State of Connecticut
Single Audit Report

For The Year Ended June 30, 2003

Auditors of Public Accounts
Hartford, Connecticut

STATE OF CONNECTICUT
Single Audit Report
For the Year Ended June 30, 2003

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

HARTFORD, CONNECTICUT 06106-1559

March 24, 2004

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, 2003.

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 $5,400,000,000 in Federal financial assistance during the fiscal year ended June 30, 2003. 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 completion 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, 2003.

Respectfully submitted,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

State of Connecticut
Financial Statements

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

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, 2003, 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:

<u>Government-wide Financial Statements</u>

- 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 59 percent of the assets and 50 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

<u>Fund Financial Statements</u>

- the financial statements of the Special Transportation Fund account, which represents 98 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 100 percent of the assets and 100 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 59 percent of the assets and 50 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, 2003, 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 January 30, 2004, 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 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	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

January 30, 2004
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.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities were $5.3 billion less than liabilities, a deterioration in financial position of $0.7 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $3.9 billion, an increase of $0.1 billion related to current year operations. In total, net assets went from negative $0.8 billion to a negative $1.4 billion, a decrease in total net assets of $0.6 billion.

As noted above, the liabilities of the state exceeded its assets by $5.3 billion as of June 30, 2003. Of this amount, the unrestricted net asset portion was a negative $9.2 billion. One reason for the negative balance is the state's reliance on issuing bonds to fund certain operating grants. General Obligation bonds outstanding as of June 30, 2003 that related to municipal school construction, and other operating grants and loans totaled $3.3 billion. Additionally, long-term obligations such as net pension, compensated absences, and worker's compensation obligations of $3.9 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 $1.6 billion was reserved leaving a negative unreserved balance of $0.1 billion. The unreserved undesignated fund balance of the General Fund was also negative at $0.8 billion at June 30, 2003.

Enterprise Fund assets exceeded liabilities resulting in total net assets of $3.9 billion, of which $3.8 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 $12.5 billion (see Note 16). In addition, $0.2 billion in Economic Recovery Notes was outstanding on June 30, 2003. Other long-term liabilities totaled $3.9 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 GASB 34 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 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 (page 37).

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 GASB 34 financial reporting model, as presented here, 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 GASB 34 financial reporting model brought three important changes to traditional practice.

- Budgetary comparisons 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 GASB 34 financial reporting model requires 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. In accordance with the requirements of the GASB 34 reporting model utilized in preparation of this report:

- 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 GASB 34 reporting model, such a distinction is no longer made. Three classifications are used under the GASB 34 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 has been 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 *Comprehensive Annual Financial Report* prior to Fiscal Year 2002.

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 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 \$0.6 billion over the course of Fiscal Year 2003 operations. The net assets of governmental activities decreased \$0.7 billion, while net assets from business-type activities increased \$0.1 billion.

State Of Connecticut's Net Assets
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
ASSETS:						
Current and Other Assets	$ 3,114.3	$ 3,373.4	$ 3,767.3	$ 3,940.4	$ 6,881.6	$ 7,313.8
Capital Assets	9,531.9	9,125.8	2,627.6	2,306.1	12,159.5	11,431.9
Total Assets	12,646.2	12,499.2	6,394.9	6,246.5	19,041.1	18,745.7
LIABILITES:						
Current Liabilities	2,344.8	2,535.4	555.4	488.4	2,900.2	3,023.8
Long-term Liabilities	15,648.4	14,568.4	1,964.4	1,948.7	17,612.8	16,517.1
Total Liabilities	17,993.2	17,103.8	2,519.8	2,437.1	20,513.0	19,540.9
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	2,622.4	2,348.4	2,092.6	1,847.5	4,715.0	4,195.9
Restricted	1,233.9	1,244.2	1,650.1	1,855.5	2,884.0	3,099.7
Unrestricted	(9,203.3)	(8,197.2)	132.4	106.4	(9,070.9)	(8,090.8)
Total Net Assets	$ (5,347.0)	$ (4,604.6)	$ 3,875.1	$ 3,809.4	$ (1,471.9)	$ (795.2)

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 2003.

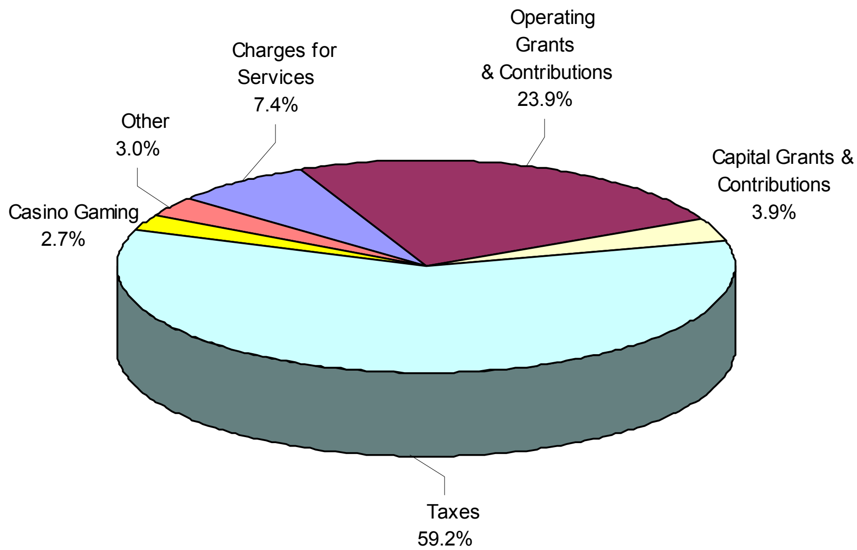
State of Connecticut's Changes in Net Assets (Expressed in Millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
REVENUES						
Program Revenues						
Charges for Services	1,072.9	$ 941.9	$ 2,594.8	$ 2,409.7	$ 3,667.7	$ 3,351.6
Operating Grants and Contributions	3,489.2	3,320.1	456.2	447.7	3,945.5	3,767.8
Capital Grants and Contributions	562.6	509.1	10.2	37.8	572.8	546.9
General Revenues						
Taxes	8,644.7	8,292.6	-	-	8,644.7	8,292.6
Casino Gaming Payments	387.3	369.0	-	-	387.3	369.0
Other	208.5	229.5	111.3	98.8	319.8	328.3
Total Revenues	14,365.2	13,662.2	3,172.5	2,994.0	17,537.8	16,656.2
EXPENSES						
Legislative	80.2	80.2	-	-	80.2	80.2
General Government	1,145.6	1,340.0	-	-	1,145.6	1,340.0
Regulation and Protection	574.7	627.4	-	-	574.7	627.4
Conservation and Development	410.2	434.4	-	-	410.2	434.4
Health and Hospitals	1,711.1	1,664.1	-	-	1,711.1	1,664.1
Transportation	941.3	1,366.1	-	-	941.3	1,366.1
Human Services	4,138.9	3,882.7	-	-	4,138.9	3,882.7
Education, Libraries and Museums	3,090.6	3,000.3	-	-	3,090.6	3,000.3
Corrections	1,450.4	1,355.1	-	-	1,450.4	1,355.1
Judicial	555.8	538.4	-	-	555.8	538.4
Interest and Fiscal Charges	595.9	584.1	-	-	595.9	584.1
Higher Education	-	-	1,977.9	1,869.9	1,977.9	1,869.9
Bradley International Airport	-	-	54.3	50.4	54.3	50.4
CT Lottery Corporation	-	-	643.2	672.1	643.2	672.1
Employment Security	-	-	963.2	736.3	963.2	736.3
Second Injury & Compensation Assurance	-	-	-	61.2	-	61.2
Clean Water	-	-	29.4	30.9	29.4	30.9
Other	-	-	72.6	19.2	72.6	19.2
Total Expenses	14,694.7	14,872.8	3,740.7	3,440.0	18,435.4	18,312.8
Excess (Deficiency) Before Transfers and Special Items	(329.5)	(1,210.6)	(568.2)	(446.0)	(897.6)	(1,656.6)
Transfers	(640.2)	(657.0)	640.3	657.0	0.1	-
Special Items	227.3	-	(6.5)	(4.5)	220.8	(4.5)
Increase (Decrease) in Net Assets	(742.4)	(1,867.6)	65.6	206.5	(676.8)	(1,661.1)
Net Assets (Deficit) - Beginning (Restated)	(4,604.6)	(2,737.0)	3,809.4	3,602.9	(795.1)	865.9
Net Assets (Deficit) - Ending	(5,347.0)	$ (4,604.6)	$ 3,875.1	$ 3,809.4	(1,471.9)	$ (795.2)

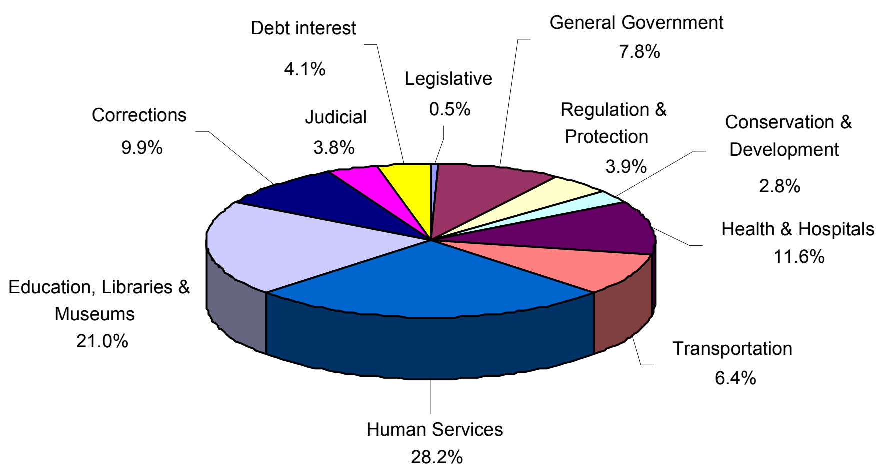
GOVERNMENTAL ACTIVITIES

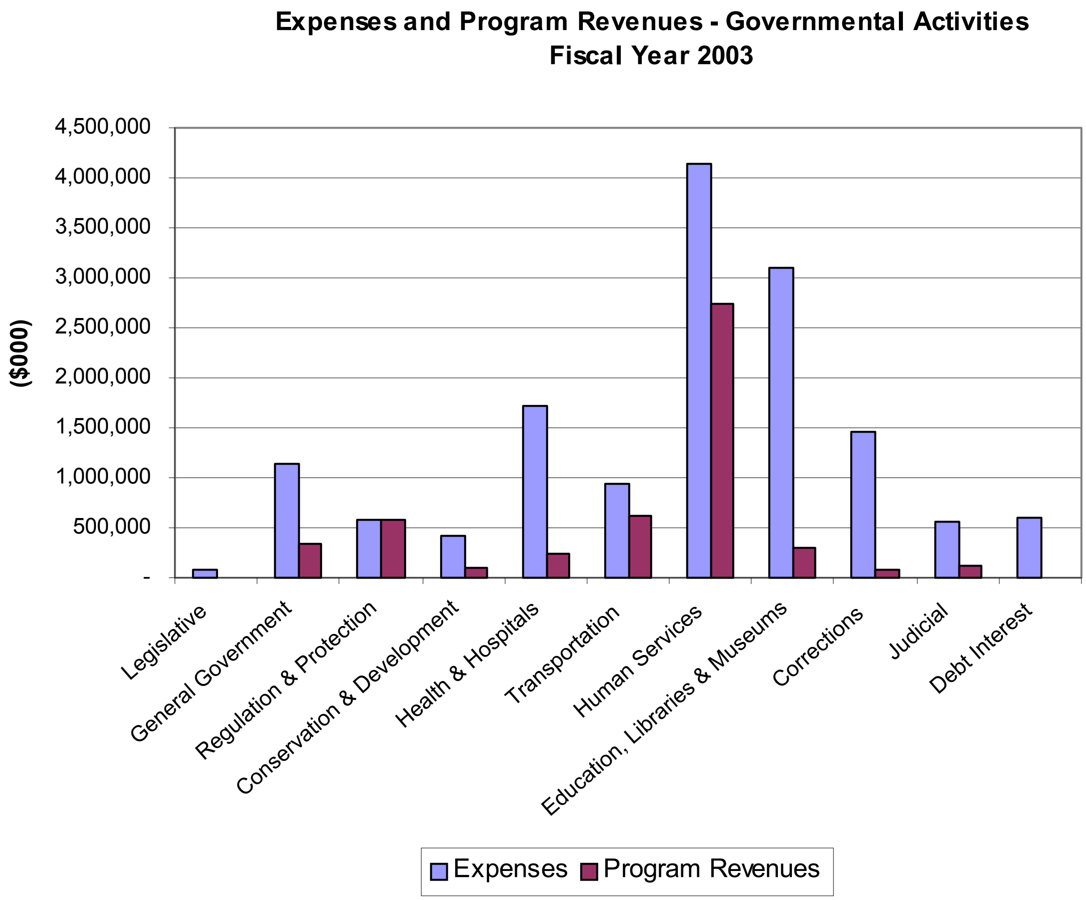
The following charts depict the distribution of revenues and expenses for Fiscal Year 2003.

Revenues - Governmental Activities
Fiscal Year 2003



Expenses- Governmental Activities
Fiscal Year 2003





Within governmental activities, Fiscal Year 2003 program revenue receipts were $9.5 billion less than expenses. General revenues supplemented the programmatic revenue shortfall. General revenues in governmental activities amounted to $9.4 billion in Fiscal Year 2003. During Fiscal Year 2003, budget projections indicated that a gap between revenues and expenses had developed in the General Fund and would accelerate. In an effort to improve the state's future operating results, revenue enhancements were enacted and appropriations reduced during the course of Fiscal Year 2003 as discussed in the General Fund section of this MDA that follows.

Business-type activities saw an increase of $0.1 billion or 1.8 percent through Fiscal Year 2003 operations. Higher-Education expenses accounted for 52.9 percent of business-type expenses and 39.1 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 2003 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 2003 operations had only a minor impact on the fund balance in governmental funds increasing the balance by $30.5 million.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2003, the General Fund had a negative fund balance of $0.4 billion of which $0.8 billion was unreserved. Fiscal Year 2003 operations increased the fund balance in the General Fund by $33.2 million. Tax increases and other revenue enhancements enacted by the legislature during Fiscal Year 2003 (Public Act 03-2) generated an estimated $485 million in additional revenue, and spending reductions introduced during the fiscal year were projected to save over $100 million (the estimates are on a budgetary basis or modified cash basis of accounting). These actions helped avert a large General Fund operating deficit in Fiscal Year 2003.

By the end of the first quarter of Fiscal Year 2003, budget based forecasts were showing a large deficit building for the year. In response, deficit mitigation legislation was enacted as referenced above. Specific tax changes included: an increase in the top personal income tax rate from 4.5 percent to 5 percent, a 20 percent surtax on corporate earnings, elimination of various sales tax exemptions and a 40 cent increase in the cigarette tax. The legislation also included an additional $72 million in one-time transfers to the General Fund to supplement the $284.1 million that had already been budgeted for such transfers in Fiscal Year 2003. Spending reductions included layoffs, an early retirement program, and various directed programmatic reductions.

Transportation Fund

The Transportation Fund ended Fiscal Year 2003 with a fund balance of $0.2 billion of which $0.1 billion was unreserved. Fund balance was reduced by $61.6 million through Fiscal Year 2003 operations. The majority of this reduction was due to the transfer of $52 million to the General Fund in accordance with Public Act 03-2.

Other Funds

The other funds category includes the state's special revenue funds. These funds had a balance of $1.1 billion on June 30, 2003 of which $0.7 billion was unreserved.

In Fiscal Year 2003, expenditures exceeded revenues by $1.2 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, 2003 amounts to $12.2 billion (net of accumulated depreciation). The increase in capital assets for governmental activities was 4.5% while the increase for business-type activities was 13.9%. Depreciation charges for the fiscal year totaled $0.7 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	$ 911.8	$ 863.6	$ 44.8	$ 46.1	$ 956.6	$ 909.7
Buildings	879.9	701.4	1,712.0	1,311.6	2,591.9	2,013.0
Improvements Other than Buildings	63.2	45.4	230.0	198.8	293.2	244.2
Equipment	458.4	547.4	355.7	365.4	814.1	912.8
Infrastructure	5,481.8	5,719.7	-	-	5,481.8	5,719.7
Construction in Progress	1,736.9	1,248.3	285.1	384.2	2,022.0	1,632.5
Total	$ 9,532.0	$ 9,125.8	$ 2,627.6	$ 2,306.1	$ 12,159.6	$ 11,431.9

Additional information on the State of Connecticut's capital assets can be found in Note 10 on page 71 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 Primary Government	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	$ 9,216.4	$ 8,527.4	$ -	$ -	$ 9,216.4	$ 8,527.4
Transportation Related Bonds	3,205.8	3,174.9	-	-	3,205.8	3,174.9
Revenue Bonds	-	-	1,555.2	1,504.8	1,555.2	1,504.8
Total	$ 12,422.2	$ 11,702.3	$ 1,555.2	$ 1,504.8	$ 13,977.4	$ 13,207.1

In Fiscal Year 2003 the state increased net outstanding bonds by $0.8 billion. For the year, outstanding debt in governmental activities increased by 6.2 percent and for business-type activities the increase was 3.7 percent. It should also be noted that the state also issued $219.2 million in economic recovery notes (see note 17, page 76). The state's General Obligation bonds are rated Aa3, AA and AA by Moodys, Standard and Poors and Fitch respectively. Special Tax Obligation bonds are rated A1, AA-, AA- by Moodys, Standard and Poors and Fitch 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.

