behalf of those children placed in foster care and in adoptive homes and DCF's administrative expenditures allocated to the Foster Care-Title IV-E and Adoption Assistance programs based on DCF's Cost Allocation Plan. The quarterly claim is the basis for documenting DCF's share of Foster Care-Title IV-E and Adoption Assistance programs quarterly expenditures (disbursements). The quarterly claims reports are also the basis for reporting expenditures on the Payment Management System.

Criteria: Required reports for Federal awards should include all activity of the reporting period, be supported by applicable accounting records and be fairly presented in accordance with program requirements.

DHHS Manual for Recipients Financed under the Payment Management System (PMS) provides recipients guidance and instructions for completing the required Federal Cash Transactions Reports. This Manual defines Federal share of net disbursements as actual payments made to the program (i.e., checks, warrants, or cash payments). Also, the amounts reported should not exceed award authorizations which were in effect during the period.

Condition: We noted that the Department was not properly reporting disbursements on the Federal Cash Transactions Reports for the Foster Care-Title IV-E and the Adoption Assistance programs. The Department was improperly reporting drawdown amounts as the net disbursements of the programs instead of actual payments disbursed in support of the programs.

As a result of the Department's improper reporting process, the Department improperly reported the Foster Care-Title IV-E program's disbursement amount on the Federal Cash Transactions Report for the quarter ended June 30, 2002. The Department reported $53,706,758 as the Foster Care-Title IV-E program's cumulative net disbursements made under the program for the Federal fiscal year 2001-2002. However, our audit revealed that the actual cumulative net disbursement amount expended by the State that should have been reported was $53,507,892. The actual disbursement amount of $53,507,892 is documented on the Department's quarterly expenditure reports, which is the Federally required instrument for documenting the Department's share of Foster Care-Title IV-E program's expenditures (disbursements).

Our audit did not disclose any discrepancies for the Adoption Assistance program because the Department reported the maximum allowed per the DHHS Manual. The reporting requirement in the DHHS manual limits the disbursements to the award authorization for the period even though the total Adoption Assistance expenditures exceeded the award authorization for the period.

Effect: The Department overstated the Federal fiscal year 2001-2002 Foster Care-Title IV-E program's cumulative net disbursement amount that was reported on the quarter ended June 30, 2002, Federal Cash Transactions Report by $198,866. Because the drawdowns are based on grant awards, which during this period exceeded expenditures, this finding has no effect on cash drawdowns.

Cause: The Department's procedures for reporting disbursements are not in accordance with the DHHS Manual. The Department reports the amount drawn down as the basis for reporting the Federal share of net disbursements on the Federal Cash Transactions Reports instead of the actual payments disbursed in support of the programs.

Recommendation: The Department of Children and Families should prepare the Federal Cash Transactions Reports in accordance with the *DHHS Manual for Recipients Financed under the Payment Management System (PMS)*.

Agency Response: "We agree with this finding. The Department will change its completion timeframe for the PSC-272 to ensure that actual payment information as reported on the IV-E-1 is used on the PSC-272."

III.E.4. Eligibility – Ineligible Foster Care Children

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1401 and G-0201CT1401

Background: In the 2001-2002 State fiscal year, the Department of Children and Families (DCF) claimed $74,901,775 for Federal reimbursement under the Foster Care-Title IV-E program for maintenance assistance payments and administrative expenditures made on behalf of DCF placed children. To receive reimbursement the Department prepares a quarterly claim that is submitted to the Department of Health and Human Services. Maintenance assistance payments included in these quarterly claims totaled $24,278,228. This amount represented board and care payments made to foster homes and institutions for the care of these children, miscellaneous payments and Department adjustments. For the purpose of our review, the total maintenance assistance payments were adjusted so that only significant board and care payments were included in our audit population. As a result, our audit population for testing the Foster Care-Title IV-E eligibility requirements totaled $23,461,540. For the costs to be included in the quarterly claim certain criteria must be met.

Processing technicians from the Department's Revenue Enhancement Unit are assigned to review the child's case file and determine the eligibility of each child. The processing technicians are to perform an initial eligibility determination and annual eligibility redeterminations of each case. As part of those reviews, they verify the licensing status of the foster care providers by reviewing the Department's Statewide Automated Child Welfare Information Systems, commonly known as "LINK." The Foster and Adoptions Service Unit approves or denies a foster care provider for licensing and enters the status (i.e., approved or unapproved) of a foster care provider's license into the LINK system.

Criteria: Title 45 Part 1356 Section 21 paragraph (b)(2) of the CFR (Code of Federal Regulations) provides that a judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered Foster Care and at least once every 12 months thereafter while the child is in Foster Care. If a judicial determination regarding reasonable efforts to finalize a permanency plan is not made within this timeframe, the child is ineligible at the end of the 12th month from the date the child was considered to have entered Foster Care or at the end of the month in which the subsequent judicial determination of reasonable efforts was due, and the child remains ineligible until such a judicial determination is made.

Title 45 Part 1356 Section 30 paragraph (f) of CFR provides that in order for a child-care institution to be eligible for Title IV-E funding, the licensing file for the institution must contain documentation which verifies that safety considerations with respect to staff of the institution have been addressed.

Condition: We selected a sample of 40 transactions, representing $54,478 in monthly maintenance costs, or $27,239 at the 50 percent Federal reimbursable rate, and reviewed them to verify that the payments were claimed for Federal reimbursement on behalf of eligible children. We found five out of the 40 transactions represented questioned costs because they did not comply with Federal regulations. These exceptions are explained below:

- In two transactions for $1,007 (at the 50 percent Federal reimbursement rate), judicial determinations regarding reasonable efforts to finalize the permanency plans of the children were not made within 12 months of the date on which the children entered Foster Care.

- In three transactions totaling $4,691 (at the 50 percent Federal reimbursement rate), the licensing files for the two child-care institutions in which the children were placed did not contain documentation which verifies that safety considerations with respect to staff of the institutions were addressed.

Effect: As a result of our testing of a random sample of transactions, we found that the Department's Foster Care-Title IV-E claims included $5,698 (net Federal reimbursement), in costs that we questioned as ineligible. In addition, the Department improperly claimed for Federal reimbursement the administrative costs associated with these direct claims. The administrative costs were allocated to Foster Care-Title IV-E based on the Department's

Cost Allocation Plan. We did not determine the potential questioned costs related to the administration costs allocated to Foster Care-Title IV-E for these five direct claims.

Cause: The processing technicians improperly coded two children as being eligible for Foster Care-Title IV-E although the children's case records did not include the required judicial determinations regarding reasonable efforts to finalize the permanency plans.

The Department did not document in the licensing files that the two child care institutions addressed the safety considerations of its staff. The processing technicians would not be aware of the inadequate documentation because the licensing data in the Department's LINK system does not provide such information.

Recommendation: The Department should improve its system of controls to eliminate these types of errors by ensuring that the claims for reimbursement of Foster Care-Title IV-E maintenance costs are made only for eligible children.

Agency Response: "We agree in part with this finding. We agree that there were two coding errors by Processing Technicians from the Revenue Enhancement Unit and note that represents a 5% error rate that is within Federal standards of a 10% error rate to pass a IV-E audit. However, we disagree with the portion of this section pertaining to licensing in that each facility in question was properly licensed. Our practice is to note those areas of non-compliance that prevent licensure. A lack of documentation of non-compliance should be interpreted as compliance in that compliance must be fully assessed in order to determine non-compliance. For the agreed upon portion, the Department will adjust its Federal claim."

Auditors' Concluding Comments:

The Federal regulations specifically state that in order for a child care institution to be eligible for Title IV-E funding, the licensing file for the child care institution must contain documentation which verifies that safety considerations with respect to staff of the institution have been addressed. Therefore, not having documentation in the licensing files, which verifies that safety considerations with respect to staff of the institutions were addressed, would result in the two aforementioned institutions being ineligible for Title IV-E funding.