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, 2003
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 245,597	$ 418,475	$ 664,072	$ 161,495
Deposits with U.S. Treasury	-	501,213	501,213	-
Investments	108,070	251,471	359,541	85,191
Receivables, (Net of Allowances)	1,722,305	493,451	2,215,756	50,589
Due from Component Units	195	163,602	163,797	-
Due from Primary Government	-	-	-	20,636
Inventories	60,278	11,315	71,593	3,607
Restricted Assets	-	9,799	9,799	1,149,670
Internal Balances	(109,943)	109,943	-	-
Other Current Assets	10,236	9,778	20,014	5,633
Total Current Assets	2,036,738	1,969,047	4,005,785	1,476,821
Noncurrent Assets:				
Cash and Cash Equivalents	-	120,772	120,772	260
Due From Component Units	1,805	-	1,805	-
Investments	-	421,279	421,279	11,773
Loans, (Net of Allowances)	427,351	542,464	969,815	164,010
Restricted Assets	622,082	643,839	1,265,921	3,572,747
Capital Assets, (Net of Accumulated Depreciation)	9,531,937	2,627,566	12,159,503	235,935
Other Noncurrent Assets	26,331	69,958	96,289	16,118
Total Noncurrent Assets	10,609,506	4,425,878	15,035,384	4,000,843
Total Assets	12,646,244	6,394,925	19,041,169	5,477,664
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	452,164	203,669	655,833	54,440
Due to Component Units	20,636	-	20,636	-
Due to Primary Government	-	-	-	163,797
Due to Other Governments	99,406	-	99,406	-
Escrow Deposits	-	-	-	18,122
Current Portion of Long-Term Obligations	1,051,039	170,078	1,221,117	141,766
Amount Held for Institutions	-	-	-	299,513
Deferred Revenue	35,787	100,243	136,030	380
Medicaid Liability	443,898	-	443,898	-
Liability for Escheated Property	68,073	-	68,073	-
Other Current Liabilities	173,780	81,445	255,225	14,558
Total Current Liabilities	2,344,783	555,435	2,900,218	692,576
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	15,648,445	1,964,418	17,612,863	3,673,077
Total Noncurrent Liabilities	15,648,445	1,964,418	17,612,863	3,673,077
Total Liabilities	17,993,228	2,519,853	20,513,081	4,365,653
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,622,372	2,092,633	4,715,005	43,632
Restricted For:				
Transportation	101,219	-	101,219	-
Debt Service	587,518	86,308	673,826	19,506
Capital Projects	119,259	79,093	198,352	-
Unemployment Compensation	-	646,399	646,399	-
Clean Water Projects	-	435,001	435,001	-
Bond Indenture Requirements	-	23,970	23,970	676,290
Other Purposes	331,805	135,170	466,975	56,511
Funds Held as Permanent Investments:				
Expendable	5,329	-	5,329	-
Nonexpendable	88,862	244,104	332,966	-
Unrestricted (Deficit)	(9,203,348)	132,394	(9,070,954)	316,072
Total Net Assets (Deficit)	$ (5,346,984)	$ 3,875,072	$ (1,471,912)	$ 1,112,011

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

Statement of Activities

For The Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services, Fees, Fines , and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Legislative	$ 80,176	$ 85	$ 292	$ -
General Government	1,145,613	186,206	156,989	-
Regulation and Protection	574,674	435,142	140,337	-
Conservation and Development	410,167	38,039	66,921	55
Health and Hospitals	1,711,076	57,144	185,903	-
Transportation	941,257	53,441	3,145	562,086
Human Services	4,138,932	151,330	2,585,437	-
Education, Libraries, and Museums	3,090,630	45,908	260,392	447
Corrections	1,450,392	14,240	63,776	25
Judicial	555,791	91,397	26,021	-
Interest and Fiscal Charges	595,949	-	-	-
Total Governmental Activities	14,694,657	1,072,932	3,489,213	562,613
Business-Type Activities:				
Higher Education	1,977,886	972,921	219,142	5,154
Bradley International Airport	54,323	49,594	-	5,041
CT Lottery Corporation	643,214	867,055	-	-
Employment Security	963,201	577,079	203,297	-
Clean Water	29,435	12,008	17,661	-
Other	72,633	116,109	16,139	-
Total Business-Type Activities	3,740,692	2,594,766	456,239	10,195
Total Primary Governmen	$ 18,435,349	$ 3,667,698	$ 3,945,452	$ 572,808
Component Units:				
Connecticut Housing Finance Authority (12-31-02)	$ 222,841	$ 223,386	$ -	$ -
Connecticut Resources Recovery Authority	169,970	156,258	-	-
Other	55,733	38,229	1,929	25,107
Total Component Units	$ 448,544	$ 417,873	$ 1,929	$ 25,107

General Revenues:
Taxes:
Personal Income
Corporate Income
Sales and Use
Other
Restricted for Transportation Purposes:
Motor Fuel
Other
Casino Gaming Payments
Tobacco Settlement
Unrestricted Investment Earnings
Other
Special Items:
Statutory Payment from Component Units
Transfer from Agency Fund
Statutory Payment to State
Other
Extraordinary Item-Loss on Early Retirement of Deb
Transfers-Internal Activities
Total General Revenues, Special Items,
Extraordinary Item, and Transfers
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
$ (79,799)	$ -	$ (79,799)	$ -
(802,418)	-	(802,418)	-
805	-	805	-
(305,152)	-	(305,152)	-
(1,468,029)	-	(1,468,029)	-
(322,585)	-	(322,585)	-
(1,402,165)	-	(1,402,165)	-
(2,783,883)	-	(2,783,883)	-
(1,372,351)	-	(1,372,351)	-
(438,373)	-	(438,373)	-
(595,949)	-	(595,949)	-
(9,569,899)	-	(9,569,899)	-
-	(780,669)	(780,669)	-
-	312	312	-
-	223,841	223,841	-
-	(182,825)	(182,825)	-
-	234	234	-
-	59,615	59,615	-
-	(679,492)	(679,492)	-
(9,569,899)	(679,492)	(10,249,391)	-
-	-	-	545
-	-	-	(13,712)
-	-	-	9,532
-	-	-	(3,635)
3,593,080	-	3,593,080	-
390,012	-	390,012	-
2,938,341	-	2,938,341	-
1,208,083	-	1,208,083	-
-	-	-	-
450,696	-	450,696	-
64,524	-	64,524	-
387,255	-	387,255	-
137,915	-	137,915	-
54,741	111,336	166,077	61,756
15,855	-	15,855	-
100,000	-	100,000	-
127,256	-	127,256	-
-	-	-	(15,000)
-	(2,455)	(2,455)	(16,125)
-	(4,010)	(4,010)	-
(640,268)	640,268	-	-
8,827,490	745,139	9,572,629	30,631
(742,409)	65,647	(676,762)	26,996
(4,604,575)	3,809,425	(795,150)	1,085,015
$ (5,346,984)	$ 3,875,072	$ (1,471,912)	$ 1,112,011

Statement of Activities

For The Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services, Fees, Fines, and Forfeitures	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Legislative	$ 80,176	$ 85	$ 292	$ -
General Government	1,145,613	186,206	156,989	-
Regulation and Protection	574,674	435,142	140,337	-
Conservation and Development	410,167	38,039	66,921	55
Health and Hospitals	1,711,076	57,144	185,903	-
Transportation	941,257	53,441	3,145	562,086
Human Services	4,138,932	151,330	2,585,437	-
Education, Libraries, and Museums	3,090,630	45,908	260,392	447
Corrections	1,450,392	14,240	63,776	25
Judicial	555,791	91,397	26,021	-
Interest and Fiscal Charges	595,949	-	-	-
Total Governmental Activities	14,694,657	1,072,932	3,489,213	562,613
Business-Type Activities:				
Higher Education	1,977,886	972,921	219,142	5,154
Bradley International Airport	54,323	49,594	-	5,041
CT Lottery Corporation	643,214	867,055	-	-
Employment Security	963,201	577,079	203,297	-
Clean Water	29,435	12,008	17,661	-
Other	72,633	116,109	16,139	-
Total Business-Type Activities	3,740,692	2,594,766	456,239	10,195
Total Primary Governmen	$ 18,435,349	$ 3,667,698	$ 3,945,452	$ 572,808
Component Units:				
Connecticut Housing Finance Authority (12-31-02)	$ 222,841	$ 223,386	$ -	$ -
Connecticut Resources Recovery Authority	169,970	156,258	-	-
Other	55,733	38,229	1,929	25,107
Total Component Units	$ 448,544	$ 417,873	$ 1,929	$ 25,107

General Revenues:
Taxes:
Personal Income
Corporate Income
Sales and Use
Other
Restricted for Transportation Purposes:
Motor Fuel
Other
Casino Gaming Payments
Tobacco Settlement
Unrestricted Investment Earnings
Other
Special Items:
Statutory Payment from Component Units
Transfer from Agency Fund
Statutory Payment to State
Other
Extraordinary Item-Loss on Early Retirement of Deb
Transfers-Internal Activities
Total General Revenues, Special Items,
Extraordinary Item, and Transfers
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
$ (79,799)	$ -	$ (79,799)	$ -
(802,418)	-	(802,418)	-
805	-	805	-
(305,152)	-	(305,152)	-
(1,468,029)	-	(1,468,029)	-
(322,585)	-	(322,585)	-
(1,402,165)	-	(1,402,165)	-
(2,783,883)	-	(2,783,883)	-
(1,372,351)	-	(1,372,351)	-
(438,373)	-	(438,373)	-
(595,949)	-	(595,949)	-
(9,569,899)	-	(9,569,899)	-
-	(780,669)	(780,669)	-
-	312	312	-
-	223,841	223,841	-
-	(182,825)	(182,825)	-
-	234	234	-
-	59,615	59,615	-
-	(679,492)	(679,492)	-
(9,569,899)	(679,492)	(10,249,391)	-
-	-	-	545
-	-	-	(13,712)
-	-	-	9,532
-	-	-	(3,635)
3,593,080	-	3,593,080	-
390,012	-	390,012	-
2,938,341	-	2,938,341	-
1,208,083	-	1,208,083	-
-	-	-	-
450,696	-	450,696	-
64,524	-	64,524	-
387,255	-	387,255	-
137,915	-	137,915	-
54,741	111,336	166,077	61,756
15,855	-	15,855	-
100,000	-	100,000	-
127,256	-	127,256	-
-	-	-	(15,000)
-	(2,455)	(2,455)	(16,125)
-	(4,010)	(4,010)	-
(640,268)	640,268	-	-
8,827,490	745,139	9,572,629	30,631
(742,409)	65,647	(676,762)	26,996
(4,604,575)	3,809,425	(795,150)	1,085,015
$ (5,346,984)	$ 3,875,072	$ (1,471,912)	$ 1,112,011

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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, 2003
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ -	$ -	$ 112,466	$ 123,018	$ 235,484
Investments	-	-	-	108,070	108,070
Securities Lending Collateral	-	-	-	9,750	9,750
Receivables:					
Taxes, Net of Allowances	761,905	-	40,898	-	802,803
Accounts, Net of Allowances	197,483	-	5,530	26,804	229,817
Loans, Net of Allowances	-	-	-	427,351	427,351
From Other Governments	562,792	-	9,220	81,414	653,426
Interest	-	4,969	150	-	5,119
Other	11,105	-	6,586	2	17,693
Due from Other Funds	12,974	-	9,156	595,496	617,626
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	2,000	-	-	-	2,000
Inventories	42,124	-	13,080	-	55,204
Restricted Assets	-	622,082	-	-	622,082
Total Assets	$ 1,595,083	$ 627,051	$ 197,086	$ 1,371,905	$ 3,791,125
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Accrued Liabilities	$ 207,128	$ -	$ 19,772	$ 122,339	349,239
Due to Other Funds	626,709	4,968	1,060	67,407	700,144
Due to Component Units	189	-	-	20,447	20,636
Due to Other Governments	99,406	-	-	-	99,406
Deferred Revenue	389,858	-	17,978	36,706	444,542
Medicaid Liability	443,898	-	-	-	443,898
Liability For Escheated Property	68,073	-	-	-	68,073
Securities Lending Obligation	-	-	-	9,750	9,750
Other Liabilities	161,321	-	-	2,673	163,994
Total Liabilities	1,996,582	4,968	38,810	259,322	2,299,682
Fund Balances					
Reserved For:					
Petty Cash	991	-	-	-	991
Inventories	42,124	-	13,080	-	55,204
Loans	6,700	-	-	427,351	434,051
Continuing Appropriations	86,647	-	19,866	550	107,063
Debt Service/Issue Costs	55,097	622,083	-	-	677,180
Restricted Purposes	249,260	-	-	94,191	343,451
Unreserved Reported In:					
General Fund	(842,318)	-	-	-	(842,318)
Transportation Fund	-	-	125,330	-	125,330
Special Revenue Funds	-	-	-	443,507	443,507
Capital Project Funds	-	-	-	146,984	146,984
Total Fund Balances	(401,499)	622,083	158,276	1,112,583	1,491,443
Total Liabilities and Fund Balances	$ 1,595,083	$ 627,051	$ 197,086	$ 1,371,905	$ 3,791,125

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, 2003

(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$ 1,491,443
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	2,538,430	
Equipment	1,188,423	
Infrastructure	10,893,203	
Other Capital Assets	1,284,132	
Accumulated Depreciation	(6,435,185)	9,469,003
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.		26,294
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.		408,884
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.		33,393
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 16).		
Net Pension Obligation	(3,256,597)	
Worker's Compensation	(265,645)	
Capital Leases	(67,988)	
Compensated Absences	(342,349)	
Claims and Judgments	(7,612)	(3,940,191)
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 16).		
Economic Recovery Note	(219,235)	
Bonds Payable	(12,422,169)	
Unamortized Premiums	(233,093)	
Less: Deferred Loss on Refundings	127,974	
Accrued Interest Payable	(89,287)	(12,835,810)
Net Assets of Governmental Activities		$ (5,346,984)

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, 2003

(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 8,202,454	$ -	$ 514,654	$ 10,394	$ 8,727,502
Licenses, Permits and Fees	182,532	-	296,584	45,882	524,998
Tobacco Settlement	-	-	-	137,915	137,915
Intergovernmental	3,393,386	-	84,200	551,054	4,028,640
Charges for Services	54,161	-	35,820	2,941	92,922
Fines, Forfeits and Rents	71,475	-	26,128	2,306	99,909
Casino Gaming Payments	387,255	-	-	-	387,255
Investment Earnings	6,160	25,806	4,136	14,857	50,959
Miscellaneous	264,737	-	11,079	87,655	363,471
Total Revenues	12,562,160	25,806	972,601	853,004	14,413,571
Expenditures					
Current:					
Legislative	77,307	-	-	-	77,307
General Government	893,009	-	2,403	219,851	1,115,263
Regulation and Protection	329,115	-	64,270	165,325	558,710
Conservation and Development	183,051	-	-	219,604	402,655
Health and Hospitals	1,677,490	-	-	9,209	1,686,699
Transportation	5,184	-	526,325	6,288	537,797
Human Services	4,062,911	-	-	26,178	4,089,089
Education, Libraries, and Museums	2,544,540	-	-	497,805	3,042,345
Corrections	1,409,189	-	-	13,524	1,422,713
Judicial	536,870	-	-	9,284	546,154
Capital Projects	-	-	-	871,029	871,029
Debt Service:					
Principal Retirement	592,268	296,315	15,082	993	904,658
Interest and Fiscal Charges	430,343	165,386	5,776	11,676	613,181
Total Expenditures	12,741,277	461,701	613,856	2,050,766	15,867,600
Excess (Deficiency) of Revenues Over Expenditures	(179,117)	(435,895)	358,745	(1,197,762)	(1,454,029)
Other Financing Sources (Uses)					
Bonds/Notes Issued	219,235	-	-	1,584,910	1,804,145
Premiums on Bonds Issued	4,628	35,115	-	84,863	124,606
Transfers In	706,976	404,653	26,210	144,324	1,282,163
Transfers Out	(819,416)	(26,564)	(446,571)	(503,993)	(1,796,544)
Capital Lease Obligations	866	-	-	211	1,077
Refunding Bonds Issued	-	745,669	-	-	745,669
Payment to Refunded Bond Escrow Agent	-	(776,597)	-	-	(776,597)
Total Other Financing Sources (Uses)	112,289	382,276	(420,361)	1,310,315	1,384,519
Special Item-Statutory Payment from Component Units	100,000	-	-	-	100,000
Net Change in Fund Balances	33,172	(53,619)	(61,616)	112,553	30,490
Fund Balances - Beginning (as restated)	(434,926)	675,702	221,671	1,000,030	1,462,477
Changes in Reserves for Inventories	255	-	(1,779)	-	(1,524)
Fund Balances - Ending	$ (401,499)	$ 622,083	$ 158,276	$ 1,112,583	$ 1,491,443

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, 2003

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 30,490
Amounts reported for governmental activities in the Statement of Activitie are different because:		
Bond proceeds provide current financial resources to governmental funds. Howeve issuing debt increases long term-liabilities in the Statement of Net Assets. Bon proceeds were received this year from		
Bonds Issued	(1,804,145)	
Refunding Bonds Issued	(745,669)	
Premium on Bonds Issued	(124,606)	(2,674,420)
Repayment of long-term debt is an expenditure in the governmental funds, but th repayment reduces long-term liabilities in the Statement of Net Assets. Long-term del repayments this year consisted of		
Principal Retirement	904,658	
Payments to Refunded Bond Escrow Agent ($4,668 reported in debt service	781,265	
Capital Lease Payments	9,985	1,695,908
Capital outlays are reported as expenditures in the governmental funds. However, in th Statement of Activities the cost of those assets is allocated over their estimated usef lives and reported as depreciation expense. In the current period, these amounts are		
Capital Outlays	1,047,212	
Depreciation Expense	(639,576)	407,636
Some capital assets acquired this year were financed with capital leases. The amour financed by leases is reported in the governmental funds as a source of financing, bu lease obligations are reported as long-term liabilities on the Statement of Net Asset		(1,077)
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 thos assets are consumed. This is the amount by which consumption exceeded purchases o inventories.		(1,524)
Some expenses reported in the Statement of Activities do not require the use of curren financial resources and therefore are not reported as expenditures in governmenta funds. These activities consist of		
Decrease in Accrued Interest	1,106	
Increase in Interest Accreted on Capital Appreciation Deb	(5,929)	
Amortization of Bond Premium	14,099	
Amortization of Loss on Debt Refundings	(9,231)	
Increase in Compensated Absences Liability	(6,787)	
Increase in Workers Compensation Liability	(20,462)	
Decrease in Claims and Judgements Liability	113	
Increase in Net Pension Obligation	(139,248)	(166,339)
Because some revenues will not be collected for several months after the state's fisca year ends, they are not considered "available" revenues and are deferred in th governmental funds. Deferred revenues decreased by this amount this yea		(46,708)
Internal service funds are used by management to charge the costs of certain activitie such as insurance and telecommunications, to individual funds. The net revenu (expense) of internal service funds is reported with the governmental activitie		1,106
Debt issue costs are recorded as expenditures in the govenmental funds. Howeve these costs are amortized over the life of the bonds in the Statement of Activitie In the current year, these amounts are		
Debt Issue Costs Payments	14,069	
Amortization of Debt Issue Costs	(1,550)	12,519
Change in Net Assets of Governmental Activities		$ (742,409)

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, 2003
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget
Revenues	Original	Final	Actual	Over (Under)
Budgeted:				
Taxes, Net of Refunds	$ 8,424,400	$ 8,424,400	$ 8,229,807	$ (194,593)
Operating Transfers In	406,000	406,000	400,801	(5,199)
Casino Gaming Payments	399,000	399,000	387,255	(11,745)
Licenses, Permits, and Fees	128,500	128,500	125,179	(3,321)
Other	268,400	268,400	303,806	35,406
Federal Grants	2,303,200	2,303,200	2,318,421	15,221
Transfer to the Resources of the General Fund	284,100	284,100	351,461	67,361
Refunds of Payments	(500)	(500)	(396)	104
Operating Transfers Out	(121,200)	(121,200)	(93,009)	28,191
Total Budgeted	12,091,900	12,091,900	12,023,325	(68,575)
Federal and Other Restricted	796,822	2,063,165	1,254,709	(808,456)
Total Revenues	12,888,722	14,155,065	13,278,034	(877,031)
Expenditures				
Budgeted:				
Legislative	65,075	59,680	57,340	2,340
General Government	481,488	471,426	420,241	51,185
Regulation and Protection	237,946	225,092	212,331	12,761
Conservation and Development	83,794	80,899	73,475	7,424
Health and Hospitals	1,255,077	1,245,652	1,222,978	22,674
Transportation	15,048	14,684	5,731	8,953
Human Services	3,702,899	3,769,694	3,724,789	44,905
Education, Libraries, and Museums	2,824,473	2,810,224	2,789,051	21,173
Corrections	1,135,337	1,130,166	1,111,416	18,750
Judicial	399,014	392,169	368,143	24,026
Non Functional	2,312,177	2,327,351	2,224,838	102,513
Total Budgeted	12,512,328	12,527,037	12,210,333	316,704
Federal and Other Restricted	796,822	2,063,165	1,254,709	808,456
Total Expenditures	13,309,150	14,590,202	13,465,042	1,125,160
Appropriations Lapsed	251,900	230,057	-	(230,057)
Excess (Deficiency) of Revenues Over Expenditures	(168,528)	(205,080)	(187,008)	18,072
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	168,624	168,624	168,624	-
Appropriations Continued to Fiscal Year 2003-2004	-	-	(86,647)	(86,647)
Miscellaneous Adjustments	-	-	8,416	8,416
Total Other Financing Sources (Uses)	168,624	168,624	90,393	(78,231)
Net Change in Fund Balance	$ 96	$ (36,456)	(96,615)	$ (60,159)
Budgetary Fund Balances (deficit) - July 1			744,088	
Changes in Reserves			145,181	
Budgetary Fund Balances - June 30			$ 792,654	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget Over (Under)
$ 539,300	$ 539,300	$ 514,996	$ (24,304)
-	-	-	-
-	-	-	-
339,000	339,000	341,421	2,421
33,700	33,700	30,033	(3,667)
3,300	3,300	3,305	5
-	-	-	-
(2,800)	(2,800)	(2,151)	649
(8,500)	(8,500)	(60,500)	(52,000)
904,000	904,000	827,104	(76,896)
205,047	297,259	93,759	(203,500)
1,109,047	1,201,259	920,863	(280,396)
-	-	-	-
2,457	2,457	2,402	55
61,957	61,957	52,038	9,919
-	-	-	-
-	-	-	-
378,513	378,513	351,868	26,645
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
503,427	503,437	485,871	17,566
946,354	946,364	892,179	54,185
205,047	297,259	93,759	203,500
1,151,401	1,243,623	985,938	257,685
15,000	34,319	-	(34,319)
(27,354)	(8,045)	(65,075)	(57,030)
28,192	28,192	28,192	-
-	-	(19,866)	(19,866)
-	-	15	15
28,192	28,192	8,341	(19,851)
$ 838	$ 20,147	(56,734)	$ (76,881)
		422,921	
		(9,873)	
		$ 356,314	

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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 International Airport
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.