III.E.5. Eligibility – Untimely Completion of Redeterminations

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1401 and G-0201CT1401

Background: For the costs to be claimed for Federal financial participation certain criteria must be met. Further, to be eligible for Federal funding, claims must be submitted to the Department of Health and Human Services (DHHS) within two years after the calendar quarter in which the State made the expenditure. To claim Federal funding, the Department of Children and Families (DCF) submits a claim for Federal reimbursements of expenditures incurred on behalf of Foster Care-Title IV-E to DHHS on a quarterly basis. This claim includes the expenditure incurred in the "current" quarter and any adjustments that were made to the previous seven quarters. These adjustments would normally be the result of changes made by DCF to the eligibility status of foster care children.

Processing technicians from the Department's Revenue Enhancement Unit are assigned to review the children's case files and determine the Foster Care-Title IV-E eligibility of each child. The processing technicians are to perform an initial eligibility determination and annual eligibility redeterminations of each case. Our review disclosed that the eligibility redeterminations were not performed in a timely manner.

Criteria: Section 8.3.A.10 of the Child Welfare Policy Manual issued by the Department of Health and Human Services states that a procedure to perform eligibility redeterminations should be performed periodically in order to assure that Federal financial participation is claimed properly. The Federal Administration on Children, Youth and Families has advised State agencies that an appropriate period for redeterminations would be every 12 months, at which time factors subject to change, such as continued deprivation of parental support and care and the child's financial need would be reviewed and documented. However, a failure to hold a timely redetermination is a State plan issue rather than an issue related to the eligibility of the child for Title IV-E foster care maintenance payments.

Condition: Our review disclosed eligibility redeterminations were not performed within 12 months for ten out of 40 transactions tested. Further, for three of these ten transactions, the eligibility determinations were not made within two years.

Effect: Although the Department missed the twelve-month eligibility redetermination schedule in ten cases, these cases are not considered ineligible for Federal reimbursement for that reason alone. However, performing untimely eligibility redeterminations does not provide reasonable assurance that only the costs incurred on behalf of eligible children are being claimed for Federal reimbursement. Our review did disclose the IV-E eligibility status of ten children changed to nonreimbursable. However, the changes did not effect the amount claimed for Federal reimbursement because the changes effected only the foster care maintenance payments that were incurred within the timeframe (current and previous seven quarters) used for preparing the claim for Federal reimbursement.

Cause: We were informed that the Department did not have time to complete the eligibility redeterminations within 12 months.

Recommendation: The Department should perform the eligibility redeterminations in a timely manner in order to assure that the Department is claiming the proper Federal reimbursement under the Foster Care-Title IV-E program.

Agency Response: "We agree with this finding. Notably, this section of the report did not find that there was any adverse effect on the Federal claim. The Department will continue to make every reasonable effort within available resources to assure the timeliness of redeterminations."

III.E.6. Eligibility – Ineligible Adoption Assistance Recipients

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: G-0101CT1407 and G-0201CT1407

Background: In the 2001-2002 State fiscal year, the Department of Children and Families (DCF) claimed $15,665,343 for Federal reimbursement under the Adoption Assistance program for adoption assistance payments and administrative expenditures made on behalf of adopted children. To receive reimbursement the Department prepares a quarterly claim that is submitted to the Department of Health and Human Services. Adoption assistance payments included in these quarterly claims totaled $11,171,092. This amount represents adoption subsidy payments made to adoptive parents for the care of these children, other miscellaneous payments and Department adjustments. For the purpose of our review, the total adoption assistance payments were adjusted so that only significant adoption subsidy payments were included in our audit population. As a result, our audit population for testing the Adoption Assistance eligibility requirements totaled $11,084,309. For the costs to be included in the quarterly claim certain criteria must be met.

Criteria: Title 42 United States Code (USC) Section 673 requires that Adoption Assistance subsidy payments may be paid on behalf of a child only if the child is Title IV-E foster care eligible; is eligible for the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act); or is eligible for Social Security Insurance (SSI). Also the agreement for the subsidy must be signed and be in effect before the final decree of adoption.

Adequate internal controls would include maintaining original documentation that would support the expenditure being claimed for Federal reimbursement.

Condition: We selected a sample of 40 transactions, representing $30,288 in adoption assistance payments, or $15,144 at the 50 percent Federal reimbursable rate and reviewed them to verify that the payments were claimed for Federal reimbursement on behalf of eligible children. We found that one out of the 40 transactions represented questioned costs because it did not comply with Federal regulations. We also found 16 transactions that were not adequately documented; however, we do not consider the adoption subsidy payments to be questioned costs because, based on the information that was available, the children met the requirements of the Adoption Assistance program. These exceptions are explained below:

- One transaction for $385 (at the 50 percent Federal reimbursement rate), represented questioned costs because it was improperly claimed for Federal reimbursement under the Adoption Assistance program because the child was not Title IV-E foster care eligible; was not eligible for the former AFDC program; and was not eligible for SSI.

- In thirteen transactions, the Department did not have original adoption decrees on file. The Department only had photocopies of the adoption decrees. Three of these 13 transactions were for adoption subsidy payments made on behalf of children who were adopted after July 1, 2000. Therefore, because we noted three children were adopted after July 1, 2000, we consider the current internal controls to be inadequate.

- In three transactions, the Department did not have photocopies or original adoption decrees on file. Subsequent to our review, the Department obtained photocopies of the adoption decrees from the courts.

Effect: As a result of our testing of a random sample of transactions, we found that the Department's Adoption Assistance claims included $385 (net Federal reimbursement) in costs that we questioned as ineligible. In addition, the Department improperly claimed for Federal reimbursement the administrative costs associated with this direct claim. The administrative costs were allocated to Adoption Assistance based on the Department's Cost Allocation Plan. However, we did not determine the potential questioned costs related to the administration costs allocated to Adoption Assistance for this direct claim.

A lack of original adoption decrees indicates a lower degree of assurance relative to verifying that the agreements for the subsidy were signed and were in effect before the final adoption decrees.

Cause: The Department's eligibility documentation, which was completed in November 1998, indicated that the child was not eligible for Federal reimbursement; however, the Department entered an improper eligibility code into its computer system. We were informed that apparently the original adoption decrees were not filed in the children's case records by the case workers.

Recommendation: The Department of Children and Families should adjust its quarterly claims for Federal reimbursement under Adoption Assistance for the ineligible case and develop procedures to ensure that the original documentation is maintained in the children's case records.

Agency Response: "We agree in part with this finding. While we do not dispute that one transaction was improperly claimed, we disagree with the conclusions of the remainder of this section. We believe photocopies of adoption decrees to be appropriate documentation and are awaiting an opinion from the Federal Department of Health and Human Services on the issue. We do not dispute that it would be preferable for photocopies of the adoption decrees to be present in all files, but we believe that our ultimate obligation in this regard is to be able to produce acceptable documentation to support our claim. In that this section of the report recognizes that photocopies were obtained, we met that obligation. For the agreed upon portion, the Department will adjust its Federal claim."

F. DEPARTMENT OF EDUCATION

III.F.1. Cash Management – Subrecipient Cash Balances

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: H027A000021and H027A010021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: H173A000024 and H173A010024

Class Size Reduction Program (CFDA # 84.340)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: S340A000007 and S340A010007

Criteria: In accordance with 34 CFR 80.20(b)(7), procedures for minimizing the time elapsing between the transfer of funds from grantees to subrecipients must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subrecipients to assure that they conform substantially to the same standards of timing and amount that apply to cash advances to grantees.

Condition: In our prior Single Audit report, we reported that the US Department of Education (USDOE) had issued an exception report on the Individuals with Disabilities Education Act (IDEA) – Part B Program (CFDA #84.027) administered by the State Department of Education (DOE). This review noted that the State DOE did not have a process in place to determine the timing and amount of actual expenditures made by subrecipients. Instead, the State DOE based payments on the subrecipients' predetermined or projected needs.