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 112.

Statement of Net Assets
Proprietary Funds

June 30, 2003
(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	$ 362,038	$ 17,555	$ 25,634	$ -
Deposits with U.S. Treasury	-	-	-	501,213
Investments	203,884	-	47,587	-
Receivables:				
Accounts, Net of Allowances	157,024	4,322	9,566	139,318
Loans, Net of Allowances	3,721	-	-	-
Interest	-	-	16,063	-
From Other Governments	2,172	2,907	-	6,933
Due from Other Funds	124,415	-	-	4,726
Due from Component Units	163,602	-	-	-
Inventories	8,763	892	1,660	-
Restricted Assets	165	9,634	-	-
Other Current Assets	9,400	-	297	-
Total Current Assets	1,035,184	35,310	100,807	652,190
Noncurrent Assets:				
Cash and Cash Equivalents	120,772	-	-	-
Investments	-	-	384,020	-
Receivables, Net of Allowances	33,605	-	-	-
Loans, Net of Allowances	19,747	-	-	-
Restricted Assets	19,651	147,745	-	-
Capital Assets, Net of Accumulated Depreciation	2,288,799	303,785	1,392	-
Other Noncurrent Assets	16,972	6,631	4,835	-
Total Noncurrent Assets	2,499,546	458,161	390,247	-
Total Assets	3,534,730	493,471	491,054	652,190
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	155,911	12,700	9,825	-
Due to Other Funds	8,880	4,527	-	5,791
Current Portion of Long-Term Obligations	62,378	6,140	51,165	-
Deferred Revenue	97,822	997	987	-
Other Current Liabilities	33,869	3,494	41,999	-
Total Current Liabilities	358,860	27,858	103,976	5,791
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	639,897	251,151	384,020	-
Total Noncurrent Liabilities	639,897	251,151	384,020	-
Total Liabilities	998,757	279,009	487,996	5,791
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	2,005,218	106,264	1,392	-
Restricted For:				
Debt Service	8,142	37,737	-	-
Unemployment Compensation	-	-	-	646,399
Clean Water Projects	-	-	-	-
Capital Projects	43,735	35,358	-	-
Nonexpendable Purposes	244,104	-	-	-
Other Purposes	93,469	23,970	3,058	-
Unrestricted	141,305	11,133	(1,392)	-
Total Net Assets (Deficit)	$ 2,535,973	$ 214,462	$ 3,058	$ 646,399

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

Business-Type Activities Enterprise Funds Clean Water	Other Funds	Total	Governmental Activities Internal Service Funds
$ 444	$ 12,804	$ 418,475	$ 10,113
-	-	501,213	-
-	-	251,471	-
-	18,370	328,600	13,447
103,457	22,725	129,903	-
6,095	647	22,805	-
131	-	12,143	-
-	-	129,141	4,781
-	-	163,602	-
-	-	11,315	5,074
-	-	9,799	-
-	81	9,778	486
110,127	54,627	1,988,245	33,901
-	-	120,772	-
-	37,259	421,279	-
-	-	33,605	-
502,847	19,870	542,464	-
419,038	57,405	643,839	-
-	33,590	2,627,566	62,934
5,699	2,216	36,353	37
927,584	150,340	4,425,878	62,971
1,037,711	204,967	6,414,123	96,872
8,642	16,591	203,669	6,718
-	-	19,198	39,126
35,276	15,119	170,078	243
-	437	100,243	129
2,083	-	81,445	36
46,001	32,147	574,633	46,252
507,958	181,392	1,964,418	17,227
507,958	181,392	1,964,418	17,227
553,959	213,539	2,539,051	63,479
-	(20,241)	2,092,633	24,183
-	40,429	86,308	-
-	-	646,399	-
435,001	-	435,001	-
-	-	79,093	-
-	-	244,104	-
-	38,643	159,140	-
48,751	(67,403)	132,394	9,210
$ 483,752	$ (8,572)	$ 3,875,072	$ 33,393

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

For The Fiscal Year Ended June 30, 2003
(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	$ 790,997	$ 36,687	$ 865,290	$ -
Assessments	-	-	-	570,968
Intergovernmental	209,752	-	-	203,297
Private Gifts and Grants	49,373	-	-	-
Interest on Loans	-	-	-	-
Other	96,916	-	373	6,111
Total Operating Revenues	1,147,038	36,687	865,663	780,376
Operating Expenses				
Cost of Sales and Services	152,893	-	594,973	-
Salaries, Wages and Administrative	1,333,053	31,254	11,026	-
Unemployment Compensation	-	-	-	963,201
Claims Paid	-	-	-	-
Depreciation and Amortization	126,609	12,913	839	-
Other	354,607	-	3,614	-
Total Operating Expenses	1,967,162	44,167	610,452	963,201
Operating Income (Loss)	(820,124)	(7,480)	255,211	(182,825)
Nonoperating Revenue (Expenses)				
Interest and Investment Income	13,532	6,692	33,222	33,772
Interest and Fiscal Charges	(10,724)	(10,156)	(32,762)	-
Other	45,025	12,907	1,392	-
Total Nonoperating Revenues (Expenses)	47,833	9,443	1,852	33,772
Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers	(772,291)	1,963	257,063	(149,053)
Capital Contributions	5,154	5,041	-	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(2,455)	-	-	-
Extraordinary Item-Loss on Early Retirement of Debt	-	-	-	-
Transfers In	894,634	8,516	-	-
Transfers Out	-	-	(256,815)	(3,251)
Change in Net Assets	125,042	15,520	248	(152,304)
Total Net Assets (Deficit) - Beginning (as restated)	2,410,931	198,942	2,810	798,703
Total Net Assets (Deficit) - Ending	$ 2,535,973	$ 214,462	$ 3,058	$ 646,399

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

Business-Type Activities			Governmental
Enterprise Funds			Activities
Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ 17,546	$ 1,710,520	$ 122,135
-	88,713	659,681	-
-	-	413,049	-
-	-	49,373	-
12,008	931	12,939	-
-	8,919	112,319	937
12,008	116,109	2,957,881	123,072
-	9,169	757,035	80,076
481	9,553	1,385,367	32,304
-	-	963,201	-
-	40,402	40,402	-
-	1,006	141,367	9,848
-	-	358,221	-
481	60,130	3,645,593	122,228
11,527	55,979	(687,712)	844
20,897	3,221	111,336	83
(28,631)	(12,412)	(94,685)	-
(323)	(91)	58,910	-
(8,057)	(9,282)	75,561	83
3,470	46,697	(612,151)	927
-	-	10,195	179
17,661	16,139	33,800	-
-	-	(2,455)	-
-	(4,010)	(4,010)	-
6,161	7,320	916,631	-
(7,319)	(8,978)	(276,363)	-
19,973	57,168	65,647	1,106
463,779	(65,740)	#REF!	32,287
$ 483,752	$ (8,572)	#REF!	$ 33,393

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

	Business-Type Activities		
	Enterprise Funds		
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities			
Receipts from Customers	$ 919,198	$ 36,120	$ 865,798
Payments to Suppliers	(214,387)	(14,296)	(18,926)
Payments to Employees	(1,293,101)	(11,930)	(9,256)
Other Receipts (Payments)	(25,883)	-	(576,122)
Net Cash Provided by (Used in) Operating Activities	(614,173)	9,894	261,494
Cash Flows from Noncapital Financing Activities			
Proceeds from Sale of Bonds	100,533	-	
Retirement of Bonds and Annuities Payable	(140)	-	(40,505)
Interest on Bonds and Annuities Payable	-	-	(34,121)
Transfers In	693,456	8,516	-
Transfers Out	-	-	(256,815)
Other Receipts (Payments)	25,511	-	-
Net Cash Flows from Noncapital Financing Activities	819,360	8,516	(331,441)
Cash Flows from Capital and Related Financing Activities			
Additions to Property, Plant and Equipment	(281,895)	(68,543)	(349)
Proceeds from Capital Debt	164,785	6,454	-
Principal Paid on Capital Debt	(54,921)	(5,775)	-
Interest Paid on Capital Debt	(39,094)	(14,159)	-
Transfer In	139,965	-	-
Capital Contributions	-	8,059	-
Other Receipts (Payments)	(54,434)	10,654	25
Net Cash Flows from Capital and Related Financing Activities	(125,594)	(63,310)	(324)
Cash Flows from Investing Activities			
Proceeds from Sales and Maturities of Investments	92	38,688	40,668
Purchase of Investment Securities	(102,053)	-	-
Interest on Investments	13,080	7,413	35,961
Other Receipts (Payments)	-	-	-
Net Cash Flows from Investing Activities	(88,881)	46,101	76,629
Net Increase (Decrease) in Cash and Cash Equivalents	(9,288)	1,201	6,358
Cash and Cash Equivalents -Beginning of Year	503,812	85,473	19,276
Cash and Cash Equivalents -End of Year	$ 494,524	$ 86,674	$ 25,634
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities			
Operating Income (Loss)	$ (820,124)	$ (7,480)	$ 255,211
Adjustments not Affecting Cash:			
Depreciation and Amortization	126,609	12,913	839
Others	41,805	-	465
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables, Net	(21,538)	(245)	(436)
(Increase) Decrease in Due from Other Funds	33,428	-	-
(Increase) Decrease in Inventories and Other Assets	1,776	-	212
Increase (Decrease) in Accounts Payables & Accrued Liabilities	24,505	4,706	5,203
Increase (Decrease) in Due to Other Funds	(634)	-	-
Total Adjustments	205,951	17,374	6,283
Net Cash Provided by (Used In) Operating Activities	$ (614,173)	$ 9,894	$ 261,494
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets			
Cash and Cash Equivalents - Current	$ 362,038	$ 17,555	
Cash and Cash Equivalents - Noncurrent	120,772	-	
Cash and Cash Equivalents - Restricted	11,714	69,119	
	$ 494,524	$ 86,674	

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other	Totals	Internal Service Funds
$ 767,849	$ 45,951	$ 118,532	$ 2,753,448	$ 120,459
(963,201)	-	(9,169)	(1,219,979)	(82,748)
-	(463)	(8,777)	(1,323,527)	(31,314)
(9,518)	(52,630)	(58,216)	(722,369)	-
(204,870)	(7,142)	42,370	(512,427)	6,397
-	-	-	100,533	-
-	(27,050)	(42,890)	(110,585)	-
-	(28,088)	(9,948)	(72,157)	-
-	-	6,844	708,816	-
(3,251)	(644)	(8,516)	(269,226)	-
-	(363)	(4,113)	21,035	(1,027)
(3,251)	(56,145)	(58,623)	378,416	(1,027)
-	-	(91)	(350,878)	(7,760)
-	-	-	171,239	-
-	-	-	(60,696)	-
-	-	(3,582)	(56,835)	-
-	-	-	139,965	-
-	17,602	16,483	42,144	179
-	-	(14)	(43,769)	-
-	17,602	12,796	(158,830)	(7,581)
174,349	18,319	2,472	274,588	-
-	-	-	(102,053)	-
33,772	22,287	4,358	116,871	83
-	-	(6,805)	(6,805)	-
208,121	40,606	25	282,601	83
-	(5,079)	(3,432)	(10,240)	(2,128)
-	5,523	16,236	630,320	12,241
$ -	$ 444	$ 12,804	$ 620,080	$ 10,113
$ (182,825)	$ 11,527	$ 55,979	$ (687,712)	$ 844
-	-	1,006	141,367	9,848
-	-	-	42,270	-
(8,447)	(18,669)	(16,202)	(65,537)	(2,495)
(4,079)	-	-	29,349	(116)
-	-	32	2,020	(803)
-	-	1,555	35,969	1,816
(9,519)	-	-	(10,153)	(2,697)
(22,045)	(18,669)	(13,609)	175,285	5,553
$ (204,870)	$ (7,142)	$ 42,370	$ (512,427)	$ 6,397

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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 120
Agency Funds, page 126

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2003

(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	$ 17,075	$ -	$ -	$ 155,650	$ 172,725
Receivables:					
Accounts, Net of Allowances	11,565	-	-	468	12,033
From Other Governments	477	-	-	-	477
From Other Funds	4,705	-	-	4,561	9,266
Interest	813	1,214	-	79	2,106
Investments	18,210,978	1,049,071	-	-	19,260,049
Inventories	-	-	-	881	881
Securities Lending Collateral	1,418,662	-	-	-	1,418,662
Other Assets	4,821	5	34,568	563,411	602,805
Total Assets	19,669,096	1,050,290	34,568	$ 725,050	21,479,004
Liabilities					
Accounts Payable and Accrued Liabilities	-	1,176	-	824	2,000
Securities Lending Obligation	1,418,662	-	-	-	1,418,662
Due to Other Funds	2,344	-	-	2	2,346
Other Liabilities	-	67	-	3,440	3,507
Funds Held for Others	-	-	-	720,784	720,784
Total Liabilities	1,421,006	1,243	-	$ 725,050	2,147,299
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	18,212,368	-	-		18,212,368
Other Employee Benefits	35,722	-	-		35,722
Individuals, Organizations, and Other Governments	-	1,049,047	34,568		1,083,615
Total Net Assets	$ 18,248,090	$ 1,049,047	$ 34,568		$ 19,331,705

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, 2003
(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	$ 305,626	$ -	$ -	$ 305,626
State	622,769	-	-	622,769
Municipalities	19,450	-	-	19,450
Total Contributions	947,845	-	-	947,845
Investment Income	414,037	25,574	-	439,611
Less: Investment Expense	(66,225)	(540)	-	(66,765)
Net Investment Income	347,812	25,034	-	372,846
Escheat Securities Received	-	-	8,540	8,540
Transfers In	1,369	-	-	1,369
Other	497	-	-	497
Total Additions	1,297,523	25,034	8,540	1,331,097
Deductions				
Administrative Expense	1,441	-	-	1,441
Benefit Payments and Refunds	1,652,095	-	-	1,652,095
Escheat Securities Returned or Sold	-	-	30,130	30,130
Pool's Share Transactions	-	195,682	-	195,682
Distributions to Pool Participants	-	25,034	-	25,034
Other	1,508	-	4,610	6,118
Total Deductions	1,655,044	220,716	34,740	1,910,500
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	(357,521)	-	-	(357,521)
Individuals, Organizations, and Other Governments	-	(195,682)	(26,200)	(221,882)
Net Assets - Beginning	18,605,611	1,244,729	60,768	19,911,108
Net Assets - Ending	$ 18,248,090	$ 1,049,047	$ 34,568	$ 19,331,705

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

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Component Unit Financial Statements

Major Component Units

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 130.

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Combining Statement of Net Assets
Component Units

June 30, 2003

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-02)	Connecticut Resources Recovery Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 55,023	$ 106,472	$ 161,495
Investments	-	-	85,191	85,191
Receivables:				
Accounts, Net of Allowances	-	21,268	450	21,718
Loans, Net of Allowances	-	-	27,439	27,439
Other	-	-	1,432	1,432
Due from Primary Government	-	-	20,636	20,636
Inventories	-	3,607	-	3,607
Restricted Assets	651,957	16,689	481,024	1,149,670
Other Current Assets	-	1,446	4,187	5,633
Total Current Assets	651,957	98,033	726,831	1,476,821
Noncurrent Assets:				
Cash and Cash Equivalents			260	260
Investments	-	-	11,773	11,773
Loans, Net of Allowances	-	-	164,010	164,010
Restricted Assets	3,475,665	73,878	23,204	3,572,747
Capital Assets, Net of Accumulated Depreciation	2,710	213,219	20,006	235,935
Other Noncurrent Assets	-	10,341	5,777	16,118
Total Noncurrent Assets	3,478,375	297,438	225,030	4,000,843
Total Assets	4,130,332	395,471	951,861	5,477,664
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	21,696	29,424	3,320	54,440
Escrow Deposits	18,122	-	-	18,122
Current Portion of Long-Term Obligations	104,925	17,997	18,844	141,766
Amount Held for Institutions	-	-	299,513	299,513
Due to Primary Government	-	195	163,602	163,797
Deferred Revenue	-	-	380	380
Other Current Liabilities	4,718	1,330	8,510	14,558
Total Current Liabilities	149,461	48,946	494,169	692,576
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,293,652	229,036	150,389	3,673,077
Total Noncurrent Liabilities	3,293,652	229,036	150,389	3,673,077
Total Liabilities	3,443,113	277,982	644,558	4,365,653
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,710	26,456	14,466	43,632
Restricted:				
Debt Service	-	-	19,506	19,506
Bond Indentures	676,290	-	-	676,290
Other Purposes	8,219	43,042	5,250	56,511
Unrestricted	-	47,991	268,081	316,072
Total Net Assets	$ 687,219	$ 117,489	$ 307,303	$ 1,112,011

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/02)	222,841	223,386	-	-
Connecticut Resources Recovery Authority	169,970	156,258	-	-
Other Component Units	55,733	38,229	1,929	25,107
Total Component Units	$ 448,544	$ 417,873	$ 1,929	$ 25,107

General Revenues
Investment Income(Loss)
Special Items:
Statutory Payment to State
Other
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 Housing Finance Authority (12-31-02)	Connecticut Resources Recovery Authority	Other Component Units	Totals
545	-	-	545
-	(13,712)	-	(13,712)
-	-	9,532	9,532
545	(13,712)	9,532	(3,635)
68,919	2,386	(9,549)	61,756
-	-	(15,000)	(15,000)
-	-	(16,125)	(16,125)
68,919	2,386	(40,674)	30,631
69,464	(11,326)	(31,142)	26,996
617,755	128,815	338,445	1,085,015
$ 687,219	$ 117,489	$ 307,303	$ 1,112,011

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Notes to the Financial Statements

June 30, 2003

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, 2002.

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 sub-division 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.

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.

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 11 and 12.

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 2003 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 and Drinking Water funds (Enterprise funds) 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. These investments are held by the Combined Investment Funds and are reported at fair value in each fund's statement of net assets.

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 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. 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 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. 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.

Pursuant to Public Act No. 03-02 the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund. Under the provisions of this program any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, with the exception of one modification. The modification provides that the balance of any compensated absences shall be paid in three equal installments beginning in fiscal year ending June 30, 2006. The State may, at its option, make the payment in one installment on or before July, 2005 if the amount of the payment is less than $2,000.

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 17).

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)	$ (96,615)	$ (56,734)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(78,949)	(4,429)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	59,619	7,381
Salaries and Fringe Benefits Payable	8,706	492
Proceeds of Recovery Notes	222,388	-
Increases (decreases) in continuing appropriations	(81,977)	(8,326)
Net change in fund balances (GAAP basis)	$ 33,172	$ (61,616)

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, 2003, none of which constitutes a violation of statutory provisions (amounts in thousands).

<u>Enterprise</u>	
Second Injury & Compenstion Assurance	59,533
Bradley Parking Garage	10,318

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, 2003, the reported amount of the State's deposits was $(140.7) for the Primary Government and Fiduciary Funds (pooled deposits) and $15.0 for the Component Units. The corresponding bank balance for such deposits was $177.1 for the Primary Government and Fiduciary Funds and $16.7 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $118.9 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $58.2 was uninsured and

uncollateralized (Category 3). Of the bank balance for the Component Units, $3.3 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $13.4 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) in the fund's statement of net assets and are disclosed in this note.

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 in each fund's statement of net assets and are disclosed in this note.

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, 2003, investments consisted of the following (amounts in thousands):

	Primary Government			
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds
Equity in CIFS	$ 88,862	$ 566	$ -	$ 18,210,978
Other Investments	19,208	250,905	85,191	1,049,071
Total Investments-Current	$ 108,070	$ 251,471	$ 85,191	$ 19,260,049
Other Investments-Noncurrent	$ -	$ 421,279	$ 11,773	$ -
Other Investments-Restricted	$ 385,432	$ 479,827	$ 1,200,392	$ -

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, 2003. 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	$ 450,000	$ 450,060
Commercial Paper	1,392,846	1,392,842
Corporate Notes	342,951	342,951
Bankers' Acceptances	64,332	64,504
Bank Notes	402,932	402,932
Federal Agency Securities	102,648	102,851
Extendable Commercial Notes	280,961	280,964
Repurchase Agreements	239,482	239,482
Total Investments	$ 3,276,152	$ 3,276,586

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	$ -	$ 60,114	$ 60,114
Asset Backed Securities	788,036	-	788,036
U.S. Government and Agency Securities:			
Not on Securities Loan	1,687,615	-	1,687,615
On Securities Loan for Securities or Letter of Credit Collateral	-	150,024	150,024
Mortgage Backed Securities	739,456	-	739,456
Corporate Debt	3,247,622	1,192,946	4,440,568
Convertible Securities	61,098	-	61,098
U. S. Corporate Stock:			-
Not on Securities Loan	6,246,530	-	6,246,530
On Securities Loan for Securities or Letter of Credit Collateral	-	9,567	9,567
International Equity Securities:			
Not on Securities Loan	1,633,803	-	1,633,803
On Securities Loan for Securities or Letter of Credit Collateral	-	994	994
Short-term Investments	-	175,600	175,600
Preferred Stock	34,102	-	34,102
	$ 14,438,262	$ 1,589,245	$ 16,027,507
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form.			
Real Estate Investment Trusts			67,885
Mutual Funds			46,092
Limited Liability Corporations			35,563
Trusts			49,684
Limited Partnerships			2,042,184
Annuities			12,401
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:			
U.S. Government and Agency Securities			621,220
U. S. Corporate Stock			347,361
International Equity Securities			274,857
Domestic Fixed Securities			133,225
International Fixed Securities			2,796
			$ 19,660,775

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	Total	Fair Value
Collateralized Investment Agreements	$ 310,236	$ 310,236	$ 310,236
State/Municipal Bonds	127,854	127,854	127,854
U.S. Government & Agency Securities	391,492	391,492	391,492
Common Stock	19,889	19,889	19,889
Corporate Bonds	51,938	51,938	51,938
Other	6,274	6,274	6,274
	$ 907,683	$ 907,683	$ 907,683
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:			
Annuity Contracts		431,606	431,606
Mutual Funds		126,504	126,504
Guaranteed Investment Contracts		81,052	81,052
Tax Exempt Proceeds Fund		62,989	62,989
Limited Partnerships		3,248	3,248
Money Market Funds		4,545	4,545
Other		2,013	2,013
Total Investments		$ 1,619,640	$ 1,619,640

The Transportation fund and the Clean Water fund own approximately 42 percent and 39 percent of the investments in Category 1, respectively.

Other Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 3	Total	Fair Value
U.S. Government & Agency Securities	$ 21,125	$ 3,093	$ 24,218	$ 24,204
Common Stock	58,696	-	58,696	58,696
Repurchase Agreements	109,481	-	109,481	109,481
Collateralized Investment Agreements	4,063	14,201	18,264	18,264
Mortgage Backed Securities and Obligations	557,910	-	557,910	557,910
Corporate Debt	19,963	-	19,963	19,963
Other	19,181	3,137	22,318	22,318
	$ 790,419	$ 20,431	810,850	810,836
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Guaranteed Investment Contracts			121,180	121,180
Fidelity Funds			151,939	151,939
Limited Partnerships			4,235	4,235
Money Market Funds			172,207	172,207
Other			36,945	36,945
Total Investments			$ 1,297,356	$ 1,297,342

CHFA owns approximately 92 percent and CHESLA owns approximately 75 percent of the investments that are in categories 1 and 3, respectively.

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 63 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, 2003, receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 835,500	$ -	$ -
Accounts	1,170,479	356,358	21,806
Loans-Current Portion	-	129,903	30,439
Other Governments	653,426	12,143	-
Interest	5,119	22,805	1,432
Other	17,693	51,626	-
Total Receivables	2,682,217	572,835	53,677
Allowance for Uncollectibles	(959,912)	(79,384)	(3,088)
Receivables, net	$ 1,722,305	$ 493,451	$ 50,589

Note 6 Taxes Receivable
Taxes receivable consisted of the following as of June 30, 2003 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 408,993	$ -	$ 408,993
Income Taxes	166,754	-	166,754
Corporations	69,863	-	69,863
Gasoline and Special Fuel	-	41,055	41,055
Various Other	148,835	-	148,835
Total Taxes Receivable	794,445	41,055	835,500
Allowance for Uncollectibles	(32,540)	(157)	(32,697)
Taxes Receivable, net	$ 761,905	$ 40,898	$ 802,803

Note 7 Loans Receivable
Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2003, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Industrial	-	-	98,406
Housing	206,672	-	-
Clean Water	46,322	502,847	-
Education	-	27,174	76,924
Other	178,461	19,870	-
Total Loans	431,455	549,891	175,330
Allowance for Uncollectibles	(4,104)	(7,427)	(11,320)
Loans Receivable, Net	$ 427,351	$ 542,464	$ 164,010

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 .92 percent to 12 percent. As of June 30, 2003, loans in the amount of $16.3 million (including loans of $6.5 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 $7.1 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, 2003, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash Equivalents	Investments	Loans, Net of Allowances	Other	Total Restricted Assets
Governmental Activities:					
Debt Service	$ 236,650	$ 385,432	$ -	$ -	$ 622,082
Total-Governmental Activities	$ 236,650	$ 385,432	$ -	$ -	$ 622,082
Business-Type Activities:					
Bradley International Airport	$ 69,119	$ 85,219	$ -	$ 3,041	$ 157,379
Clean Water	65,802	353,236	-	-	419,038
Other Proprietary	35,849	41,372	-	-	77,221
Total-Business-Type Activities	$ 170,770	$ 479,827	$ -	$ 3,041	$ 653,638
Component Units:					
CHFA	$ 461,635	$ 730,816	$ 2,858,014	$ 77,157	$ 4,127,622
CRRA	88,400	2,002	-	165	90,567
Other Component Units	31,100	467,574	-	5,554	504,228
Total-Component Units	$ 581,135	$ 1,200,392	$ 2,858,014	$ 82,876	$ 4,722,417

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2003, accounts payable and accrued liabilities consisted of the following:

	Vendors	Salaries and Benefits	Interest	Other	Total Payables Accrued Liabilities
Governmental Activities:					
General	$ 70,759	$ 134,263	$ -	$ 2,106	$ 207,128
Transportation	11,676	6,653	-	1,443	19,772
Other Governemental	71,108	6,735	-	44,496	122,339
Internal Service	4,694	2,024	-	-	6,718
Reconciling amount from fund financial statements to government-wide financial statements	6,920	-	89,287	-	96,207
Total-Governmental Activities	$ 165,157	$ 149,675	$ 89,287	$ 48,045	$ 452,164
Business-Type Activities:					
Higher Education	$ 84,623	$ 68,894	$ 2,394	$ -	$ 155,911
Clean Water	-	-	8,642	-	8,642
Other Proprietary	34,176	-	4,940	-	39,116
Total-Business-Type Activities	$ 118,799	$ 68,894	$ 15,976	$ -	$ 203,669

Note 10 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	$ 863,602	$ 51,546	$ 3,394	$ 911,754
Construction in Progress-Infrastructure	997,893	445,367	166,653	1,276,607
Construction in Progress	250,443	451,868	242,040	460,271
Total Capital Assets not being Depreciated	2,111,938	948,781	412,087	2,648,632
Other Capital Assets:				
Buildings	2,357,825	242,040	60,649	2,539,216
Improvements Other than Buildings	295,720	33,485	17,815	311,390
Equipment	1,351,275	68,999	67,057	1,353,217
Infrastructure	9,050,755	166,653	-	9,217,408
Total Other Capital Assets at Historical Cost	13,055,575	511,177	145,521	13,421,231
Less: Accumulated Depreciation For:				
Buildings	1,656,466	63,480	60,649	1,659,297
Improvements Other than Buildings	250,284	15,749	17,815	248,218
Equipment	803,917	165,579	74,741	894,755
Infrastructure	3,331,042	404,614	-	3,735,656
Total Accumulated Depreciation	6,041,709	649,422 *	153,205	6,537,926
Other Capital Assets, Net	7,013,866	(138,245)	(7,684)	6,883,305
Governmental Activities, Captial Assets, Net	$ 9,125,804	$ 810,536	$ 404,403	$ 9,531,937

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 5,323
General Government	42,896
Regulation and Protection	30,203
Conservation and Development	11,217
Health and Hospitals	10,947
Transportation	455,960
Human Services	3,141
Education, Libraries and Museums	32,188
Corrections	33,934
Judicial	13,767
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	9,846
Total Depreciation Expense	$ 649,422

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 43,654	$ 1,122	$ 2	$ 44,774
Construction in Progress	385,252	300,706	400,819	285,139
Total Capital Assets not being Depreciated	428,906	301,828	400,821	329,913
Capital Assets being Depreciated:				
Buildings	1,973,763	440,002	7,285	2,406,480
Improvements Other Than Buildings	316,956	46,292	1,254	361,994
Equipment	666,786	79,888	26,540	720,134
Total Other Capital Assets at Historical Cost	2,957,505	566,182	35,079	3,488,608
Less: Accumulated Depreciation For:				
Buildings	630,332	69,815	5,631	694,516
Improvements Other Than Buildings	117,208	15,338	600	131,946
Equipment	329,277	55,475	20,259	364,493
Total Accumulated Depreciation	1,076,817	140,628	26,490	1,190,955
Other Capital Assets, Net	1,880,688	425,554	8,589	2,297,653
Business-Type Activities, Capital Assets, Net	$ 2,309,594	$ 727,382	$ 409,410	$ 2,627,566

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2003:

Land	$ 27,774
Buildings	189,832
Improvements other than Buildings	362
Machinery and Equipment	235,965
Construction in Progress	36
Total Capital Assets	453,969
Accumulated Depreciation	(218,034)
Capital Assets, net	$ 235,935

Note 11 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. 13.

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 6/30/2002	TRS 6/30/2002	JRS 6/30/2002
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 2003, the annual required contribution (ARC) was $221.2

million; however, the State contributed $179.8 million to the plan, reflecting a reduction of $41.4 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	$ 421,452	$ 221,236	$ 10,126
Interest on net pension obligation	171,495	93,476	3
Adjustment to annual required contribution	(107,420)	(59,716)	(2)
Annual pension cost	485,527	254,996	10,127
Contributions made	421,452	179,824	10,126
Increase (decrease) in net pension obligation	64,075	75,172	1
Net pension obligation beginning of year	2,017,588	1,099,721	40
Net pension obligation end of year	$ 2,081,663	$ 1,174,893	$ 41

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2001	439,317	85.5%	1,953,580
	2002	479,501	86.7%	2,017,588
	2003	485,527	86.8%	2,081,663
TRS	2001	286,527	74.9%	1,057,828
	2002	246,404	83.0%	1,099,721
	2003	254,996	70.6%	1,174,893
JRS	2001	9,839	100%	39
	2002	9,599	100%	40
	2003	10,127	100%	41

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 $22.8 million and $36.0 million, respectively.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of 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. 13.

Plan Descriptions and Contribution Information

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

	CMERS 6/30/2002	CPJERS 12/31/2002
Retirees and beneficiaries receiving benefits	4,741	226
Terminated plan members entitled to but not receiving benefits	332	34
Active plan members	8,426	371
Total	13,499	631
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 13 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	$ 4,447	$ 827	$ 4	$ 190	$ 7	$ 75	$ 5,550
Receivables:							
Accounts, Net of Allowances	2,130	6,812	8	2,598	4	13	11,565
From Other Governments	-	477	-	-	-	-	477
From Other Funds	2,361	-	-	-	-	-	2,361
Interest	326	371	13	93	5	-	808
Investments	6,987,179	9,846,014	125,216	1,174,440	60,483	619	18,193,951
Securities Lending Collateral	544,420	771,017	9,335	87,987	4,903	42	1,417,704
Total Assets	7,540,863	10,625,518	134,576	1,265,308	65,402	749	19,632,416
Liabilities							
Securities Lending Obligation	544,420	771,017	9,335	87,987	4,903	42	1,417,704
Due to Other Funds	-	2,344	-	-	-	-	2,344
Total Liabilities	544,420	773,361	9,335	87,987	4,903	42	1,420,048
Net Assets							
Held in Trust For Employee Pension Benefits	6,996,443	9,852,157	125,241	1,177,321	60,499	707	18,212,368
Total Net Assets	$ 6,996,443	$ 9,852,157	$ 125,241	$ 1,177,321	$ 60,499	$ 707	$ 18,212,368

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	$ 50,953	$ 204,965	$ 1,407	$ 11,879	$ 296	$ 28	$ 269,528
State	421,452	179,824	10,126	-	-	-	611,402
Municipalities	-	3,491	-	15,959	-	-	19,450
Total Contributions	472,405	388,280	11,533	27,838	296	28	900,380
Investment Income	158,740	221,425	3,411	27,596	1,908	28	413,108
Less: Investment Expenses	(25,410)	(35,413)	(546)	(4,417)	(305)	(4)	(66,095)
Net Investment Income	133,330	186,012	2,865	23,179	1,603	24	347,013
Transfers In	-	-	-	-	1,369	-	1,369
Other	494	-	-	-	-	3	497
Total Additions	606,229	574,292	14,398	51,017	3,268	55	1,249,259
Deductions							
Administrative Expense	310	-	8	11	-	-	329
Benefit Payments and Refunds	702,879	825,554	14,436	61,007	2,271	46	1,606,193
Other	-	-	-	-	1,432	-	1,432
Total Deductions	703,189	825,554	14,444	61,018	3,703	46	1,607,954
Changes in Net Assets	(96,960)	(251,262)	(46)	(10,001)	(435)	9	(358,695)
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,093,403	10,103,419	125,287	1,187,322	60,934	698	18,571,063
End of Year	$ 6,996,443	$ 9,852,157	$ 125,241	$ 1,177,321	$ 60,499	$ 707	$ 18,212,368

Note 14 Postemployment Benefits

In addition to the pension benefits described in Note 11, 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, 2003, 35,280 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, 2003, $242.2 million was paid in postretirement benefits.

Note 15 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):

2004	$	31,245
2005		26,191
2006		21,830
2007		21,897
2008		22,087
Thereafter		23,885
Total	$	147,135

Contingent revenues for the year ended June 30, 2003, were $3.0 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2003, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2004	$ 33,372	$ 11,642
2005	27,475	8,579
2006	18,525	7,683
2007	13,393	7,354
2008	9,804	6,391
2009-2013	21,107	27,921
2014-2018	-	10,167
2019-2023	-	6,147
2024-2028	-	6,118
2029-2033	-	3,650
Total minimum lease payments	$ 123,676	95,652
Less: Amount representing interest costs		27,664
Present value of minimum lease payments		$ 67,988

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, 2003, totaled $44.7 million.

Note 16 Changes in General Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2003, (amounts in thousands):

Governmental Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts due within one year
Bonds:					
General Obligation	$ 8,527,436	$ 1,698,671	$ 1,009,753	$ 9,216,354	$ 673,199
Transportation	3,174,903	637,837	606,925	3,205,815	236,830
	11,702,339	2,336,508	1,616,678	12,422,169	910,029
Plus/(Less) premiums and deferred amounts	55,202	56,088	6,171	105,119	-
Total Bonds	11,757,541	2,392,596	1,622,849	12,527,288	910,029
Economic Recovery Notes	-	219,235	-	219,235	43,720
Other Liabilities:					
Net Pension Obligation	3,117,349	750,649	611,401	3,256,597	-
Compensated Absences	341,039	21,824	14,930	347,933	12,466
Workers' Compensation	245,183	95,707	75,245	265,645	67,633
Capital Leases	76,896	1,078	9,986	67,988	12,360
Claims and Judgements	7,725	3,280	3,393	7,612	4,831
Contracts Payable	-	7,186	-	7,186	-
Total Other Liabilities	3,788,192	879,724	714,955	3,952,961	97,290
Governmental Activities Long-Term Liabilites	$ 15,545,733	$ 3,491,555	$ 2,337,804	$ 16,699,484	$ 1,051,039
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,504,799	$ 142,949	$ 92,587	$ 1,555,161	$ 77,014
Plus/(Less) premiums, discounts and deferred amounts	6,075	166	524	5,717	-
Total Revenue Bonds	1,510,874	143,115	93,111	1,560,878	77,014
Lottery Prizes	473,883	7,914	46,612	435,185	51,165
Compensated Absences	80,773	13,562	6,879	87,456	23,720
Other	52,118	2,863	4,004	50,977	18,179
Total Other Liabilities	606,774	24,339	57,495	573,618	93,064
Business-Type Long-Term Liabilities	$ 2,117,648	$ 167,454	$ 150,606	$ 2,134,496	$ 170,078

Note 17 Bonded Debt

Economic Recovery Notes

In December 2002, $219.2 million of General Obligation Economic Recovery Notes were issued to fund the deficit for the 2001-2002 fiscal year.