Our current audit follow up has revealed that the previously reported condition continued to exist throughout the fiscal year ended June 30, 2002. Our tests of a sample of cash advances to Local Education Agencies (LEAs), with respect to two of the major Federal programs tested for the audited period, revealed the LEAs had a total aggregate excess cash balance of approximately $7,421,000, as of the fiscal-year end.

This reported condition exists with respect to other prepayment grant programs administered by the State DOE, including Federal programs that were not included as major Federal programs for our current Single Audit testing purposes. For instance, our review revealed LEAs that received cash advances from the Federal "Title I Grants to Local Educational Agencies" program (CFDA #84.010) had a total aggregate excess cash balance of approximately $4,751,000, as of June 30, 2002.

Effect: The subrecipients maintained cash balances in excess of amounts needed to cover actual program requirements.

Cause: The Department made grant payments to the subrecipients based on predetermined amounts, which were significantly greater than the subrecipients' actual program expenditures for the covered periods.

Recommendation: The State Department of Education should continue its efforts to improve its prepayment grant procedures in order to ensure compliance with Federal cash management requirements.

Agency Response: "We agree. A letter was sent to all Superintendents and School Business Officials on July 10, 2002, informing them we are increasing our monitoring of prepayment grant drawdowns. Based on FY 2002 expenditure reports, fifteen districts with Federal first-year grant balances in excess of $100,000 and 25 percent of payments were required to submit remediation plans. These districts and five others were also required to submit actual disbursement reports on a quarterly basis. Payment will be adjusted based on this data."

III.F.2. Special Tests and Provisions – Accountability for Commodities

National School Lunch/School Breakfast Programs (CFDA #s 10.555/10.553)
Federal Award Agency: U.S. Department of Agriculture
Award Years: Federal Fiscal Years 2000-2001 and 2001-2002
Federal Award Numbers: 2001IN1098 and 2002IN1098

Background: The Department administers cafeteria operations at 17 of its 18 Regional Vocational Technical Schools.

Criteria: Per 7 CFR Section 250, accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods, including end products processed from donated foods. "Failure to maintain records required by 7 CFR Section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind (7 CFR Sections 250.16[a][[6] and 250.15[c])."

Condition: The current audit follow up relative to our prior audit reportable finding revealed that the Department still lacks an adequate inventory system for donated foods. The Department has not implemented a perpetual inventory system for its Regional Vocational-Technical Schools that would allow for the tracking of the specific receipt or usage of donated foods.

Effect: The Regional Vocational-Technical Schools are unable to document the receipt and usage of donated foods and are not in compliance with the program regulations.

Cause: The implementation of an inventory system necessary to document and record the receipt and usage of donated Federal foods has not been designated a high priority by the Department.

Recommendation: The Department should implement control policies and procedures over the commodities inventory that are necessary to ensure compliance with the Child Nutrition Cluster program requirements for accountability.

Agency Response: "We agree. The Regional Vocational-Technical School system will issue an inventory control policy letter to each Vocational-Technical School outlining the specific requirements for adherence to the Child Nutrition Program regulations. Further, procedures will be implemented at each school to ensure proper controls over the receipt, distribution and use of donated Federal foods."

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G. UNIVERSITY OF CONNECTICUT SYSTEM

III.G.1. Matching, Level of Effort, Earmarking (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs:
Payments to Agricultural Experiment Stations Under the Hatch Act (CFDA# 10.203)
Various account numbers

Federal Award Agency: Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs:
Agricultural Research: Basic and Applied Research (CFDA # 10.001)
Grant #58-1930-0-009
Account #521163 "Development of Superior Trout"

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs:
Office of Naval Research: Basic and Applied Scientific Research (CFDA# 12.300)
Grant #N00014-99-1-1020
Account #521060 "An Observation System for Fronts on the Continental Shelf"

Criteria: Per OMB Circular A-110, cost sharing and matching must be verifiable from the entity's records. OMB Circular A-21 establishes the methods available for verifying charges for personal services. In accordance with Circular A-21 the University has selected the "Plan Confirmation" method to verify charges for personal services. This method requires annual, signed time and effort reports.

Condition: Our test of matching consisted of 15 grants with expenditures totaling $8,328,229. We noted the following:

- For the Department of Agriculture grant entitled "Payments to Agricultural Experiment Stations Under the Hatch Act" (CFDA# 10.203), we noted amounts claimed as State matching funds totaling $965,195, which were related to personal services that were not supported by signed time and effort reports.

- For the Department of Agriculture grant entitled "Agricultural Research: Basic and Applied Research" (CFDA # 10.001) we noted amounts claimed as State matching funds totaling $48,000, which were related to personal services that were not supported by signed time and effort reports.

- For the Department of Defense grant entitled "Office of Naval Research: Basic and Applied Scientific Research" (CFDA#12.300), we noted amounts claimed as State matching funds totaling $87,000, which were related to personal services that were not supported by signed time and effort reports.

Effect: The amounts claimed as State matching funds are not verifiable from the University's records.

Cause: In some instances the University's standard procedures for obtaining time and effort reports do not include amounts claimed as State matching funds.

Recommendation: The University should develop procedures for obtaining time and effort reports that address the current inadequacies for certain amounts claimed as State matching funds.

Agency Response: "The University agrees with this finding. The procedures for verifying effort pledged as cost share will be reviewed as an integral component of the time and effort system to ensure that adequate annual certification is achieved. The cost share in question has since been verified."

III.G.2. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs

Criteria: OMB Circular A-21 establishes the methods available for verifying charges for personal services. Such methods require that at least annually, time and effort reports be prepared documenting charges to the program and that such reports be signed by persons having direct knowledge of the appropriateness of the charges.

Condition: We noted that, based upon data compiled by the University's Office of

Sponsored Programs, as of December 31, 2002, over 25 percent of the time and effort reports prepared for the fiscal year ending June 30, 2002, had yet to be returned signed.

Effect: Charges to certain Federal awards are not properly documented.

Cause: Recent changes made to the University's time and effort reporting system has caused delays in response time.

Recommendation: The University should assess whether the current time and effort reporting system will be adequate to meet Federal requirements.

Agency Response: "The University agrees with this finding. Changes to the time and effort reporting system and the level of support provided for time and effort reporting have caused delays. Office for Sponsored Programs (OSP) sent second notices for all non-replies and will continue to follow up on remaining non-replies. The current system is not electronic and is cumbersome. The process for certifying time and effort, including cost shared time and effort, does need to be reviewed by the University. The Office for Sponsored Programs will initiate a collaborative team approach with representatives from Research, Finance, Human Resources, Internal Audit and Information Technologies to implement a system that is efficient, effective and reliable. The University is reviewing the new system implemented by the University of Connecticut Health Center."

III.G.3. Subrecipient Monitoring (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs

Criteria: OMB Circular A-133 requires that the pass through entity inform each subrecipient of the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is Research and Development, and the name of the Federal agency.

Condition: Our test of monitoring consisted of 25 subgrants made by the University to subrecipients. In 15 instances the standard award documents used to notify the grantee of the award and applicable requirements failed to include the CFDA number.

Effect: The failure to adequately inform subrecipients of the source of funds increases the risk that such funds will not be given proper audit coverage during independent audits.

Cause: The University apparently feels that other information contained within the standard award documents as well as correspondence between the University and the subrecipients will adequately convey the source of funds.

Recommendation: The University should include the CFDA number in its standard award documents in all cases where such number is available.

Agency Response: "The University agrees with the finding. The University's current practice is to record the CFDA number on subcontract documents. The findings were based primarily on review of older subcontracts. Upon extending or supplementing each existing subcontract, OSP will ensure that the CFDA number is reported."

III.G.4. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs

Criteria: OMB Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. The Circular prescribes standards for after-the-fact activity reports supporting the distribution of salaries and wages. The reports must be signed to document confirmation - by responsible persons having direct knowledge of the work - that the work was performed. Though Circular A-21 doesn't address electronic signatures, they should be acceptable as long as they are functionally equivalent to the traditional "ink on paper" signature, i.e. they are unique and verifiable as executed by the signer.