Economic recovery notes outstanding at June 30 were $219.2 million. These notes mature on various dates through 2008 and bear interest rates from 2.0% to 4.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 43,720	$ 6,507	$ 50,227
2005	44,155	5,541	49,696
2006	43,920	3,816	47,736
2007	43,720	2,205	45,925
2008	43,720	663	44,383
Total	$ 219,235	$ 18,732	$ 237,967

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, 2003, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2003-2023	2-7.525%	$ 2,694,496	$ 267,792
School Construction	2003-2022	2-7.441%	1,547,684	76,421
Municipal & Other Grants & Loans	2003-2022	3-7.513%	1,724,625	633,306
Elderly Housing	2003-2011	7-7.5%	17,366	-
Elimination of Water Pollution	2003-2023	4.1-7.525%	289,637	101,919
General Obligation Refunding	2003-2019	2.4-6.14%	2,270,467	-
Miscellaneous	2003-2031	3.5-6.75%	143,428	8,034
			8,687,703	$ 1,087,472
Accretion-Various Capital Appreciation Bonds			528,651	
		Total	$ 9,216,354	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 675,129	$ 467,569	$ 1,142,698
2005	689,771	452,115	1,141,886
2006	651,292	424,792	1,076,084
2007	640,315	402,577	1,042,892
2008	640,564	379,116	1,019,680
2009-2013	2,722,534	1,405,397	4,127,931
2014-2018	1,786,694	466,248	2,252,942
2019-2023	865,394	99,316	964,710
2024-2028	11,450	2,818	14,268
2029-2033	4,560	294	4,854
Total	$ 8,687,703	$ 4,100,242	$ 12,787,945

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, 2003, 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%	$ 11,228	$ 4,066
Infrastructure Improvements	2005-2022	3-8.0%	3,186,117	357,663
General Obligation Other	2008-2013	4.6-7.525%	500	1
			3,197,845	$ 361,730
Accretion-Various Capital Appreciation Bonds			7,970	
		Total	$ 3,205,815	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 236,830	$ 152,541	$ 389,371
2005	234,490	140,432	374,922
2006	258,575	128,341	386,916
2007	246,378	121,373	367,751
2008	254,273	108,961	363,234
2009-2013	1,143,238	325,926	1,469,164
2014-2018	599,540	102,656	702,196
2019-2023	224,521	20,465	244,986
Total	$ 3,197,845	$ 1,100,695	$ 4,298,540

Variable-Rate Demand Bonds

As of June 30, 2003, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

Bond Type	Outstanding Principal	Issuance Year	Maturity Year
Special Tax Obligation	$ 142,900	1990	2010
General Obligation	100,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	421,980	2003	2022
Total	$ 864,880		

The State entered into various Remarketing and Standby Bond Purchase agreements with certain brokerage firms and banks upon the issuance of the bonds.

The bonds were issued bearing a weekly interest rate, which is determined by the State's remarketing agents. The State has the option of changing at any time the weekly interest rate on the bonds to another interest rate, such as a flexible rate or a daily rate. Bonds bearing interest at the weekly rate are subject to purchase at the option of the bondholder at a purchase price equal to principal plus accrued interest, if any, on a minimum seven days' notice of tender to the State's agent. In addition, the bonds are subject to mandatory purchase upon (1) conversion from the weekly interest rate to another interest rate and (2) substitution or expiration of the Standby Bond Purchase agreements. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase by bondholders from time to time. The State is required to pay the Remarketing agents a quarterly fee of .05 percent per annum of the outstanding principal amount of the bonds.

The Standby Bond Purchase agreements require the banks to purchase any unremarketed bonds bearing the weekly interest rate for a price not to exceed the amount of bond principal and accrued interest, if any. The State is required to pay the banks a quarterly fee ranging from .065 percent to .20 percent per annum of the outstanding principal amount of the bonds plus interest. These fees would be increased if the credit rating for the bond insurers was to be downgraded, suspended, or withdrawn.

The Standby Bond Purchase agreements expire as follows:

1990 STO expires in the year 2005 and could be extended for another five years,
1997 GO expires in the year 2004 and could be extended annually for another year,
2000 STO expires in the year 2014 and could be extended for another seven years,
2001 GO expires in the year 2008, and
2003 STO expires in the year 2008 and could be extended for another five years.

These agreements could be terminated at an earlier date if certain termination events described in the agreements were to occur.

Interest Rate Swaps

Objective of the swaps

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the State has entered six separate pay-fixed, receive-variable interest rate swaps at a cost less than what the State would have paid to issue fixed-rate debt. Two of the swaps were executed in December 1990, one was executed in June 2001 and the other three were executed in January 2003.

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2003, are as follows. The notional amount of the swaps match the principal amount of the associated debt. The State's swap agreements, except for the June 2001 swap, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the June 2001 swap, the swap agreement and associated debt are non-amortizing and mature on June, 2012.

Associated Bond Issue	Notional Amounts (000's)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values (000's)	SWAP Termination Date	Counterparty Credit Rating
1990 STO	$ 85,800	12/19/1990	5.746%	65% of LIBOR (1)	(13,481)	12/1/2010	Aaa/AAA/AAA
1990 STO	57,100	12/19/1990	5.709%	65% of LIBOR (1)	(8,924)	12/1/2010	A3/BBB
2001 GO	20,000	6/28/2001	4.616%	CPI (3) plus 1.43%	(1,832)	6/15/2012	Aa3/A+/AA-
2003 STO	120,385	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(6,101)	2/1/2022	Aa1/AA-/AA
2003 STO	100,000	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(4,985)	2/1/2022	Aa1/AA/AA+
2003 STO	201,595	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(10,773)	2/1/2022	Aa2/AA+/AA+
Total	$ 584,880				$ (46,096)		

(1) London Interbank Offered Rate
(2) The Bond Market Association Municipal Swap Index.
(3) Consumer Price Index

Fair value

Because interest rates have declined, all swaps had a negative fair value as of June 30, 2003. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the State's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payment required under the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date each future net settlement on the swaps.

As of June 30, 2003, the State was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. All three of the swap agreements executed in 2003 require collateralization of the fair value of the swap in cash or government securities should the counterparty's credit rating fall below Aa3 as issued by Moody's Investors Service or AA- as issued by Standard & Poor's Ratings or Fitch Ratings. One of the swaps executed in 1990 requires collateral of cash or securities if the counterparty credit rating falls below A1/A+. The other swap agreements do not have any provisions for posting of collateral. The State is not required to post collateral for any of the swaps.

Because, the State has not entered into more than one derivative transaction with any one counterparty, master netting agreements have not been needed.

All of the six swaps are executed with different counterparties. The largest, approximately 34 percent of the notional amount of swaps outstanding, is held with one counterparty, rated Aa2/AA+. One of the December 1990 swaps, approximately 10% of the notional amount of swaps outstanding, is held with the lowest rated counterparty, rated A3/BBB. All other swaps are held with separate counterparties who are rated Aa1/AA or better.

Basis Risk
The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI plus 1.43% rate (2001 GO bonds only). For those swaps for which the State receives a variable-rate payment other than BMA or CPI, the State is exposed to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2003, the BMA rate was 0.98 percent, whereas 65 percent of LIBOR was 0.86 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2003, the state budgeted $1,500,000 in basis risk for all six swap agreements.

Termination Risk
The State or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for a payment equal to the swap's fair value. Under the 2003 swap agreements, the State has up to 270 days to fund any required termination payment. Under the 1990 swap agreements, the State may fund any required termination payment over a five-year period.

Rollover Risk
Because all of the swap agreements terminate when the associated debt is fully paid, the State is only exposed to rollover risk if an early termination occurs. Upon an early termination, the State will not realize the synthetic rate offered by the swaps on the underlying debt issues.

Swap Payments and Associated Debt
Using rates as of June 30, 2003, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate SWAP, Net	Total
2004	$ 16,920	$ 6,754	$ 16,337	$ 40,011
2005	18,025	6,570	15,557	40,152
2006	19,135	6,374	14,726	40,235
2007	20,350	6,165	13,373	39,888
2008	21,665	5,944	11,779	39,388
2009-2013	140,100	26,205	44,704	211,009
2014-2018	286,465	10,701	21,009	318,175
2019-2023	62,220	871	1,710	64,801
Total	$ 584,880	$ 69,584	$ 139,195	$ 793,659

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, 2003, were as follows:

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2003-2030	2.1-7%	$ 565,197
Bradley International Airport	2012-2031	3.25-7.65%	258,160
Second Injury	2012-2015	4.5-6%	111,130
Clean Water	2011-2022	3.45-11%	537,260
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	29,614
Total Revenue Bonds			1,555,161
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(869)
Clean Water			5,973
Other			613
Revenue Bonds, net			$ 1,560,878

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2003, the following bonds were outstanding:

a) Airport Revenue Refunding Bonds in the amount of $46.6 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) Bradley International Airport Revenue Bonds in the amount of $192.6 million and Bradley International Airport Refunding Bonds in the amount of $18.9 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 a parking garage at the airport.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	77,015	78,437	155,452
2005	86,410	74,563	160,973
2006	83,175	71,165	154,340
2007	81,413	65,378	146,791
2008	93,191	62,139	155,330
2009-2013	397,456	239,497	636,953
2014-2018	276,097	151,755	427,852
2019-2023	222,489	87,760	310,249
2024-2028	133,705	42,760	176,465
2029-2033	96,560	11,856	108,416
2034	7,650	191	7,841
Total	$ 1,555,161	$ 885,501	$ 2,440,662

c. Component Units

Component units' revenue bonds outstanding at June 30, 2003, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2004-2019	4.75-8.75%	$ 48,625
CT Housing Finance Authority	2003-2045	1.37-9.36%	3,299,365
CT Resources Recovery Authority	2004-2016	5.125-7.7%	224,010
Other:			
CT Higher Education Supplemental Loan Authority	2004-2021	4-7.5%	114,260
CT Health and Educational Facilities Authority	2004-2004	4.32-14.94%	1,960
Total Revenue Bonds			3,688,220
Less discount on CDA bonds			(56,563)
Revenue Bonds, net			$ 3,631,657

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, 2003 were $8.1 million. Assets totaling $7.2 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 $40.6 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, 2002, bonds outstanding under the bond resolution and the indenture were $3,253.3 million and $46.1 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 ($277.2 million at 12/31/02) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds ($4,074.2 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2002, the Authority has entered into interest rate swap agreements for $740.8 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swaps 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 refinancing 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 $2.0 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 $194.4 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, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	258,961	364,101	623,062
2005	145,311	182,616	327,927
2006	152,099	175,037	327,136
2007	144,707	167,047	311,754
2008	30,755	13,697	44,452
2009-2013	844,997	697,684	1,542,681
2014-2018	697,276	482,584	1,179,860
2019-2023	525,244	311,991	837,235
2024-2028	538,715	171,325	710,040
2029-2033	297,385	61,543	358,928
2034-2038	32,975	8,459	41,434
2039-2043	16,640	3,379	20,019
2044-2048	3,155	221	3,376
Total	$ 3,688,220	$ 2,639,684	$ 6,327,904

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, 2003 were $1,058.1 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, 2003 were $224.6 million. Of this amount, $65.1 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, 2003, were $4,541.3 million, of which $386.0 million was secured by special capital reserve funds.

The State may be contingently 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 $748.7 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 4.52**%** to advance refund $715.3 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 5.26%. 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 $68.5 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 $65.9 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $42.5 million. As of June 30, 2003, $2,583.0 million of outstanding general obligation, special tax obligation, and revenue bonds (including prior year's refundings) are considered defeased.

Note 18 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 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 6-30-01	$ 326,417	$ 9,551
Incurred claims	5,845	384
Paid claims	(87,079)	(580)
Balance 6-30-02	245,183	9,355
Incurred claims	95,707	351
Paid claims	(75,245)	(1,206)
Balance 6-30-03	$ 265,645	$ 8,500

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2003, were as follows (amounts in thousands):

	Balance due to fund(s)								
Balance due from fund(s)	General	Transportation	Other Governmental	Higher Education	Employment Security	Internal Services	Fiduciary	Component Units	Total
General	-	-	550,003	61,165	4,726	4,009	6,806	189	626,898
Transportation	288	-	-	-	-	772	-	-	1,060
Other Governmental	3,206	4,968	951	63,250	-	-	-	20,447	92,822
Higher Education	8,880	-	-	-	-	-	-	-	8,880
Employment Security	-	-	5,791	-	-	-	-	-	5,791
Other Proprietary	339	4,188	-						4,527
Internal Services	4,961	-	38,751	-	-	-	114	-	43,826
Fiduciary	-	-	-	-	-	-	2,346	-	2,346
Component Units	2,000	-	-	163,602	-	-	-	-	165,602
Total	$ 19,674	$ 9,156	$ 595,496	$ 288,017	$ 4,726	$ 4,781	$ 9,266	$ 20,636	$ 951,752

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end. $550 million owed to other governmental funds by the General fund resulted from a loan made by various governmental funds to eliminate a cash overdraft in the General fund. $6.5 million owed to the General fund by the Internal Services funds and Component Units is noncurrent.

Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2003, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)							
Amount transferred from fund(s)	General	Debt Service	Transportation	Other Governmental	Higher Education	Other Proprietary	Fiduciary	Total
General	$ -	$ 1,746	$ -	93,159	724,511	-	-	$ 819,416
Debt Service	387	-	25,781	396	-	-	-	26,564
Transportation	52,000	386,071	-	8,500	-	-	-	446,571
Other Governmental	270,518	16,836	429	38,557	170,123	6,161	1,369	503,993
Connecticut Lottery	256,815	-	-	-	-	-	-	256,815
Other Proprietary	-	-	-	3,712	-	15,836	-	19,548
Fiduciary	127,256	-	-	-	-	-	-	127,256
Total	$ 706,976	$ 404,653	$ 26,210	$ 144,324	$ 894,634	$ 21,997	$ 1,369	$ 2,200,163

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due. During 2003, transfers received by the General fund from the Transportation fund, other Governmental funds ($67,705), and Fiduciary funds (Agency fund) were for deficit reduction.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2003, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-02 Previously Reported	Fund Reclass	Correction of Reported Assets/ Liabilities	Balance 6-30-02 as Restated
Governmental Funds and Activities				
Major Funds:				
Debt Service	$ 670,771	$ -	$ 4,931	$ 675,702
Total Governmental Funds	$ 670,771	-	4,931	$ 675,702
Governmental Activities				
Net assets of Internal Service Funds	32,729	-	(442)	32,287
Deferred Debit on Bond Refundings	60,793	-	7,895	68,688
Net Assets of Governmental Activities	$ (4,616,959)	$ -	$ 12,384	$ (4,604,575)
Proprietary Funds and Business-Type Activities				
Major Funds:				
Higher Education	$ 2,401,539	$ -	$ 9,392	$ 2,410,931
Second Injury	(96,075)	96,075	-	-
Clean Water	464,138	(359)	-	463,779
Non-Major funds:				
Second Injury	-	(96,075)	-	(96,075)
Drinking Water	38,495	359	-	38,854
Unadjusted Fund	(8,519)	-	-	(8,519)
Total Non-Major Funds	29,976	(95,716)	-	(65,740)
Total Proprietary Funds	$ 2,799,578	-	9,392	$ 2,808,970
Business-Type Activities				
Net Assets of Business-Type Activities	$ 3,800,033	$ -	$ 9,392	$ 3,809,425
Component Units				
Connecticut Development Authority	$ 170,061	$ (170,061)	$ -	$ -
Connecticut Resources Recovery Authority	130,920	-	(2,105)	128,815
Other Component Units				
Connecticut Development Authority	-	170,061	-	170,061
Unadjusted Component Units	168,384	-	-	168,384
Total Other Component Units	168,384	170,061	-	338,445
Net Assets of Component Units	$ 1,087,120	$ -	$ (2,105)	$ 1,085,015

Note 22 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 23 Commitments and Contingencies

A. Commitments

At June 30, 2003, 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 $1,884.3 million of which $1,145.7 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $3,272 million and interest costs of $235 million for a total of $3,507 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $609.3 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, 2003, the Authority had drawn $2 million on these funds.

5) Under a settlement reached between the parties in the Sheff vs. O'Neill lawsuit, the State is committed to spend $45 million, exclusive of school renovation/construction costs, over the next four years to open two new magnet schools in the Hartford area each year and to substantially increase the voluntary inter-district busing program in the Hartford area.

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.

In 2002 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 17 – 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 24 Special and Extraordinary Items

Special items are significant transactions or other events within management's control that are either unusal in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. At the beginning of the fiscal year new State law was enacted to reduce the accumulated General fund deficit. The act required the one time transfer of resources from three of the State's Component Units to the benefit of the General fund. The transfers to the General fund were as follows (amounts in million):

Connecticut Housing Finance Authority	$85.0
Connecticut Innovations, Incorporated	7.5
Connecticut Development Authority	7.5

The $85 million from the Connecticut Housing Finance Authority was paid in April 2003, four months after the year-end for this Component Unit.

During the fiscal year, the State, also, transferred $127.3 million from its Anthem Demutualization Fund (an Agency fund) to reduce the General fund deficit. These resources originated from the sale of shares received from Anthem Blue Cross and Blue Shield, after the company converted its ownership from being a mutual company owned by its participating policyholders to a stock company owed by stockholders.

During the year, the Second Injury fund (an Enterprise fund) used $33.8 million in excess cash to retire $29.8 million of its special revenue bonds.

Note 25 Subsequent Events

In July, $338.6 million of special tax obligation refunding bonds for transportation infrastructure programs were issued. These bonds will mature through September, 2010 and bear interest rates ranging from 2% to 5%.

In August, $215.6 million of general obligation refunding bonds were issued. The bonds will mature in years 2004 through 2010 and bear interest rates ranging from 3% to 6%.

In October, $200 million of general obligation and general obligation refunding bonds were issued. The bonds will mature August 15, of the years 2004 through 2023 and bear interest rates ranging from 2% to 5.25%.

In November, $200 million of general obligation bonds and $166 million of general obligation refunding bonds were issued. The general obligation bonds will mature October 15, of the years 2004 through 2023 and bear interest rates ranging from 2% to 5.25%. The general obligation refunding bonds will mature March 15, of the years 2004 through 2011 and bear interest rates ranging from 2% to 5%.

In November, $200 million of special tax obligation bonds were issued. The bonds will mature on January 1, of the years 2005 through 2015 and bear interest rates ranging from 2% to 5%.

In January 2004, $314.8 million of University of Connecticut general obligation and general obligation refunding bonds were issued. The bonds will mature in years 2005 through 2024 and bear interest rates ranging from 2% to 5%.

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						
6/30/1998	$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%
6/30/2003 *	-	-	-	-	-	-
*No actuarial valuations were performed as of June 30, 1999 and June 30, 2003						
TRS						
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%
6/30/2003 *	-	-	-	-	-	-
*No actuarial valuations were performed as of June 30, 1999, 2001 and 2003						
JRS						
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%
6/30/2003 *	-	-	-	-	-	-
*No actuarial valuation was performed as of June 30, 2003						
MERS						
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)%
6/30/2002	$1,403.4	$1,319.7	$(83.7)	106.3%	$321.8	(26.0)%

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
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%	$-	-
2003	$421.5	100.0%	$221.2	81.3%	$10.1	100.0%	$16.0	100.0%	$-	-

Note: During 2000, 2001, 2002 and 2003 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	6/30/2002	12/31/2002
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	7-24 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*

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

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, 2003, and have issued our report thereon dated January 30, 2004. 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, 2003.

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, 2003.