Condition: We reviewed electronically filed time and effort reports covering 40 payments on payroll made to individuals charged in whole or part to Federal Research and Development Programs. We noted that the reports covering three of these payments had been certified by other than the purported signatory, i.e., other Health Center employees had electronically signed the reports using the purported certifiers' identifications and passwords. We also found that the integrity of the reports supporting another three of the payments sampled had been compromised, as the signatories' passwords had been disclosed to others.

Similar problems were noted in our prior review; the Health Center took corrective action in September 2001. However, though we found the situation to be greatly improved in our current review, it is apparent that a significant number of employees are still not mindful of the importance of maintaining the security of the electronic signature procedure.

Cause: Efforts to educate staff members as to the importance of maintaining the integrity of electronic signatures have not been completely successful.

Effect: The condition described above lessens the reliability of the documentation produced by the time and effort reporting system.

Recommendation: The Health Center should continue efforts to educate staff members, stressing the importance of never disclosing passwords for critical processes, such as the electronic certification of documents, to others. The feasibility of biometric authentication should be investigated.

Agency Response: "Management agrees and will continue its efforts to stress that faculty not allow others to use faculty passwords to review and submit time and effort reports."

III.G.5. Matching, Level of Effort, Earmarking (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs:
Basic/Core Area Health Education Centers (CFDA 93.824):
Account # 022653 – "Basic/Core Area Health Education Center" – Grant # 6 U76 HP 00582-05-01 from the Bureau of Health Professions, project period September 30, 1997, through September 29, 2002

Criteria: Per 42 USC 294a (a) (2) (B), an entity receiving Federal assistance under the Basic/Core Area Health Education Center (AHEC) program must make available recurring non-Federal contributions equal to not less than 50 percent of the cost of operating the program, i.e., must match Federal contributions on a dollar for dollar basis.

Condition: The Health Center does not monitor compliance with the AHEC matching requirement. Our review indicated that the Health Center fell significantly short of meeting the matching requirements of both the grant year ended September 29, 2001, and the grant year ended September 29, 2002. Considering only the matching funds specifically identified to us as such and accounted for in the Health Center's accounting system, we estimated the shortfall as $186,503 for the grant year ended September 29, 2001, and $439,976 for the grant year ended September 29, 2002.

Not all program support is accounted for in the Health Center's accounting system. Additional funding, both Federal and non-Federal, is provided directly to the regional centers by other entities. We believe that a portion of the funding received directly by the regional centers would also qualify as matching funds and would reduce the total shortfall. We did not include these amounts in our analysis, as we could not readily determine what portion would qualify. However, it did not appear that they would be sufficient to reduce the shortfall to an immaterial amount.

Effect: Excess expenditures were reported and excess funds were drawn down. The $186,503 that has been reported as matching cost for the grant year ended September 29, 2001, should be considered questioned costs. The $439,976 amount had not been reported as matching cost at the time our audit field work concluded.

Cause: It appears to us that program administrators felt that it was not necessary to monitor compliance with the AHEC matching requirement, as they believed that non-Federal funds had been made available in an amount significantly in excess of the minimum required. However, a large portion of the funds they considered eligible for purposes of satisfying the matching requirement actually consisted of pass-through Federal funding.

Recommendation: The Health Center should determine the amount of additional non-Federal funding necessary to comply with the AHEC matching requirement and contact the grantor for advice on how to remedy the situation.

Agency Response: "The Health Center is reviewing all sources of non-Federal matching funding related to the AHEC program. The Health Center expects to identify significant amounts of cost sharing and matching related to the grant years noted above."

III.G.6. Allowable Costs/Cost Principles – Institutional Allowances (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2002
Research and Development Programs:
Cell Biology and Biophysics Research (CFDA #93.821)
Extramural Research Programs in the Neurosciences and Neurological Disorders (CFDA #93.853)
Allergy, Immunology and Transplantation Research (CFDA #93.855)
Microbiology and Infectious Diseases Research (CFDA #93.856)
Genetics and Developmental Biology Research and Research Training (CFDA #93.862)
Population Research (CFDA #93.864)

Criteria: Section 487 of the Public Health Service Act (42 USC 288), provides authority for the National Institutes of Health (NIH) to award National Research Service Awards (NRSA) to support predoctoral and postdoctoral training. These awards provide a stipend as a subsistence allowance for fellows to help defray living expenses during the research training experience and an institutional allowance to help support the costs of training. The allowance is intended to defray such expenses for the individual fellow as research supplies, equipment, travel to scientific meetings, health insurance and to otherwise offset, insofar as possible, appropriate administrative costs of graduate training.

OMB Circular A-110 sets forth administrative requirements for grants and agreements with institutions of higher education. Per the Circular, where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

Condition: During the course of our review of cash transaction reporting we noted discrepancies between amounts reported as expended from fellowship awards and amounts actually expended per the accounting system. Further review indicated that the Health Center, as a matter of standard practice, reported unused portions of fellowship award institutional allowances as expended to avoid lapsing the funds at the end of the grant period.

We noted only minor remaining amounts of excess funds on hand as of the time of our review. We did not perform the detailed analysis necessary to determine the aggregate value of charges assessed against fellowship award institutional allowances subsequent to the end of the grant period.

Institutional allowances do not account for a significant portion of the Health

Center's Federal Funding. Fiscal year 2002 award stipends for postdoctoral fellows with no experience were $31,092; the related institutional allowance was $5,500. Fellowship expenditures, both stipend payments and costs funded from institutional allowances, reported on the Health Center's Schedule of Expenditures of Federal Awards totaled $178,042 for the fiscal year ended June 30, 2002.

Effect: The Health Center drew funds to cover reported expenditures that had not actually been incurred and recorded.

Cause: It was indicated to us that oral assurances as to the acceptability of this practice had been provided by the sponsoring agency at some time in the past.

Recommendation: The Health Center should cease reporting expenditures not actually incurred and recorded and contact the sponsoring agency for advice concerning the disposition of excess funds still on hand.

Agency Response: "In the future and for all current awards, UCHC will identify costs related to the administration of NRSA fellowship awards and draw down funds based on those actual expenditures."

H. FEDERAL STUDENT FINANCIAL ASSISTANCE - DEPARTMENTS OF EDUCATION AND HIGHER EDUCATION - STATEWIDE

Federal Student Financial Assistance awards were made individually to the following institutions during the fiscal year ended June 30, 2002:

Institution	Entity Number
University of Connecticut	1060772160A1
University of Connecticut School of Medicine	1066000798D4
University of Connecticut School of Dental Medicine	1066000798G4
Manchester Community-Technical College	1066000798B8
Northwestern Community-Technical College	1066000798C3
Norwalk Community-Technical College	1066000798C4
Housatonic Community-Technical College	1066000798B6
Middlesex Community-Technical College	1066000798C1
Capital Community-Technical College	1066000798B4
Naugatuck Valley Community-Technical College	1066000798B9
Gateway Community-Technical College	1066000798E6
Tunxis Community-Technical College	1066000798D2
Three Rivers Community-Technical College	1066000798C2
Quinebaug Community-Technical College	1066000798C7
Asnuntuck Community-Technical College	1066000798G5
Central Connecticut State University	1066000798A2
Western Connecticut State University	1066000798D7
Southern Connecticut State University	1066000798C9
Eastern Connecticut State University	1066000798F2
Bullard Havens Regional Vocational-Technical School	1066000798J1
Henry Abbott Regional Vocational-Technical School	1066000798H8
H.H. Ellis Regional Vocational-Technical School	1066000798H9
H. C. Wilcox Regional Vocational-Technical School	1066000798K8
Ella T. Grasso Regional Vocational-Technical School	1066000798K9
Eli Whitney Regional Vocational-Technical School	1066000798H4
A.I. Prince Regional Vocational-Technical School	1066000798I6
Howell Cheney Regional Vocational-Technical School	1066000798K4
Vinal Regional Vocational-Technical School	1066000798L6
Platt Regional Vocational-Technical School	1066000798K6
E.C. Goodwin Regional Vocational-Technical School	1066000798L2
Emmett O'Brien Regional Vocational-Technical School	1066000798L1
Oliver Wolcott Regional Vocational-Technical School	1066000798L9
Norwich Regional Vocational-Technical School	1000318651A1
J.M. Wright Regional Vocational-Technical School	1066000798H5
W.F. Kaynor Regional Vocational-Technical School	1066000798I9
Windham Regional Vocational-Technical School	1066000798H6
Charter Oak State College	1066000798Z1

III.H.1. Eligibility – Internal Control Weaknesses

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (FFEL) (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: Controls established in Banner, the University's new information system, should prevent disbursement of Title IV funds until various Federal and University requirements are met. The Financial Aid Office relies on the effectiveness of these controls in approving the disbursement of Title IV funds to students.

Condition: From an initial sample size of 40 students who received various forms of Title IV funds at Eastern Connecticut State University (CSU), we noted the following:

- One student's academic transcript showed no course registration for a semester in which he received $938 from the Pell Grant program and $1,313 from the FFEL program. Because the University's academic records don't reflect any course registration, the student did not have any financial need and should not have received Title IV funds.
- Another student was ineligible at the time he received Title IV funds because he had not met the University's satisfactory academic progress requirements. The student subsequently met all satisfactory academic progress requirements, so there will not be any questioned costs associated with his Title IV funding, but he was ineligible at the time he received funding.

In the two instances above, controls in the Banner system should have prevented disbursement to these students but did not.

Effect: Two students received Title IV funds who were ineligible at the time of disbursement. From this sample, we are treating $938 in charges to the Pell Grant program and $1,313 in FFEL program loans as questioned costs. The total costs charged to the Pell Grant program in our sample were $97,070, while the total FFEL awards in the sample were $210,974. Total expenditures of the Pell Grant program at Eastern CSU during the 2001-2002 award year were $1,984,861; total FFEL awards at Eastern CSU during the award year were $11,415,574.

Cause: In the first instance above, controls in the Banner system should have prevented disbursement to the student because his academic transcript did not reflect registration for courses. In the second instance, problems related to portions of Banner implementation appear to be the cause.

Recommendation: Eastern CSU should improve internal controls related to its information system to ensure compliance with Federal eligibility requirements.

Agency Response: "We agree with this finding in part. In the first instance, the student's academic transcript showed no course registration due to an erroneous interpretation of academic policy by University personnel. The student's file should have shown "W" grades since the student did, in fact, attend for a portion of the semester in question. The student's academic record is being corrected and the policy exception process will be reviewed and modified. Since the student was enrolled at the time the Fall 2001 Pell Grant was disbursed, we believe he was entitled to the award and that the disbursement was correct.

In the second instance, there was a clerical failure to recognize that the student was not making satisfactory progress prior to the initial disbursement. We are discussing automated solutions with our SCT Banner consultant."

Auditor's Concluding Comments:

In relation to the first instance, the capability of University personnel to delete grades of any type from a student's transcript after termination of the add/drop period represents an internal control weakness related to the University's information system.

It is our opinion that, because the University's transcript for this student does not reflect grades of any type for this semester, the student should not have received any Federal aid.

III.H.2. Special Tests – Verification

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: 34 CFR 668.56 requires an applicant selected for verification to submit documentation used in determining the applicant's expected family contribution. The submitted documentation must be in accordance with 34 CFR 668.57.

Condition: During our review of verification procedures at Eastern Connecticut State University (CSU), we noted the following:

- The Financial Aid Office relies on two controls to ensure that verification of income and household information is performed prior to disbursement of Title IV funds for students selected by the Central Processing System. One control is a signature and date line on the student's financial aid worksheet which documents that verification of the information received was performed. The counselor signs the worksheet and enters into the Banner system a code which signifies completion of verification. However, for students not selected for verification, the signature line is also used to indicate that the student file has been reviewed. There is no distinction between the two actions, and students selected for verification subsequent to review of the file may not be verified prior to disbursement. The other control is the Banner system itself, which should prevent disbursement if verification has not been completed. There are several situations which prevent the system from operating as intended. These internal control weaknesses resulted in disbursement of Title IV funds prior to verification in several instances. There was also one instance where the verification worksheet was not on file.

- From a sample size of 25 students selected for verification, we found four instances in which the University used the incorrect income tax paid figure. These errors resulted in net overawards to the Pell Grant program totalling $1,200. When the University was made aware of the overawards, the errors were corrected.

From a sample of 25 students selected for verification at Southern CSU, we noted the following:

- Information on the Institutional Student Information Record (ISIR) for three students pertaining to adjusted gross income and/or income tax paid did not agree with the students' tax documentation.

- One instance in which the verification worksheet was not in the student's file in the Financial Aid Office. The verification worksheet is the primary evidence that the verification procedure has been performed.

Effect: These universities were not in compliance with Federal regulations pertaining to verification. From our sample at Eastern CSU, we are treating $1,200 from the Pell Grant program as questioned costs. The total Pell Grant expenditures in our sample were $41,350, while total expenditures of the Pell Grant program at Eastern CSU during the 2001-2002 award year were $1,984,861.

Cause: Procedures in place at these universities were not sufficient to prevent these conditions from occurring.

Recommendation: Internal controls and procedures at these universities should be improved to enhance compliance with regulations related to verification.

Agency Response: *Eastern CSU:* "We agree with this finding. The financial aid "worksheet" has been modified for 2002-03 to address the signature and date line issue by adding a "verified" line to the "reviewed" lines. There are instances where the student's 01 transaction is not "selected" for verification, and funds are disbursed after corrections are made. Then an 02 or subsequent transaction is "selected" for verification by the Federal processor. We have modified procedures for 02-03 to identify these changes in verification status using a "discrepancy" report and reviewing corrected ISIRs [Institutional Student Information Records] so that we can block subsequent disbursements until verification is complete.

In the second case, we will improve our in-house training to be sure we use the correct tax paid figure from the Federal tax returns. As noted in the finding, the errors for 01-02 have been corrected in the Pell system."

Southern CSU: "We agree with this finding."

III.H.3. Special Tests – Verification

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: Worksheets A, B, and C to the Free Application for Federal Student Assistance (FAFSA) include several items that applicants must either include or exclude from the Expected Family Contribution (EFC) calculation. Some fairly common items such as certain untaxed benefits and flexible spending arrangement plans that require special treatment on the FAFSA can only be identified on the applicant's and/or applicant's parents' Form W-2s.

Condition: From a sample of nine students selected for verification at Capital Community College, we noted that none of the files for these students contained Form W-2s for either the applicant or the parents of the applicant. Without this form, the College's verification process cannot determine that the FAFSA was completed correctly.

Effect: The EFC for some students may not be calculated in accordance with Federal regulations.

Cause: The College does not require all applicants selected for verification to submit the relevant Form W-2s.

Recommendation: Capital Community College should require all applicants selected for verification to submit Form W-2s as part of the verification process.

Agency Response: "We do not agree with this finding. Capital Community College's practice is to ensure that all information provided on the FAFSA by students who are selected is accurate. We are aware that several Connecticut State Universities require all applicants selected for verification to submit Form W-2. However, according to U.S. Federal Regulations (34 CFR 668), Capital Community College is in compliance with the verification policy. Capital Community College maintains that if the Verification Worksheet and the information provided on Worksheet B indicate an amount of zero, Form W-2 is not required. In accordance with the regulations, those selected for verification are required to provide Form W-2 if they meet the following definition: either independent, married, and filing jointly or dependent with parents filing jointly and students and parents completing Worksheet B from the FAFSA and itemizing payments to tax-deferred pension and savings plans or students and parents reporting discrepancies.

We will continue to work with the Connecticut State Auditors to ensure compliance with U.S. Federal Regulations."

Auditor's Concluding Comments:

We believe that the proper treatment and reporting on the FAFSA of the items mentioned above can only be determined by a review of the applicable Form W-2's of the student and the student's parents. A section of the *Student Financial Aid Handbook 2001-2002* states, "Given the variety of items reported in box 14 [of the Form W-2], you should evaluate them individually to determine if they belong on the application."