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

January 30, 2004
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

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

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 *United States 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, 2003. 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 did not audit the State's compliance with the requirements of the United States Department of Housing and Urban Development's *Mortgage Insurance – Homes* (CFDA #14.117), the United States Environmental Protection Agency's *Capitalization Grants for Clean Water State Revolving Funds* (CFDA #66.458) and the United States Department of Environmental Protection's *Capitalization Grants for Drinking Water State Revolving Funds* (CFDA #66.468) programs. Other auditors have audited the Connecticut Housing Finance Authority's compliance with the requirements of the *Mortgage Insurance – Homes* program for its fiscal year ended December 31, 2002, and other auditors have audited the State of Connecticut's compliance with the requirements of the *State Revolving Funds* programs for their fiscal years ended June 30, 2003. These programs were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance requirements for the programs, is based solely upon the reports of the other auditors.

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.3. 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, 2003. 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.2., III.A.9., III.A.13., III.A.19., III.A.24., III.A.25., III.A.26., III.A.27., III.A.29., III.A.30., III.A.34., III.B.2., III.D.4., III.E.1., III.E.5., III.F.1., III.G.1., III.G.2., III.G.3., III.G.6., III.H.1., III.H.2. and III.J.1..

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.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.B.2., III.C.1., III.D.1., III.D.2., III.D.3., IIID.4., III.E.1., III.E.2., III.E.3., III.E.4., III.E.5., III.F.1., III.F.2., III.F.3., III.F.4., III.G.1., III.G.2., III.G.3., III.G.5., III.G.6., III.G.7., III.G.8., III.H.1., III.H.2., III.H.3., III.H.4., III.H.5., III.H.6., III.I.1., 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.25., III.B.2., III.D.1., III.E.3., III.E.5., III.F.1., III.G.1., III.G.3., III.G.5., 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, 2003, and have issued our report thereon dated January 30, 2004. 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 24, 2004, except for the *Schedule of Expenditures of Federal Awards*, as to which the date is January 30, 2004.
Hartford, Connecticut

Schedule of Expenditures of Federal Awards

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
		$
Department of Agriculture		
Food Stamp Cluster:		
Food Stamps (See Note 3)	10.551	157,792,084
State Administrative Matching Grants for Food Stamp Program	10.561	23,255,463
Total Food Stamp Cluster		181,047,547
Child Nutrition Cluster:		
School Breakfast Program	10.553	10,696,630
National School Lunch Program	10.555	50,113,904
Special Milk Program for Children	10.556	415,192
Summer Food Service Program for Children	10.559	925,771
Total Child Nutrition Cluster		62,151,497
Various Programs (See Note 12)	10.000	128,589
Agricultural Research - Basic and Applied Research	10.001	442,040
Plant and Animal Disease, Pest Control, and Animal Care	10.025	153,385
Market Protection and Promotion	10.163	15,315
Grants for Agricultural Research, Special Research Grants	10.200	52,205
Cooperative Forestry Research	10.202	175,149
Payments to Agricultural Experiment Stations Under Hatch Act	10.203	741,782
Grants for Agricultural Research-Competitive Research Grants (See Note 12)	10.206	374,421
Biotechnology Risk Assessment Research	10.219	57,933
Higher Education Multicultural Scholars Program	10.220	15,750
Agricultural and Rural Economic Research	10.250	68,588
Initiative for Future Agriculture and Food Systems	10.302	29,196
Integrated Programs	10.303	54,202
Crop Insurance	10.450	141,135
Cooperative Extension Service (See Note 12)	10.500	2,702,571
Food Distribution (See Note 3)	10.550	13,014,904
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	46,762,246
Child and Adult Care Food Program	10.558	10,007,269
State Administrative Expenses for Child Nutrition	10.560	956,006
Emergency Food Assistance Program (Administrative Costs)	10.568	630,092
Nutrition Services Incentive	10.570	1,563,459
WIC Farmers' Market Nutrition Program	10.572	91,148
Team Nutrition Grants	10.574	129,846
Forestry Research	10.652	80,854
Cooperative Forestry Assistance	10.664	689,742
Rural Business Enterprise Grants	10.769	63,000
Resource Conservation and Development	10.901	(81)
Total Department of Agriculture		322,339,790

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Commerce		
Economic Development--Support for Planning Organizations	11.302	84,685
Economic Adjustment Assistance (See Note 9)	11.307	358,333
Anadromous Fish Conservation Act Program	11.405	49,877
Interjurisdictional Fisheries Act of 1986	11.407	13,835
Sea Grant Support	11.417	100,632
Coastal Zone Management Administration Awards	11.419	1,799,820
Unallied Management Projects	11.454	7,584
Habitat Conservation	11.463	30,720
Coastal Services Center	11.473	2,371
Atlantic Coastal Fisheries Cooperative Management Act	11.474	198,674
Fisheries Disaster Relief	11.477	965,132
Total Department of Commerce		3,611,663
Department of Defense		
Procurement Technical Assistance For Business Firms (See Note 12)	12.002	42,651
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	34,931
Basic and Applied Scientific Research	12.300	111,611
National Guard Military Operations and Maintenance (O&M) Projects	12.401	9,189,057
Community Economic Adjustment Planning Assistance	12.607	7,398
Total Department of Defense		9,385,648
Department of Housing and Urban Development		
Section 8 Project-Based Cluster:		
Lower Income Housing Assistance Program - Section 8 New Const / Substantial Rehab.	14.182	10,502,209
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	321,293
Total Section 8 Project-Based Cluster		10,823,502
Interest Reduction Pymts-Rental and Coop. Housing for Lower Income Families (See Note 1 and Note 8)	14.103	1,670,971
Mortgage Insurance - Homes (See Note 1 and Note 8)	14.117	58,919,976
Congregate Housing Services Program	14.170	313,244
Community Development Block Grants / State's Program	14.228	15,372,431
Emergency Shelter Grants Program	14.231	1,097,914
Supportive Housing Program	14.235	1,315,168
Shelter Plus Care	14.238	4,495,713
HOME Investment Partnerships Program	14.239	17,057,215
Housing Opportunities for Persons with AIDS	14.241	1,346,763
Empowerment Zones Program	14.244	244,227
Community Development Block Grants / Brownfields Economic Development Initiative	14.246	140,648
Fair Housing Assistance Program - State and Local	14.401	41,920
Community Outreach Partnership Center Program	14.511	111,673
Section 8 Housing Choice Vouchers	14.871	38,565,434
Total Department of Housing and Urban Development		151,516,799

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	3,043,935
Wildlife Restoration	15.611	1,529,690
Total Fish and Wildlife Cluster		4,573,625
Various Programs	15.000	220,954
Fish and Wildlife Management Assistance	15.608	5,000
Coastal Wetlands Planning, Protection and Restoration Act	15.614	660
Cooperative Endangered Species Conservation Fund	15.615	14,324
Clean Vessel Act	15.616	510,713
Wildlife Conservation and Appreciation	15.617	6,470
Sportfishing Boating and Safety Act	15.622	21,748
Wildlife Conservation and Restoration	15.625	214,975
State Wildlife Grants	15.634	6,000
U.S. Geological Survey-Research and Data Acquisition	15.808	(25,893)
National Cooperative Geologic Mapping Program	15.810	73,509
Historic Preservation Fund Grants-In-Aid	15.904	674,097
Outdoor Recreation-Acquisition, Development and Planning	15.916	331,017
Total Department of the Interior		6,627,199
Department of Justice		
Various Programs	16.000	140,525
Law Enforcement Assistance-Narcotics/Dangerous Drugs-State Legislation	16.002	16,191
Offender Reentry Program	16.202	722
Juvenile Accountability Incentive Block Grants	16.523	2,209,423
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	826,197
Juvenile Justice and Delinquency Prevention -- Special Emphasis	16.541	55,066
National Institute for Juvenile Justice and Delinquency Prevention	16.542	111,483
Title V - Delinquency Prevention Program	16.548	399,568
Part E-State Challenge Activities	16.549	230,820
State Justice Statistics Programs for Statistical Analysis Centers	16.550	148,263
National Criminal History Improvement Program	16.554	2,259,230
National Sex Offender Registry Assistance	16.555	158,430
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	74,103
Crime Victim Assistance	16.575	3,965,232
Crime Victim Compensation	16.576	668,438
Byrne Formula Grant Program	16.579	6,683,311
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	219,776
Crime Victim Assistance / Discretionary Grants	16.582	34,113
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	1,650,022
Violence Against Women Formula Grants	16.588	951,301

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	170,723
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	502,683
Managing Sex Offenders	16.591	131,395
Local Law Enforcement Block Grants Program	16.592	490,479
Residential Substance Abuse Treatment for State Prisoners	16.593	594,065
Community Prosecution and Project Safe Neighborhoods	16.609	67,147
Public Safety Partnership and Community Policing Grants	16.710	6,112,492
Police Corps	16.712	162,757
Enforcing Underage Drinking Laws Program	16.727	549,930
Drug Prevention Program	16.728	1,711,876
Total Department of Justice		31,295,761
Department of Labor		
Employment Services Cluster:		
Employment Service	17.207	9,727,393
Disabled Veterans' Outreach Program	17.801	1,093,426
Local Veterans' Employment Representative Program	17.804	1,252,016
Total Employment Services Cluster		12,072,835
WIA Cluster:		
WIA Adult Program	17.258	8,157,614
WIA Youth Activities	17.259	10,956,013
WIA Dislocated Workers	17.260	9,112,214
Total WIA Cluster		28,225,841
Labor Force Statistics	17.002	1,625,586
Unemployment Insurance (See Note 1 and Note 10)	17.225	1,013,988,303
Senior Community Service Employment Program	17.235	970,414
Trade Adjustment Assistance-Workers	17.245	3,168,858
Employment Services and Job Training Pilots - Demonstrations and Research	17.249	495,862
Welfare-to-Work Grants to States and Localities	17.253	985,421
Workforce Investment Act	17.255	8,442
One-Stop Career Center Initiative	17.257	603,863
Youth Opportunity Grants (See Note 12)	17.263	149,893
WIA Incentive Grants_Section 503 Grants to States	17.267	731,494
Occupational Safety and Health	17.500	108,561
Occupational Safety and Health - State Program	17.503	551,243
Consultation Agreements	17.504	1,087,421
Mine Health and Safety Grants	17.600	86,211
Employment Programs for People with Disabilities	17.720	47,073
Total Department of Labor		1,064,907,321
Department of State		

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Various Programs (See Note 12)	19.000	11,179
Educational Partnerships Program	19.424	56,615
Total Department of State		67,794
Department of Transportation		
Federal Transit Cluster:		
Federal Transit- Capital Investment Grants	20.500	46,686,061
Federal Transit - Formula Grants	20.507	56,404,912
Total Federal Transit Cluster		103,090,973
Highway Safety Cluster:		
State and Community Highway Safety	20.600	6,628,699
Total Highway Safety Cluster		6,628,699
Airport Improvement Program	20.106	8,502,961
Highway Planning and Construction	20.205	468,666,881
National Motor Carrier Safety	20.218	1,766,859
Recreational Trails Program	20.219	167,767
Local Rail Freight Assistance	20.308	(13,357)
Federal Transit - Metropolitan Planning Grants	20.505	674,696
Formula Grants for Other Than Urbanized Areas	20.509	2,664,988
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	795,092
Transit Planning and Research	20.514	2,594
Pipeline Safety	20.700	290,091
University Transportation Centers Program (See Note 12)	20.701	20,000
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	121,426
Total Department of Transportation		593,379,670
Department of the Treasury		
Low-Income Taxpayer Clinics	21.008	78,879
Office of Personnel Management		
Intergovernmental Personnel Act Mobility Program	27.011	60,184
Equal Employment Opportunity Commission		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	3,860
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 3)	39.003	84,037
National Aeronautics and Space Administration		
Various Programs	43.000	50,716

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Aerospace Education Services Program (See Note 12)	43.001	(1,191)
Total National Aeronautics and Space Administration		49,525
National Foundation on the Arts and the Humanities		
Promotion of the Arts_Grants to Organizations and Individuals	45.024	3,150
Promotion of the Arts - Partnership Agreements	45.025	651,098
Promotion of the Humanities - Federal/State Partnership (See Note 12)	45.129	327
Promotion of the Humanities - Division of Preservation and Access	45.149	44,556
Promotion of the Humanities - Fellowships and Stipends (See Note 12)	45.160	19,920
State Library Program	45.310	1,890,918
Total National Foundation for the Arts and the Humanities		2,609,969
National Science Foundation		
Various Programs	47.000	30,501
Engineering Grants	47.041	69,646
Mathematical and Physical Sciences	47.049	63,815
Biological Sciences (See Note 12)	47.074	39,825
Education and Human Resources (See Note 12)	47.076	476,865
Total National Science Foundation		680,652
Small Business Administration		
Small Business Development Center	59.037	1,031,190
Department Of Veterans Affairs		
Veterans State Domiciliary Care	64.014	2,570,736
Veterans State Hospital Care	64.016	3,292,699
Burial Expenses Allowance for Veterans	64.101	74,580
All - Volunteer Force Educational Assistance	64.124	190,091
Total Department Of Veterans Affairs		6,128,106
Environmental Protection Agency		
Various Programs	66.000	38,514
Air Pollution Control Program Support	66.001	7,584
State Indoor Radon Grants	66.032	172,367
Ozone Transport	66.033	13,821
State Public Water System Supervision	66.432	1,035,633
Water Quality Management Planning	66.454	158,735
National Estuary Program	66.456	507,894
Capitalization Grants for Clean Water State Revolving Funds (See Note 1)	66.458	18,211,051
Nonpoint Source Implementation Grants	66.460	1,879,513
Wetland Program Development Grants	66.461	11,847

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Water Quality Cooperative Agreements	66.463	145,281
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	4,317
Capitalization Grants for Drinking Water State Revolving Fund (See Note 1)	66.468	18,560,722
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	10,372
Beach Monitoring and Notification Program Implementation	66.472	29,532
Water Protection Grants to the States	66.474	2,189
Environmental Protection Consolidated Research	66.500	284,689
Performance Partnership Grants	66.605	9,350,665
Surveys, Studies, Investigations and Special Purpose Grants	66.606	559,254
Training and Fellowships for the Environmental Protection Agency	66.607	23,471
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	8,289
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	92,231
TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	66.707	421,112
Pollution Prevention Grants Program	66.708	197,068
Superfund State, Political Subdivision and Indian Tribe Site - Specific Cooperative Agreements	66.802	678,840
State and Tribal Underground Storage Tanks Program	66.804	4
Leaking Underground Storage Tank- Trust Fund	66.805	681,981
Superfund State and Indian Tribe Core Program - Cooperative Agreements	66.809	409,029
Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program	66.810	10,050
Brownfield Pilots Cooperative Agreements	66.811	(1,242)
Environmental Education Grants (See Note 12)	66.951	14,778
Total Environmental Protection Agency		53,519,591
Nuclear Regulatory Commission		
Radiation Control-Training Assistance and Advisory Counseling	77.001	11,376
Department of Energy		
Petroleum Escrow Funds	81.000	333,970
National Energy Information Center	81.039	10,545
State Energy Program	81.041	706,595
Weatherization Assistance for Low-Income Persons	81.042	2,614,559
Office of Science Financial Assistance Program	81.049	1,356,732
Regional Biomass Energy Programs	81.079	15,628
Conservation Research and Development	81.086	218,795
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	325,387
Energy Efficiency and Renewable Energy Info. Dissem., Outreach, Training and Tech. Analysis/Assistance	81.117	5,726
State Energy Program Special Projects	81.119	287,284
Total Department of Energy		5,875,221
Department of Education		

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Special Education Cluster:		
Special Education-Grants to States	84.027	84,698,110
Special Education-Preschool Grants	84.173	5,070,549
Total Special Education Cluster		89,768,659
TRIO Cluster:		
TRIO - Student Support Services	84.042	818,255
TRIO - Talent Search	84.044	286,125
TRIO - Upward Bound	84.047	784,591
Total TRIO Cluster		1,888,971
Various Programs	84.000	421,737
Adult Education-State Grant Program	84.002	6,162,435
Title 1 Grants to Local Educational Agencies	84.010	102,585,200
Migrant Education-State Grant Program	84.011	3,349,516
Title 1 Program for Neglected and Delinquent Children	84.013	1,096,193
Overseas_Faculty Research Abroad	84.019	23,619
International: Overseas--Group Projects Abroad	84.021	39,000
Higher Education - Institutional Aid	84.031	310,558
Public Library Services	84.034	1,075
Vocational Education-Basic Grants to States	84.048	9,727,123
Leveraging Educational Assistance Partnership	84.069	135,050
Special Education - Postsecondary Education Programs for Persons with Disabilities	84.078	21,878
Fund for Improvement of Postsecondary Education (See Note 12)	84.116	523,411
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	19,315,450
Chapter 2 - State Block Grants	84.151	8,956
Secondary Educ. & Transitional Serv. for Youth with Disabilities	84.158	101
Rehabilitation Services--Client Assistance Program	84.161	134,762
Immigrant Education	84.162	119,937
Eisenhower Professional Development-Federal Activities	84.168	53,052
Independent Living - State Grants	84.169	310,260
Rehabilitation Services-Independent Living Services for Older Indiv. Who are Blind	84.177	269,694
Special Education - Grants for Infants and Families with Disabilities	84.181	4,405,327
Safe and Drug-Free Schools and Communities -National Programs	84.184	78,478
Byrd Honors Scholarships	84.185	473,375
Safe and Drug-Free Schools and Communities -State Grants	84.186	4,244,271
Supported Employment Services for Individuals with Severe Disabilities	84.187	325,720
Bilingual Education Support Services	84.194	72,828
Bilingual Education-Professional Development (See Note 12)	84.195	390,443
Education for Homeless Children and Youth	84.196	471,711
Graduate Assistance in Areas of National Need	84.200	242,110
Javits Gifted and Talented Students Education Grant Program	84.206	244,108
Even Start- State Educational Agencies	84.213	2,280,522
Fund for the Improvement of Education (See Note 12)	84.215	1,171,912
Capital Expenses	84.216	814
Assistive Technology	84.224	552,696
Program of Protection and Advocacy of Individual Rights	84.240	100,175
Tech-Prep Education	84.243	764,408

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	40,517
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	92,139
School to Work Opportunities - Local Partnership Implementation Grant	84.278	84,983
Eisenhower Professional Development State Grants	84.281	1,584,447
Charter Schools	84.282	457,365
Twenty-First Century Community Learning Centers (See Note 12)	84.287	2,498,162
Innovative Education Program Strategies	84.298	4,041,810
Even Start--Statewide Family Literacy Program	84.314	96,039
Education Technology State Grants	84.318	4,710,218
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	948,235
Special Education-Research and Innovation to Improve Services and Results for Children with Dis.	84.324	1,876
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	81,745
Special Education-Tech Assist/Dissemination to Improve Services/Results for Children with Dis.	84.326	78,743
Advanced Placement Program	84.330	514,344
Grants to States for Incarcerated Youth Offenders	84.331	205,188
Comprehensive School Reform Demonstration	84.332	2,499,884
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	242,262
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,878,948
Teacher Quality Enhancement Grants	84.336	959,877
Reading Excellence	84.338	5,771,734
Class Size Reduction	84.340	1,616,046
Preparing Tomorrow's Teachers to Use Technology (See Note 12)	84.342	272,108
Assistive Technology--State Grants for Protection and Advocacy	84.343	12,930
Vocational Education-Occupational and Employment Information State Grants	84.346	98,585
Title I Accountability Grants	84.348	208,235
Early Childhood Educator Professional Development	84.349	531,094
Transition to Teaching	84.350	352,096
School Renovation Grants	84.352	6,663,135
Rural Education	84.358	20,001
English Language Acquisition Grants	84.365	2,813,748
Improving Teacher Quality State Grants	84.367	20,098,959
Grants for State Assessments and Related Activities	84.369	1,562,144
Total Department of Education (See Also Student Financial Assistance Cluster)		313,123,132
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	38,273
Department of Health and Human Services		
Medicaid Cluster:		
Medical Assistance Program	93.778	1,871,911,352
State Survey and Certification of Health Care Providers and Suppliers	93.777	6,715,060
State Medicaid Fraud Control Unit	93.775	586,975
Total Medicaid Cluster		1,879,213,387

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Child Care Cluster:		
Child Care and Development Block Grant	93.575	16,062,397
Child Care Mandatory and Matching Funds of the Child Care & Development Fund	93.596	36,683,744
Total Child Care Cluster		52,746,141
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Supportive Services	93.044	4,882,821
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	8,851,112
Total Aging Cluster		13,733,933
Various Programs	93.000	302,265
Public Health and Social Services Emergency Fund	93.003	1,066,574
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	55,177
Special Programs for the Aging-Title III Part D-Disease Prev. & Health Promotion Services	93.043	304,929
Special Programs for the Aging-Title IV-and Title II- Discretionary Projects	93.048	291,302
National Family Caregiver Support	93.052	2,646,819
Maternal and Child Health Federal Consolidated Programs	93.110	207,660
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	761,830
Grants for Technical Assistance Activities	93.119	74,880
Nurse Anesthetist Traineeships	93.124	29,878
Mental Health Planning and Demonstration Projects	93.125	(3)
Emergency Medical Services for Children	93.127	(67)
Primary Care Services-Resource Coordination and Development	93.130	147,717
Injury Prevention and Control Research and State and Community Based Programs	93.136	498,182
Protection and Advocacy for Individuals with Mental Illness	93.138	355,416
Cooperative Agreements for Collaborative Demonstration Program for Homeless Indiv.	93.148	(33,616)
Projects for Assistance in Transition from Homelessness (PATH)	93.150	516,833
Grants for State Loan Repayment	93.165	202,977
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	708,857
Research on Healthcare Costs, Quality and Outcomes	93.226	110
Consolidated Knowledge Development and Application Program	93.230	5,967,782
Abstinence Education	93.235	440,436
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	112,541
State Capacity Building	93.240	327,802
State Rural Hospital Flexibility Program	93.241	82,502
Mental Health Research Grants	93.242	76,557
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	124,017
Innovative Food Safety Projects	93.245	542
Universal Newborn Hearing Screening	93.251	111,081
Rural Access to Emergency Devices Grant	93.259	102,144
Occupational Safety and Health Research Grants	93.262	18,047
Immunization Grants (See Note 3)	93.268	13,359,300
Drug Abuse National Research Service Awards for Research Training	93.278	298,857
Drug Abuse Research Programs	93.279	602
Mental Health National Research Service Awards for Research Training	93.282	64,570

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3)	93.283	14,174,871
Comparative Medicine (See Note 12)	93.306	54,635
Advanced Education Nursing Traineeship	93.358	71,297
Academic Research Enhancement Award	93.390	31,917
Abandoned Infants	93.551	394,601
Promoting Safe and Stable Families	93.556	2,293,376
Temporary Assistance for Needy Families	93.558	258,952,322
Child Support Enforcement (See Note 11)	93.563	41,331,274
Refugee and Entrant Assistance-State Administered Programs	93.566	1,950,020
Low-Income Home Energy Assistance	93.568	53,530,539
Community Services Block Grant	93.569	8,939,457
Community Services Block Grant -Discretionary Awards	93.570	65,249
Refugee and Entrant Assistance - Discretionary Grants	93.576	613,170
Empowerment Zones Program	93.585	(974)
State Court Improvement Program	93.586	244,620
Community-Based Family Resource and Support Grants	93.590	254,921
Grants to States for Access and Visitation Programs	93.597	106,361
Head Start	93.600	151,656
Adoption Incentive Payments	93.603	364,427
Runaway and Homeless Youth	93.623	151,000
Developmental Disabilities Basic Support and Advocacy Grants	93.630	891,346
Children's Justice Grants to States	93.643	191,835
Child Welfare Services-State Grants	93.645	1,741,520
Social Services Research and Demonstration	93.647	350,000
Foster Care-Title IV-E	93.658	40,502,883
Adoption Assistance	93.659	18,025,508
Social Services Block Grant	93.667	52,011,325
Child Abuse and Neglect State Grants	93.669	142,870
Family Violence Prevention and Services-Grants to States and Indian Tribes	93.671	260,504
Chafee Foster Care Independent Living	93.674	1,627,653
State Children's Insurance Program	93.767	16,415,765
Medicaid Infrastructure Grants to Support the Competitive Employment of People w/ Disabilities	93.768	322,329
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	512,233
Area Health Education Centers	93.824	161,537
Lung Diseases Research	93.838	56,652
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	32,635
Health Care and Other Facilities	93.887	170,037
Alcohol Research Center Grants	93.891	47,496
Resource and Manpower Development in the Environmental Health Sciences	93.894	35,151
Grants to States for Operation of Offices of Rural Health	93.913	75,128
HIV Emergency Relief Project Grants	93.914	186,587
HIV Care Formula Grants	93.917	13,108,638
Coop. Agreements for State-Based Comp. Breast and Cervical Cancer Early Detect.	93.919	669,958
Health Start Initiative	93.926	123,630
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	278,182

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
HIV Prevention Activities-Health Department Based	93.940	6,578,159
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	377,519
Human Immunodeficiency Virus /Acquired Immunodeficiency Virus Syndrome Surveillance	93.944	598,206
Assistance Programs for Chronic Disease Prevention and Control	93.945	509,160
Improving EMS/Trauma Care in Rural Areas	93.952	85
Block Grants for Community Mental Health Services	93.958	5,042,118
Block Grants for Prevention and Treatment of Substance Abuse	93.959	17,414,004
Special Minority Initiatives	93.960	23,162
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	1,082,997
Mental Health Disaster Assistance and Emergency Mental Health	93.982	851,563
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	486,076
Preventive Health and Health Services Block Grant	93.991	1,994,808
Maternal and Child Health Services Block Grant To The States	93.994	4,437,992
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		2,545,929,951
Corporation for National and Community Service		
State Commissions	94.003	168,683
Learn and Serve America-School and Community Based Programs	94.004	266,407
AmeriCorps	94.006	1,712,820
Planning and Program Development Grants	94.007	9,429
Training and Technical Assistance	94.009	143,100
Total Corporation for National and Community Service		2,300,439
Social Security Administration		
Social Security-Disability Insurance	96.001	15,477,785
Social Security-Benefits Planning, Assistance, and Outreach Program	96.008	554,982
Total Social Security Administration		16,032,767
Department of Homeland Security		
Various Programs (See Note 12)	97.000	14,167
State Domestic Preparedness Equipment Support Program	97.004	2,569,685
Boating Safety Financial Assistance	97.012	627,866
Hazardous Materials Assistance Program	97.021	6,900
Community Assistance Program-State Support Services Element	97.023	156,891
Flood Mitigation Assistance	97.029	249,057
Crisis Counseling	97.032	269,553
Public Assistance Grants	97.036	6,612,907
Disaster Housing Program	97.037	13,101
First Responder Counter-Terrorism Training Assistance	97.038	12,316
Hazard Mitigation Grant	97.039	37,125
National Dam Safety Program	97.041	84,161
Emergency Management Performance Grants	97.042	1,886,570

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Pre-Disaster Mitigation	97.047	68,164
State and Local All Hazards Emergency Operations Planning	97.051	437,463
Emergency Operations Centers	97.052	316
Citizen Corps	97.053	113,260
Total Department of Homeland Security		13,159,502
Various Programs		
Other Federal Assistance (See Note 12)	99.000	665,206
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants	84.007	2,491,757
Federal Family Education Loan Program (See Note 6)	84.032	101,004,968
Federal Work-Study Program	84.033	3,336,489
Federal Perkins Loan Program-Federal Capital Contributions (See Note 4)	84.038	26,404,161
Federal Pell Grant Program	84.063	38,713,195
Federal Direct Student Loan	84.268	19,156,119
Total Department of Education		191,106,689
Department of Health and Human Services		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 5)	93.342	1,866,379
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		192,973,068
RESEARCH AND DEVELOPMENT CLUSTER:		
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 and NOTE 12)		
Department of Agriculture		
Agricultural Research Service	10.RD	1,479,417
Animal and Plant Health Inspection Service	10.RD	40,789
Cooperative State Research, Education, and Extension Service	10.RD	3,757,876
Food and Nutrition Service	10.RD	99,692
Foreign Agricultural Service	10.RD	1,391
Forest Service	10.RD	46,891
Miscellaneous Programs	10.RD	8,014
Total Department of Agriculture		5,434,070
Department of Commerce		
National Oceanic and Atmospheric Administration	11.RD	3,999,395
National Institute for Standards and Technology	11.RD	32,781
Miscellaneous Programs	11.RD	15,500
Total Department of Commerce		4,047,676

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Defense		
Department of the Navy, Office of the Chief of Naval Research	12.RD	2,140,720
U.S. Army Medical Command	12.RD	229,246
U.S. Army Materiel Command	12.RD	548,595
Department of the Air Force, Materiel Command	12.RD	917,138
Advanced Research Projects Agency	12.RD	254,147
Miscellaneous Programs	12.RD	108,950
Total Department of Defense		4,198,796
Department of Housing and Urban Development		
Office of Community Planning and Development	14.RD	2,840
Office of Fair Housing and Equal Opportunity	14.RD	58,500
Office of Policy Development and Research	14.RD	8,378
Total Department of Housing and Urban Development		69,718
Department of the Interior		
U.S. Fish and Wildlife Service	15.RD	1,870
Geological Survey	15.RD	160,687
National Park Service	15.RD	25,985
Miscellaneous Programs	15.RD	13,952
Total Department of the Interior		202,494
Department of Justice		
National Institute of Justice	16.RD	130,481
Violence Against Women Office	16.RD	193,333
Total Department of Justice		323,814
Department of Labor		
Employment and Training Administration	17.RD	84,977
Department of State		
Bureau of Educational and Cultural Affairs	19.RD	28,031
Department of Transportation		
Federal Highway Administration	20.RD	6,250
Research and Special Programs Administration	20.RD	30,391
Bureau of Transportation Statistics	20.RD	24,159
Total Department of Transportation		60,800
National Aeronautics and Space Administration	43.RD	881,445
National Foundation on the Arts and the Humanities		
National Endowment for the Humanities	45.RD	36,892
Institute of Museum and Library Services	45.RD	29,861
Total National Foundation on the Arts and the Humanities		66,753

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National Science Foundation	47.RD	9,723,350
Environmental Protection Agency		
Office of Water	66.RD	96,141
Office of Administration	66.RD	517,954
Office of Enforcement and Compliance Assurance	66.RD	22,178
Office of Research and Development	66.RD	1,023,603
Total Environmental Protection Agency		1,659,876
Department of Energy	81.RD	1,762,435
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	16,141
Office of Student Financial Assistance Programs	84.RD	34,425
Office of Elementary and Secondary Education	84.RD	32,365
Office of Educational Research and Improvement	84.RD	2,757,480
Office of Postsecondary Education	84.RD	867,464
Miscellaneous Programs	84.RD	28,673
Total Department of Education		3,736,548
Department of Health and Human Services		
Food and Drug Adminstration	93.RD	18,632
Agency for Health Care Policy and Research	93.RD	81,916
Substance Abuse and Mental Health Services Administration	93.RD	85,285
National Institutes of Health	93.RD	12,927,952
Administration for Children and Families	93.RD	88,145
Centers for Disease Control	93.RD	69,912
Health Resources and Services Administration	93.RD	146,286
Miscellaneous Programs	93.RD	24,786
Total Department of Health and Human Services		13,442,914
Various Programs	99.RD	3,516,403
Agency for International Development	02.RD	106,917
TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT		49,347,017
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	49,413
Department of Defense		
U.S. Army Medical Command	12.RD	474,153

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
U.S. Army Materiel Command	12.RD	109,510
Total Department of Defense		583,663
Department of Justice		
Miscellaneous Programs	16.RD	231,741
National Institute of Justice	16.RD	214,947
Total Department of Justice		446,688
Office of Personnel Management	27.RD	46,780
National Aeronautics and Space Administration	43.RD	1,224,171
National Science Foundation	47.RD	566,079
Department of Veterans Affairs		
Miscellaneous Programs	64.RD	12
Environmental Protection Agency		
Office of Air and Radiation	66.RD	46,061
Office of Research and Development	66.RD	(22)
Total Environmental Protection Agency		46,039
Department of Energy	81.RD	27,164
Department of Education		
Office of Educational Research and Improvement	84.RD	272,366
Office of Special Education and Rehabilitative Services	84.RD	1,014,990
Miscellaneous Programs	84.RD	(29,291)
Total Department of Education		1,258,065
Department of Health and Human Services		
Substance Abuse and Mental Health Services Administration	93.RD	700,857
National Institutes of Health	93.RD	49,369,081
Health Resources and Services Administration	93.RD	3,917,418
Centers for Disease Control	93.RD	1,371,859
Office of the Secretary	93.RD	109,684
Agency for Health Care Policy and Research	93.RD	1,451,971
Administration for Children and Families	93.RD	709,428
Miscellaneous Programs	93.RD	26,945
Total Department of Health and Human Services		57,657,243
TOTAL HEALTH CENTER RESEARCH GRANTS		61,905,317
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		111,252,334
TOTAL FEDERAL ASSISTANCE		**$ 5,448,738,907**

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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)	$157,792,084
Food Distribution (10.550)	13,014,904
Department of Health and Human Services:	
Childhood Immunization Grants (93.268)	9,963,710
Preventive Health Services - Sexually Transmitted Diseases Control (93.977)	137,000
Diabetes Reduction (93.988)	116,592
Bioterrorism (93.283)	2,364,444
General Services Administration:	
Donation of Federal Surplus Personal Property (39.003)	84,037

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, 2003, were $26,393,486.

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, 2003, were $1,866,379.

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, 2003, totaled $100,543,489.

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 $10,096,386 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, 2002, the CHFA expended $58,919,976 of Federal funds under that program. CHFA also expended $1,670,971 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, 2003, were $358,333 and there were no new loans made under the program during the 2002-2003 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 $763,179,108. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $195,086,102. The $55,723,093 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, 2003, the Department of Social Services expended a total of $41,331,274 (Federal share) to accomplish the goals of the Child Support Enforcement Program (93.563). However, the State received $15,316,500 of the $41,331,274 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $26,014,774 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, 2003

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	2,730
10.000	*7301*	University of Vermont	LTR 9-23-02	13,734
10.000	*7301*	Colorado State University	PO # 305726	30,927
10.206	*7805*	Pennsylvania State University	SUB-2373-ECSU-USDA-2255	3,901
10.500	*7301*	Cornell University	01-41520-01217	12,791
10.500	*7301*	USDA/ 4-H COU	20024520101528	4,314
Total Department of Agriculture				68,397
Department of Defense				
12.002	*7802*	South Eastern CT Enterprise Region	Award # SP4800-01-2-0109	42,651
Department of Labor				
17.263	*7001*	Capitol Region Workforce Dev. Board	Contract # 010181	149,893
Department of State				
19.000	*7301*	Wadsworth Anthenium	Agreement D. 6/1/01	777
Department of Transportation				
20.701	*7301*	MIT	MIT#5710001325	20,000
National Aeronautics and Space Administration				
43.001	*7805*	University of Hartford	314800-SUB ECSU	(2,691)
National Foundation on the Arts and the Humanities				
45.129	*7301*	NEH / CHC	P-0503 G-0503	327
45.160	*7301*	Brown University	Howard Found Fellow	19,920
				20,247
National Science Foundation				
47.074	*7802*	Woods Hole Oceanographic Institution	A100179	39,825
47.076	*7301*	UMASS	02-522689 D 00	61,575
Total National Science Foundation				101,400
Environmental Protection Agency				
66.951	*7802*	Hispanic Health Council	N/A	4,241

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Department of Education				
84.116	*7301*	University of New Hampshire	AGR #01-480	6,542
84.195	*7802*	City of Waterbury	N/A	160,371
84.215	*7001*	Council of Chief State School Officers	R215U960011-00	593
84.287	*7301*	Danbury School	AGR 07-20-01	398
84.342	*7805*	Thinkquest	N/A	17,570
Total Department of Education				185,474
Department of Health and Human Services				
93.306	*7301*	SW Texas	B223.1	54,635
Department of Homeland Security				
97.000	*7301*	Danbury School	AGR 07-01-01	9,747
Various Programs				
99.000	*7301*	Battelle Lab	PO # 172791	441
99.000	*7301*	Nat Res Def	CK# 49709	2,970
99.000	*7802*	The Eurasia Foundation	W01-0062	139,083
Total Various Programs				142,494
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				797,265
RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS: (SEE NOTE 2)				
Department of Agriculture				
Animal and Plant Health Inspection Service				
10.RD	*7301*	USDA APHIS	01-8100-0742CA	5,254
Cooperative State Research, Education, and Extension Service				
10.RD	*7301*	University of Rhode Island	USDA#20015110211296	89,027
10.RD	*7301*	UMASS	UM# 02-529029C00	73,461
10.RD	*7301*	Yale University	USDA# 00-35200-95793	16,612
10.RD	*7301*	NE Small Far	Agreement No. 17 A	19,876
10.RD	*7301*	University of Maine	PO# U189000	13,408
10.RD	*7301*	University of Delaware	NE-127 TRUST	2,312
10.RD	*7301*	University of Rhode Island	110700/535957	26,281

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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	LNE 03-177	785
10.RD	*7301*	University of Vermont	LNE01-144	13,738
10.RD	*7301*	University of Vermont	LNE01-143	31,068
Total Cooperative State Research, Education, and Extension Service				286,568
Forest Service				
10.RD	*7301*	SNE Forest	MOA 9/1/02	38,158
Miscellaneous Programs				
10.RD	*7301*	University of Vermont	ENE99-48	3,289
10.RD	*7301*	University of Rhode Island	082702/535922-23	4,987
Total Miscellaneous Programs				8,276
Total Department of Agriculture				338,256
Department of Commerce				
National Oceanic and Atmospheric Administration				
11.RD	*7301*	NOAA/NMFS	AGMT #111502/531516	5,543
11.RD	*7301*	SUNY	PO#R41308 # 431-1244B	3,309
Total National Oceanic and Atmospheric Administration				8,852
National Institute for Standards and Technology				
11.RD	*7301*	United Technology	AGR Dated 8/8/02	32,781
Total Department of Commerce				41,633
Department of Defense				
U.S Army Materiel Command				
12.RD	*7301*	Purdue University	530-1617-04	212,715
12.RD	*7301*	Yardney Tech	AGR 8-24-01	54,587
Total U.S Army Materiel Command				267,302
Department of the Air Force, Materiel Command				
12.RD	*7301*	Syracuse University	K000003015#3531145	3,910
12.RD	*7301*	Polycomp Tech	AGR 00-STTR-01	37,968
12.RD	*7301*	Optimetries	PO#18998	29,592
12.RD	*7301*	Eumi Sys Cor	AGR 6-7-01	4,471
12.RD	*7301*	UTC P&W	PO#F820048	123,001
12.RD	*7301*	Wayne State	PO# Y-301703	29,345
Total Department of the Air Force, Materiel Command				228,287