III.H.4. Special Tests – Disbursements to Students – Credit Balances

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: Per 34 CFR 668.164(e), whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all Title IV program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but no later than 14 days after the balance occurred if the credit balance occurred after the first day of class or no later than 14 days after the first day of class if the credit balance occurred on or before the first day of class. Per 34 CFR 668.165(b)(iii), if an institution obtains written authorization from a student or parent, the institution may hold any Title IV funds that would otherwise be paid directly to the student or parent.

Condition: From a sample of 25 Title IV recipients at the University of Connecticut (UConn), we noted one student who was paid his Title IV credit balance 14 days later than required. We also noted three students whose credit balances were applied to subsequent charges rather than being paid to the students; the University hadn't received written authorization from these students to retain the credit balance in each student's account.

Effect: In certain instances, the University is not in compliance with the required timeframes for paying students their credit balances and is applying the excess Title IV funds to subsequent charges without the authorization of the students or parents.

Cause: A report of students with credit balances is produced weekly by the Disbursements Office. The records of the students listed in the report are reviewed manually for Title IV credit balances, and an invoice is prepared in order to print checks for students who are appropriately due such funds. In certain instances these procedures were not being performed properly within the required timeframes.

Recommendation: UConn should pay credit balances resulting from Title IV program funds directly to the student or the student's parents within the required timeframes. Title IV credit balances should not be held without written authorization from the student or parent.

Agency Response: "We agree with this finding in part. In the case of the first student, the credit balance was originally credited to future charges without permission. Subsequently, the credit balance of $86.33 was returned to her lender due to an overaward of Title IV funds. At that time the credit balance was no longer applied to future charges. In the cases of the other two students, we agree with the finding."

III.H.5. Special Tests – Disbursements to Students – Monitoring Federal Work-Study Payments

Federal Work-Study Program (CFDA # 84.033)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: Sound internal controls require that adequate procedures be in place to ensure that total payments to individual students under the Federal Work-Study program do not exceed each student's award.

Condition: Southern Connecticut State University (CSU) did not monitor the earnings of individual Federal Work-Study recipients during the award year.

Effect: This condition represents an internal control weakness that would not prevent an individual student from earning more than his/her award under the Federal Work-Study program.

Cause: The University had planned to use a feature in the Banner Financial Aid software for monitoring students' Federal Work-Study earnings, but found that the feature was not adequate for this purpose. The University had previously used a manual recordkeeping system for this purpose, but did not maintain this system during the award year.

Recommendation: Southern CSU should implement a system for monitoring the earnings of individual students paid under the Federal Work-Study program.

Agency Response: "We agree with this finding."

III.H.6. Special Tests – Disbursements to Students – Timely Disbursement of Funds

Federal Family Education Loans (FFEL) (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: 34 CFR 682.603 and 34 CFR 682.604(d) require FFEL funds to be disbursed to students within three business days if the lender provided the funds by electronic funds transfer or master check.

Condition: We reviewed records at Southern Connecticut State University (CSU) for ten students who received FFEL funds during the award year. None of the disbursements to these students were made within the required timeframe. The delays in posting the FFEL funds to these students' accounts ranged from two to 19 business days.

Effect: Disbursements to students were not made within the required timeframe.

Cause: The cause for this condition is unknown.

Recommendation: Southern CSU should comply with regulations related to disbursement of FFEL funds to students.

Agency Response: "We agree with this finding."

III.H.7. Special Tests – Return of Title IV Funds

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: The criteria for calculating the return of Title IV funds when a student withdraws are contained in 34 CFR 668.22.

Condition: From a sample of nine Title IV recipients who withdrew from Eastern Connecticut State University (CSU) during the award period, we noted that the return of Title IV funds was not made within the required 30 days in all nine instances. In eight of the cases, the funds were returned up to seven months later than required, and in one instance, there was no evidence in the University's records that the funds were ever returned.

From a sample of five Title IV recipients who withdrew from Southern CSU during the award period, we noted the following conditions:

- The University's calculation of the return of Title IV funds was not in compliance with Federal regulations for each of the five students.

- The University's calculations for the number of calendar days in a payment period did not account for breaks of five days or more, as required by Federal regulations.

- Federal regulations require the return of Title IV funds to be made within 30 days of the date the institution determines that a student has withdrawn. The return of funds related to two of the withdrawn students occurred between four and five months beyond the 30-day deadline, and for two students who withdrew, there was no evidence in the University's records that the funds were ever returned.

Effect: These universities are not in compliance with regulations related to the return of Title IV funds when a student withdraws.

Cause: These universities are not complying with the requirements of 34 CFR 668.22.

Recommendation: These universities should improve internal controls related to the return of Title IV funds when a recipient withdraws.

Agency Response: *Eastern CSU:* "We agree with this finding. Steps have been taken to assure that the Financial Aid Office is notified by e-mail as soon as a student's date of withdrawal is determined. We are moving from using the Federal PC-based return of funds software to the return of funds module in the Banner system. This will speed up the return of funds process because of the interactive nature of Banner administration software system. The one instance where funds were "not returned" was due to a systems issue. We have returned the funds."

Southern CSU: "We agree with this finding."

III.H.8. Special Tests – Student Status Changes

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria: Per 34 CFR 682.610, unless a school expects to complete its next student status report within 60 days, the school must notify the lender/guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Also, the National Student Loan Data System (NSLDS) Enrollment Reporting Guide states that a Graduated (G) enrollment status code is to be used when a student has completed the course of study and is not currently admitted to, nor enrolled in, a different course of study at the same institution.

Condition: From a sample of 25 FFEL borrowers who graduated, withdrew or were dismissed from University of Connecticut (UConn) during the audited period, we noted the following:

- The University uses the National Student Loan Clearinghouse (NSLC) to process and provide Student Status Confirmation Reports (SSCR) data to the NSLDS. Students who graduated in December 2001 and May 2002 were reported to the NSLC with a Withdrawn (W), rather than the correct Graduated (G) enrollment status, on the First of Term Submission, for either the Spring or Fall semester subsequent to their graduation. Therefore, the NSLDS was not notified of the "Withdrawn" status for these graduating students until the next SSCR processed by the Clearinghouse in the subsequent semester following graduation.

- For one borrower that graduated in May 2002, the Financial Aid Office did not send a separation letter to the lending agency/guarantor, in accordance with University policy. No bank separation letter was produced for this student.

- One student who graduated effective December 21, 2001, was reported with an enrollment status of less than half-time status, effective December 22, 2001, even though she was not registered for any classes after her graduation date according to the University's registration data.

- Enrollment data was not reported to lenders/guarantors within 30 days, or SSCR's were not filed within 60 days of the status change for one student who withdrew from the University, effective April 1, 2002. A bank separation letter was mailed on May 23, 2002, and an SSCR processed on

June 21, 2002.

- The enrollment status for one student who was voluntarily discontinued due to cancellation of registration in the spring of 2002, as certified by the University on February 8, 2002, was incorrectly shown at half-time status, with a start date of December 22, 2001. The enrollment status reported to the NSLDS for SSCR reporting purposes for this student indicated a Withdrawn status with three different incorrect status-first-started-dates (February 8, 2002, March 28, 2002, and May 17, 2002).

From a sample of 25 FFEL recipients who terminated from Eastern Connecticut State University (CSU) during the award year for various reasons, we noted three instances in which the University did not report the change in status of these recipients to the NSLC within the required 60 days. We also noted that two recipients were reported as withdrawn rather than as graduated.

From a sample of 10 FFEL recipients who withdrew from Southern CSU during the award year, we noted that the change in status for two of these individuals was not reported to the National Student Loan Clearinghouse or the lender in a timely manner, and for three of these individuals was not reported at all.

Effect: In certain instances at UConn, lenders/guarantors were not notified of enrollment changes in a timely manner, in particular for those students who graduated in May 2002. Because student enrollment status determines the date a Federal loan borrower enters a grace or repayment period, the timing of the government's payment of interest subsidies, and whether a borrower is eligible for in-school deferment privileges, timely reporting of enrollment data for Federal student loan borrowers is critical. If graduating students are not reported to the Clearinghouse on either an End-of Term or Graduates-Only Submission, the Clearinghouse will not report graduating students as having separated from school until much of the students' six-month grace period for repayment may have already passed, leaving little time for the student borrowers' lenders to notify the students of their repayment obligations and deadlines.

Eastern CSU and Southern CSU are not in compliance with reporting requirements related to a change in status of FFEL recipients.

Cause: Students who graduate from UConn are not reported to the NSLC on either an End-of Term or Graduates-Only Submission with a Graduated enrollment status. These students are reported as Withdrawn on the first of term submission for the semester subsequent to their graduation. The Financial

Aid Office, however, does have a procedure in place to send out a bank separation letter to the loan guarantor upon obtaining data that a student has separated (or is anticipated to graduate) from the University.

The cause for this condition at both Eastern CSU and Southern CSU is not known.

Recommendation: These universities should comply with the reporting requirements related to student status changes.

Agency Response: *UConn:* “We agree with this finding.”

Eastern CSU: “We agree with this finding. For the 2002-03 award year, submissions are made to the Clearinghouse during the first, fourth, tenth, and eighteenth weeks of each semester and three times during the summer. Thus, we believe that we currently are meeting all regulatory requirements concerning notification of lenders/guaranty agencies.”

Southern CSU: “We agree with this finding.”

III.H.9. Results of Federal Program Review

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (FFEL) (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2001-2002

Criteria:

1. 34 CFR 668.16(e)(2) requires an institution’s satisfactory academic progress standard to contain both a qualitative component and a quantitative component.

2. Per 34 CFR 668.162(b)(1), an institution’s request for funds may not exceed the amount of funds the institution needs immediately for disbursements the institution has made or will make to eligible students and parents.

3. 34 CFR 682.604(g) requires an institution to provide exit counseling for FFEL recipients when they cease carrying at least a half-time course load. Several different methods can be used to comply with the exit counseling requirement.

4. Per 34 CFR 668.164(b)(1), an institution may disburse Title IV funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

Condition: The U.S. Department of Education performed a program review of the Federal student financial assistance programs administered by Eastern CSU. A report summarizing this review was issued in June 2002. The report noted the following deficiencies:

1. The University's published satisfactory academic progress policy for Federal financial aid recipients did not contain a qualitative component.

2. The University drew down $4,451 related to its Federal Perkins Loan Program Federal capital contribution for award year 2000-2001 on July 10, 2000. Classes did not begin until September 6, 2000.

3. From a sample of 20 students, the files for two FFEL recipients did not contain evidence that the University conducted exit counseling.

4. From a sample of 20 students, the University could not document that one student had ever attended classes. A Federal Pell Grant Program credit of $391 remains on the student's account.

Effect: At the time of the program review performed by the U.S. Department of Education, the University was not in compliance with these requirements.

Cause: Policies and procedures in effect at the time of the U.S. Department of Education's program review were not sufficient to provide compliance with these requirements.

Resolution: The report issued by the U.S. Department of Education required our Office to comment on all findings and corrective actions contained in the report. We conducted testing related to these four deficiencies and noted that the University is in compliance with three of the criteria listed above and intends to comply with the fourth criterion.

I. DEPARTMENT OF TRANSPORTATION

III.I.1. Davis-Bacon Act – Metro-North Projects

Federal Transit Cluster (CFDA 20.500 and 20.507)
Federal Award Agency: Department of Transportation (Federal Transit Administration)
Award Year: State Fiscal Year Ended June 30, 2002
Federal Award Numbers: Various
State Projects: Various

Background: Federally participating payments for labor wage expenditures were made to the Metro-North Railroad for which the Davis Bacon Act would be applicable.

Criteria: Appendix 1 of Circular Urban Mass Transportation Administration (UMTA) 9100.1B, *"Standard Assurances for UMTA Applications,"* includes the Davis-Bacon Act among the list of statutes, regulations, administrative requirements and executive orders applicable to a number of Federal Transit Administration programs including the Federal Transit Cluster.

When required by the Davis-Bacon Act or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

Non-Federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and Department of Labor regulations. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Department agreements with Metro-North for Federally participating projects contain language that requires Metro-North and their subcontractors to comply with the provisions of the Davis-Bacon Act and that Metro-North is bound by that agreement language to monitor the compliance of its subcontractors with Davis-Bacon provisions.

Condition: The Connecticut Department of Transportation does not have an adequate control system in place to monitor compliance with the Davis-Bacon Act as regards to its contracts with Metro-North. Metro-North has been awarded many construction contracts for projects relating to that part of the Metro-North railroad that operates in Connecticut. Metro-North in turn often subcontracts some of the construction projects. Except for an initial attempt, the Department has not performed wage checks of laborers and mechanics employed on these construction projects. Metro-North has not provided certified payrolls of its own employees or those of its subcontractors to the Department, nor does it conduct labor wage checks of its subcontractors. Further, we were told that there is no available listing of prevailing wages for railroad specific laborers.

In the past year the Bureau of Public Transportation has explored the possibility of obtaining a clarification from the Federal Transit Administration in that Metro-North could be considered an operating partner, rather than a contractor or subgrantee; or an exemption or waiver could be granted.

Effect: The Department is not discharging its responsibility for monitoring compliance with the requirements of the Davis-Bacon Act by its major rail construction project contractor. This could lead to the withholding of Federal funds. This condition should be considered systemic to all payments to Metro-North Railroad for Federally participating projects that include labor wage costs.

During the 2001-2002 fiscal year, the Department of Transportation paid approximately $10,448,000 for the personal services costs of Metro-North and Metro-North's subcontractors, a portion of which was Federally participating.

Cause: The Department has encountered difficulties in receiving certified payrolls from Metro-North and Metro-North’s subcontractors in order to perform the required wage rate checks.

Recommendation: The Department should establish monitoring controls to provide reasonable assurance that prevailing wage rates are paid on Metro-North rail construction projects covered by the Davis-Bacon Act. If it cannot do so, the Department should seek an exemption from the Federal grantor.

Agency Response: “We agree with this finding in part. The Department will seek a clarification from the Federal Transit Administration on the appropriate application of the Davis-Bacon Act on projects undertaken by Metro-North Railroad under contract with the Department. The Metropolitan Transit Authority and Metro-North are in fact operating partners of the Department as defined in the *Amended and Restated Service Agreement* among the State of Connecticut, the Metropolitan Transit Authority, and Metro-North, dated

June 21, 1985.

The Department will explore the possibility of seeking an exemption from the funding agency, the Federal Transit Administration, in the event that the appropriate assurances of compliance with prevailing wages in Connecticut cannot be made by Metro-North Railroad"

III.I.2. Allowable Costs/Cost Principles – Unclaimed Costs

Federal Transit Cluster (CFDA 20.500 and 20.507)
Federal Award Agency: Department of Transportation (Federal Transit Administration)
Award Year: State Fiscal Year Ended June 30, 2002
Federal Award Numbers: CT-90-X364
State Projects: 400-15

Background: The Department of Transportation maintains a Federal Billing Section to compile the costs eligible for Federal reimbursement. It utilizes an automated system to track expenditures by specific grant award. From that data a claim is manually prepared and submitted online to the Federal Transit Administration.

Criteria: As a condition for receiving Federal awards, non-Federal entities agree to maintain adequate internal controls to provide assurance that costs claimed for Federal reimbursement are reasonable and necessary for the performance and administration of Federal awards. Costs must be allocable to the Federal award in accordance with relative benefits received. Costs must be documented to 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.

Condition: Our audit identified one complete transaction and the remaining balance of another transaction, both for the purchase of transit buses, which had not been billed to the Federal Transit Administration.

The first transaction was dated October 2, 2001, and totaled $1,312,288.75. This amount was entered on the Department's Federal billing system to be charged to the Federal Transit Cluster at a reimbursement rate of 80 percent, or $1,049,831. Of this total, $287,118 was charged to the first grant award, completely expending it, and $477,343 of the remaining balance of $762,713 was charged to a second grant award, completely expending that one. The remaining balance of $285,370 was to be charged to a third and new grant award (CT-90-X364) and was manually posted to the Department's Federal billing system to that grant. The second transaction was dated October 17, 2001, and totaled $1,328,823.95. Of this amount, $1,063,059, or 80 percent, was entered on the Department's Federal billing system to be charged to the Federal Transit Cluster to the same grant award (CT-90-X364) as the remaining balance above. The Federal Project Account Ledger from the Department's Federal billing system reflected the two amounts as a total net billing of $1,348,429 to the grant award. At this time the accountant in the Department's Federal Billing Section, by simple oversight, failed to enter a billing request for that amount to the Federal Transit Administration. It was not until our audit identified the error that the grant award was billed for the $1,348,429 receivable. Payment from the Federal government was received on September 16, 2002.

Effect: There is no assurance that when a claim for reimbursement is prepared, all applicable expenditures are billed, including manual entries, and any errors made are identified and corrected. As a result the Department failed to collect $1,348,429 in Federal reimbursements. We consider this condition to be a material weakness in internal controls that is systemic to all of the Department's billings to the Federal Transit Cluster.

Cause: The Connecticut Department of Transportation does not have adequate internal controls in place to ensure that the amount would eventually be billed, and there was no supervisory review to ensure that all eligible amounts and only eligible amounts were included on any claim.

The Department's Federal reimbursement request is prepared from an automatically generated claim schedule that compiles total expenditures from each project ledger. However, this automated claim schedule does not include any manual adjustments. A manually prepared worksheet is used to compile total expenditures from both the automated system and from manual adjustments. From this worksheet the Federal reimbursement request is prepared and communicated to the Federal grantor on a payment form, approved and signed by a manager. Department procedures require that the requested Federal reimbursement amount should be equal to the automated claim schedule amount, plus the manual adjustment. In addition, the total amount posted as received on the Federal Project Account Ledger for each grant is to be reconciled to a set of manually posted project cards, which are posted with actual cash receipts as recorded by the Department's Accounts Unit. We found that this reconciliation was not being done with each Federal billing. We also note that these controls would not have detected the error made, because the printout of the billing system ledger, that included the manual entry, was originally mislaid, and the data from it never reached the worksheet or the Federal reimbursement request.

As part of our review of the Department's Federal billing process, we found that an unbilled receivable can be reflected on the Federal Project Account Ledger in the Department's Federal billing system as billed. This can result from manual adjustments used to transfer unbilled balances from expended grant awards to the next one to be charged. Because of the design of the Department's Federal billing system, such manual adjustments are required to transfer unbilled balances from an expended grant award to the next grant award. When such entries are made, postings are automatically made to both the billed and received totals on the ledger, without regard to whether that billing was made and the reimbursement received.

In addition, the Department's Internal Audit Unit, in its quarterly examinations of the automated Federal billing system, did not detect this error. That examination reviews exception reports from the automated Federal billing system that identify transactions without proper coding; it does not include an examination of each biweekly Federal billing.

Department officials did explain that, as part of the routine grant/project closeout process, any over billings or under billings would be identified and corrected.

Recommendation: The Department should improve its internal controls over its Federal billing process to ensure that all eligible costs are billed and any errors made are identified and corrected.

Agency Response: "We agree with this finding. The Department is in the process of developing an accrued unbilled report for Federal Transit Administration billable amounts due the Department.

The accrued unbilled report will have a column that addresses the action(s) taken by the administering bureaus involved and the Federal Billing Section. Federal Billing Section staff will review all amounts on the accrued unbilled report in excess of $1,000, to determine if there are additional actions that can be taken to recover the unbilled Federal funds. If there are, a manual billing will be prepared the following billing period. The supervisor of the Federal Billing Section will review the accrued unbilled report and verify that all actions taken by the Section staff, specifically amounts that can be billed were included on the claim schedule and billed on the electronic request form.

The Department's Internal Audit Unit will audit the accrued unbilled report to ensure that all necessary steps were taken to recover billable charges from the Federal Transit Administration"

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J. DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

III.J.1. Matching, Level of Effort, Earmarking

Shelter Plus Care (CFDA #14.238)
Federal Award Agency: Department of Housing and Urban Development
Award Years: 1993 and 1994
Federal Award Numbers: CT26C93-1102, CT26C93-1109, CT26C94-0059 and CT26C94-0060

Criteria: Matching requirements under Section 582.110 of the Code of Federal Regulations require that supportive services for Shelter Plus Care (SPC) Federal program participants be provided in an amount at least equal in value to the aggregate amount of rental assistance provided.

Condition:

1. An automated system was used to account for program match by tracking the value of services provided to program participants. Matching services are recorded on an on-going basis and should increase or remain unchanged over time. A review of annual progress reports for eight grants disclosed that three Tenant-based Rental Assistance programs had unexplained decreases in match as follows.
   a. Grant contract CT26C94-0059 covering the New Haven area, reported that match for the period ended July 31, 2002, had decreased from $456,913 to $211,146, a decrease of $245,767.
   b. Grant contract CT26C93-1109 covering the Norwalk area, reported that match for the period ended May 31, 2002, had decreased from $811,114 to $770,579, a decrease of $40,535.
   c. Grant contract CT26C93-1102 covering the New Haven area, reported that match for the period ended May 31, 2002, had decreased from $5,133,743 to $5,011,399, a decrease of $122,344.
2. Based on annual progress reports, matching requirements were not met for two grant contracts as follows.
   a. For grant contract CT26C94-0060 covering the Stamford area, match of $930,700 was reported at December 31, 2001, for about $1,470,400 in rental assistance payments.
   b. For grant contract CT26C93-1109 covering the Norwalk area, match of $811,100 was reported at September 30, 2001, for about $1,619,600 in rental assistance payments.

Effect:

1. Inconsistent reporting of match denotes weaknesses in overall system operations used to track matching costs.
2. Minimum Federal matching requirements for two grant contracts were not met by about $1,348,200.

Cause:

1. There is inadequate review and monitoring of the automated system used to track matching costs.
2. Ineffective monitoring of grant matching amounts being reported contributed to match shortages going undetected. Actual reasons for not meeting matching requirements are uncertain.

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Recommendation: The Department of Mental Health and Addiction Services should ensure that matching for the Federal Shelter Plus Care program is properly accounted for and that grant matching requirements are met.

Agency Response: "The Department of Mental Health and Addiction Services agrees with this finding in part.

1. A review conducted by Department staff indicates inconsistent reporting of match as indicated by decreases in match for the three grants identified, two in New Haven and one in Norwalk. In certain instances all the data for match is not being accounted for when completing the Annual Progress Report (APR) at the local level. In addition, Central Office (OOC) review of the APR needs improvement in order to identify lack of documentation.

   The Housing Unit has recently implemented a monitoring and technical assistance schedule for all grants which should assist the grantees in their administration of the Federal funding and result in consistent reporting of match. The Housing Unit will also conduct a more thorough review of the APR, when submitted, in order to identify inconsistencies in match amounts. In addition, the Department will conduct a review/analysis of the data system to see if a problem exists within that system for the reporting of match.

2. A recent review has been conducted by the Southwest Connecticut Mental Health System of a number of client records indicating that services were provided to Shelter Plus Care clients. These services were entered into the data system or were captured under different service headings and, therefore, did not translate into the Shelter Plus Care service data system. As a result of these findings, the Department believes there are a significant number of services that will be captured following a more thorough review of the clients records. This review will be completed within the next 190 days.

   The Department will establish a plan of correction in conjunction with the Southwest Connecticut Mental Health System to assure that all services are being documented. This plan will address the following issues:

- The appropriateness of the cost of services.
- All services are properly counted.
- Data collected is being properly entered into the Department’s computer system.
- Review/analyze data system to identify errors.”