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Department of the Navy, Office of the Chief of Naval Research				
12.RD	*7301*	MIT	5710001453	24,577
12.RD	*7301*	Honeywell	PO 48095	(306)
Total Department of the Navy, Office of the Chief of Naval Research				24,271
Advanced Research Projects Agency				
12.RD	*7301*	IBM	IBM No. 2524	(10,082)
12.RD	*7301*	University of Houston	155010743912K155025	21,830
12.RD	*7301*	Raytheon	PO#S7-6AP004X	4,194
12.RD	*7301*	Boeing	PO#Z10661	187,270
Total Advanced Research Projects Agency				203,212
Total Department of Defense				723,072
Department of Housing and Urban Development				
Office of Fair Housing and Equal Opportunity				
14.RD	*7301*	Urban Institute	UI#06977-000-00	58,500
Department of Labor				
Employment and Training Administration				
17.RD	*7301*	Washington	020 PXG (033)	83,799
17.RD	*7301*	Hill COOP	LOA - 2/4/03	1,178
Total Employment and Training Administration				84,977
Department of Transportation				
Research and Special Programs Administration				
20.RD	*7301*	MIT	PO 5710000759	(6)
20.RD	*7301*	MIT	5710001324	30,397
Total Research and Special Programs Administration				30,391
Federal Highway Administration				
20.RD	*7301*	Capitol -Reg	FED AID PROJ TCSP001	5,894
20.RD	*7301*	Penn State University	1583UCCOP359704 WO73	356
Total Federal Highway Administration				6,250
Bureau of Transportation Statistics				
20.RD	*7301*	University of Kentucky	464850-02-013	24,157
Total Department of Transportation				60,798

STATE OF CONNECTICUT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
National Aeronautics and Space Administration				
43.RD	*7301*	NASA EPSCOR	SUB CONT #314803	1,781
43.RD	*7301*	NASA / University of Hartford	SUB CONT #314803	1,939
43.RD	*7301*	University of Hartford	PO#P0035096	(1,247)
43.RD	*7301*	University of Hartford	303110 Sub-UCONN FR	300
43.RD	*7301*	University of Hartford	NASA EPSCOR 01-02	217,733
43.RD	*7301*	University of Hartford	TA#1	(696)
43.RD	*7301*	University of Hartford	Year 3 TA#1	9,937
43.RD	*7301*	Inframat Cor	AGR 3-5-01	40,573
43.RD	*7301*	University of Hartford	303111-SUB UCONN	3,084
43.RD	*7301*	Arizona State University	Sub # 99-12232	24,718
Total National Aeronautics and Space Administration				298,122
National Science Foundation				
47.RD	*7301*	Carnegie Mellon University	1120155-120701	14,067
47.RD	*7301*	Software Frm	NSF SBIR AGR 12/21/01	542
47.RD	*7301*	University of Miami	PO # P736886	16,939
47.RD	*7301*	Syracuse University	AGR #353-5847	8,787
47.RD	*7301*	Physical Opt	POC#359-UCONN	(16)
47.RD	*7301*	University of Kentucky	464172-02-012	(16,743)
47.RD	*7301*	University of Maryland	#CG - 0302	14,761
47.RD	*7301*	University P.R	#534024 / NSF#MCB011373	38,904
47.RD	*7301*	Purdue University	DBI-0217552	42,435
47.RD	*7301*	University of Minnesota	T66166245101	19,277
47.RD	*7301*	University of Arizona	PO Y702124	7,638
47.RD	*7301*	Duke University	01-SC-NSF-1008	2,967
47.RD	*7301*	University of Georgia	RR 229-208/2000817	250,988
47.RD	*7301*	Univ CAL-DAV	Agmt No. 00RA2548	29,881
47.RD	*7301*	Ciencia Inc	AGR DATED 7/1/02	32,275
Total National Science Foundation				462,702
Department of Environmental Protection				
Office of Water				
66.RD	*7301*	Cornell University	Agmt # 33346-6472	960
Office of Research and Development				
66.RD	*7301*	John Hopkins University	8201-48276	40,933

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
66.RD	*7301*	John Hopkins University	8112-48274	45,728
66.RD	*7301*	John Hopkins University	AGR #8210-17883	14,196
66.RD	*7301*	John Hopkins University	8112-48273	31,441
				132,298
Office of Administration				
66.RD	*7301*	Institute of Ecosystems	X981068-01-1	(1,165)
Total Department of Environmental Protection				132,093
Department of Energy				
81.RD	*7301*	NC State University	88-1426-03 AMD#19	18,181
81.RD	*7301*	University of California	PO#25686-001-01 2T	65,248
81.RD	*7301*	Solar Turb	PO#HD0002206	118,336
81.RD	*7301*	Worchester Technology	S/C 02-218190-1	99,420
81.RD	*7301*	IONOMEM Corp	AGR 3/1/02	173,487
81.RD	*7301*	Plant Biotech	AGR #OR22072-97	(2,221)
81.RD	*7301*	Plant Biotech	AGR #OR22072-109	11,595
81.RD	*7301*	Clemson University	No. 00-01-SR081	107,353
81.RD	*7301*	Clemson University	SUB# 99-01-SR073	(5,506)
81.RD	*7301*	Clemson University	01-01-SR-91	231,898
81.RD	*7301*	Clemson University	02-01-SR097	124,132
81.RD	*7301*	Clemson University	02-01-SR-91	7,260
81.RD	*7301*	Fluent Inc	FY000112UCT	38,001
Total Department of Energy				987,184
Department of Education				
Office of Educational Research and Improvement				
84.RD	*7301*	Danbury School	AGR 10-21-98	18,259
Office of Student Financial Assistance Programs				
84.RD	*7301*	University of Rhode Island	103102/539655	34,425
Office of Special Education and Rehabilitation Services				
84.RD	*7301*	Marquette University	H133E020729	16,141
Miscellaneous Programs				
84.RD	*7301*	National Writing Project	92-CT01	28,673
Total Department of Education				97,498

STATE OF CONNECTICUT
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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Department of Health and Human Services				
Agency for Health Care Policy and Research				
93.RD	*7301*	University of Washington	NO. 231059	(1,114)
93.RD	*7301*	University of Washington	AGR 624056	31,527
93.RD	*7301*	University of Washington	NO. 425342	22,302
Total Agency for Health Care Policy and Research				52,715
Administration for Children and Families				
93.RD	*7301*	Catholic Families	AGR for SER D10-1-01	32,168
93.RD	*7301*	Catholic Families	AGR 10/1/02	55,957
93.RD	*7301*	Catholic Families	Agreement D 10/01/00	20
Total Administration for Children and Families				88,145
Centers for Disease Control				
93.RD	*7301*	ATPM	TS-0658	32,243
93.RD	*7301*	ATPM	TS-0784	19,821
93.RD	*7301*	ATPM	SUBAGREE D. 1/15/02	17,848
Total Centers for Disease Control				69,912
National Institutes of Health				
93.RD	*7301*	University of Pennsylvania	536642 7R01DE115407	67,554
93.RD	*7301*	Yale University	2 RO1 DC00283-18	72,860
93.RD	*7301*	University CAL-IRV	F00-DA12413-UC	73,796
93.RD	*7301*	University CAL	0845 GDC 664	6,939
93.RD	*7301*	Child Res In	Contract #1688-01-02	37,693
93.RD	*7301*	Cortex Pharm	AGR 1-2-01	26,000
93.RD	*7301*	Child Res In	PO #290699	55,766
93.RD	*7301*	Spheres Inc	AGR 4-12-01	(130)
93.RD	*7301*	Beth Israel Hospital	5P01HD20806-14	(920)
93.RD	*7301*	Beth Israel Hospital	P01 HD20806-15	61,648
93.RD	*7301*	University CAL-IRV	E01-HD-26939	12,963
93.RD	*7301*	University of Maryland	AGMT No. CG0210	11,222
93.RD	*7301*	Haskins Lab	AGR 03-04-03	48,306
93.RD	*7301*	Allpied Biop	AGR 10-1-01	152,918
93.RD	*7301*	University of Columbia	SUBGRANT 2	9,567
93.RD	*7301*	University of Columbia	SUBGRANT 1	9,567
93.RD	*7301*	University of North Carolina	5R01CA74015-07	36,060
93.RD	*7301*	Iowa	Proj # 430-24-29	12,783
93.RD	*7301*	Beth Israel Hospital	AGR 11/22/02	320,311

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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*	Allegheny University	R01-AG-18237	22,187
Total National Institutes of Health				1,037,090
Substance Abuse and Mental Health Services Administration				
93.RD	*7301*	City of Stamford	AGR 12-18-00	(4,041)
93.RD	*7301*	Danbury	AGR 11/20/02	38,355
93.RD	*7301*	City of Stamford	AGR 11/4/02	20,351
93.RD	*7301*	City of Stamford	AGR 10-26-01	5,349
93.RD	*7301*	City of New Haven	A01-0793	20,647
93.RD	*7301*	Catholic Charities of Fairfield County	AGR 4/29/03	4,624
Total Substance Abuse and Mental Health Services Administration				85,285
Miscellaneous Programs				
93.RD	*7301*	Farber Cancer	CKD. 03/14/02	24,786
Total Department of Health and Human Services				1,357,933
Various Programs				
99.RD	*7301*	Genentech	52002	10,141
99.RD	*7301*	University of Vermont	NETC#6-21-07 (02)	12,833
99.RD	*7301*	Energy Research	PO# 2573-000	13,979
99.RD	*7301*	Laser Fare	PO# 22603	6,046
99.RD	*7301*	Alaska DFG	COOP -02-009	(3)
99.RD	*7301*	Space Photon	AGR 11-15-01	35,807
99.RD	*7301*	Battelle Lab	PO # 172791	1,617,382
99.RD	*7301*	RJM Semicond	PO# 1066UCONN	1,217
99.RD	*7301*	Lucent Tech	PO# FSG332075	4,527
99.RD	*7301*	Electric Boat	PO# SNL109-014	(3,725)
99.RD	*7301*	QS Heritage	AGR 1-11-01	90,848
99.RD	*7301*	AM Egg Board	MOA 7/16/02	24,868
99.RD	*7301*	AM Egg Board	MOA D 1/11/02	35,454
99.RD	*7301*	University of Florida	NCC9-110	16,756
99.RD	*7301*	NATL ALL	LTR 6/25/02	26,966
99.RD	*7301*	DOD - AF/AT& T	AGR Dated 7/2/02	46,771
99.RD	*7301*	Microsystem Inc	AGR Dated 8/2/02	40,510
99.RD	*7301*	Opel Inc.	AGR Dated 8/15/02	41,500
99.RD	*7301*	United Tec	21153 Task # 05	16,484
99.RD	*7301*	Yardney Tech	PO #0284042	4,861
99.RD	*7301*	CHC	LTR. 3-6-00	(23,623)
99.RD	*7301*	SURA JNL	SURA-02-C0006	33,666

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
99.RD	*7301*	Ciencia	AGR 1/14/03	20,983
99.RD	*7301*	DARPA	5535	12,390
99.RD	*7301*	University of California	69797-001-03 3D	25,167
99.RD	*7301*	University of California	MDA972-03-C-0039	9,521
99.RD	*7301*	University of California	B531086	15,952
99.RD	*7301*	Ciencia	AGR 1/1/02	67,438
Total Various Programs				2,204,716
Agency for International Development				
02.RD	*7301*	University of Georgia	RC710-013/4092044	101,210
Total Agency for International Development				101,210
TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS				6,948,694
UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2)				
Department of Energy				
Miscellaneous Programs				
81.RD	*7302*	Brookhaven National Laboratory	53419	27,164
Department of Education				
Office of Special Education and Rehabilitative Services				
84.RD	*7302*	University of Montana	5901-04	5,548
Miscellaneous Programs				
84.RD	*7302*	Orelena Hawks Puckett Institute	H024S60008	(28,500)
Total Department of Education				(22,952)
Department of Health and Human Services				
Agency for Health Care Policy and Research				
93.RD	*7302*	CT Children's Medical Center	R03 HS09825-01	4,453
93.RD	*7302*	MASS General Hospital	HA08397-05	7,011
93.RD	*7302*	MASS General Hospital	1 R01 AI42402-03	13,967
Total Agency Health Care Policy and Research				25,431
Office of the Secretary				
93.RD	*7302*	Hill Health Corp	01-2002-53	14,866
93.RD	*7302*	Planned Parenthood League of CT	01-H-000038-31-0	94,818

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CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Total Office of the Secretary				109,684
Administration for Children and Families				
93.RD	*7302*	University of Illinois	02-208	122,394
Centers for Disease Control				
93.RD	*7302*	Northeast Center for Agricultural Health	1 U50 OH07542-01	5,481
93.RD	*7302*	Assc. of Teachers Preventive Med	431-16/16	227,496
93.RD	*7302*	Yale University	DKP1075317	8,283
Total Centers for Disease Control				241,260
National Institutes of Health				
93.RD	*7302*	University of Buffalo	150-4689B	33,671
93.RD	*7302*	Univ MED / DENT of New Jersey	10592	(43)
93.RD	*7302*	Univ MED / DENT of New Jersey	DE 10592	(3,825)
93.RD	*7302*	Univ MED / DENT of New Jersey	R01DE13732-01	(51)
93.RD	*7303*	Univ MED / DENT of New Jersey	R01DE13732-02	28,352
93.RD	*7302*	University of Rochester	411283-003G	6,615
93.RD	*7302*	University of Rochester	411581-003G	18,418
93.RD	*7302*	University of Rochester	411649-G	17,134
93.RD	*7302*	University of California at Berkley	SA 2918PG	32,821
93.RD	*7302*	University of Cincinnati Medical Center	5 R01 DE13823-02	7,416
93.RD	*7302*	University of Washington	634570	7,139
93.RD	*7302*	University of Miami	M636161	35,059
93.RD	*7302*	UMASS	B1-6-32122-5800	11,654
93.RD	*7302*	Institute for Community Research	1R25 MH58772-01	10,756
93.RD	*7302*	Child Health & Develop. Institute of CT	R01-DA15844	21,103
93.RD	*7302*	Yale University	AA11197-02	24,346
93.RD	*7302*	Unspecified Mixed Sources	1R03 AA12434	1,092
93.RD	*7302*	Yale University	2 R01 AA11330-04A2	139,803
93.RD	*7302*	Yale University	2 R01 AA11197-05	48,928
93.RD	*7302*	Muscular Dystrophy	5 R01 DA05592-08	76
93.RD	*7302*	Yale University	DA09241-06	46,518
93.RD	*7302*	Yale University	DA09241	(233)
93.RD	*7302*	Yale University	DA12849-04	252,774
93.RD	*7302*	Yale University	DA13334	23,296
93.RD	*7302*	Yale University	5 P50 DA092410-09	125,242
93.RD	*7302*	Yale University	5 P50 DA13334-04	16,568
93.RD	*7302*	Yale University	3 R01 DA12849-04S1	7,356
93.RD	*7302*	Yale University	DA12690-03	236,335

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CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*7302*	Yale University	DA12422	122,404
93.RD	*7302*	Caliber Association	LI0007	(606)
93.RD	*7302*	UMASS	N01-DK-9-2326	85,548
93.RD	*7302*	University of Pennsylvania	5-34709-A	31,288
93.RD	*7302*	John Hopkins Oncology Center	8103-45777	(421)
93.RD	*7302*	UCLA - University CA at Los Angeles	016674	(965)
93.RD	*7302*	Tufts University	1R01 DE13405-01	58,001
93.RD	*7302*	Tufts University	CA39088	44,035
93.RD	*7302*	University of Pittsburgh	P5400-5425	23,898
93.RD	*7302*	University of Pittsburgh	BC0107-185	55,740
93.RD	*7302*	CTRC Research Foundation	S0000	5,788
93.RD	*7302*	Duke University	780	28,524
93.RD	*7302*	University of Virginia	1 R24 GM64437-01	76,604
93.RD	*7302*	University of Virginia	GC10641	229,521
93.RD	*7302*	American Red Cross	HL54710	6,926
93.RD	*7302*	Temple University	HL45700	209
93.RD	*7302*	University of Washington	537875	3,846
93.RD	*7302*	Duke University	SCD-HeFT023	1,792
93.RD	*7302*	Duke University	NIH Amer Coll of Surgeons	8,500
93.RD	*7302*	Nanoprobes Inc	1 R43 CA94495-01	7,343
93.RD	*7302*	University of Buffalo	150-2532-I	(148)
93.RD	*7302*	UCLA - University CA at Los Angeles	1562-G-DC223	52,070
93.RD	*7302*	CT Children's Medical Center	03-179046-01	12,961
93.RD	*7302*	Arizona University	01-086	34,981
93.RD	*7302*	CT Children's Medical Center	03-024	33,439
93.RD	*7302*	University of Rochester	5R01 NS37167	1,875
93.RD	*7302*	Onconova	1 R43 NS45418-01	18,153
93.RD	*7302*	UMASS	GC00424	11,298
93.RD	*7302*	UMASS	5-U01-AI132907-11	55,724
93.RD	*7302*	Yale University	5-U01-AI46347-02	14,185
93.RD	*7302*	UMASS	SP10255	97,318
93.RD	*7302*	Cambria Biosciences LLC	1 R41 AI51791-01	41,214
93.RD	*7302*	Oregon Health & Science University	GBIMO0069A	38,746
93.RD	*7302*	Research Foundation for Mental Hygiene	002458	10,868
93.RD	*7302*	Columbia University	P30 AG 15294-05	25,000
93.RD	*7302*	State University of NY at Brooklyn	1009189	586,023
93.RD	*7302*	State University of NY at Brooklyn	412-2782I	(370)
93.RD	*7302*	State University of NY at Brooklyn	412-2782K	(11)
93.RD	*7302*	State University of NY at Brooklyn	412-2782L	159,343
93.RD	*7302*	Population Council	B02.110N	11,026

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Total National Institutes of Health				3,139,990
Health Resources and Services Administration				
93.RD	*7302*	Worchester Memorial Hospital	MCH-252003-07-0	(6,052)
93.RD	*7302*	Worchester Memorial Hospital	6H30 MC00037-03	38,005
93.RD	*7302*	Worchester Memorial Hospital	U27 CCCUI 16648-05	30,869
93.RD	*7302*	Worchester Memorial Hospital	SP 10236	5,793
93.RD	*7302*	Worchester Memorial Hospital	6H30 MC00037-04	1,666
93.RD	*7302*	Children's Hospital Medical Center	F421326	33,527
93.RD	*7302*	City of Hartford	1608K	92,845
93.RD	*7302*	University of Massachusetts	SP 10093	(181)
93.RD	*7302*	University of Massachusetts	SP 10179	6
93.RD	*7302*	University of Massachusetts	6006467	61,259
93.RD	*7302*	CT Primary Care Association	03/RWII	28,457
93.RD	*7302*	CT Primary Care Association	UNCONN01/RWIV	301
93.RD	*7302*	CT Primary Care Association	UNCONN02/RWIV	1,641
93.RD	*7302*	CT Primary Care Association	03/RWIV	133,107
93.RD	*7302*	CT Primary Care Association	02S2-300/RW II	(74)
Total Health Resources and Services Administration				421,169
Substance Abuse and Mental Health Services Administration				
93.RD	*7302*	City of Stamford	1 H79 TI12358-01	(7,844)
93.RD	*7302*	City of Stamford	2 H79 TI12358-03	16,877
93.RD	*7302*	Yale University	1 U79 SM54318-01	54,476
93.RD	*7302*	CT Children's Medical Center	1 U79 SM553663-01	109
93.RD	*7302*	GR Bridgeport Adol Preg. Program	SAMHSA - CSAT	9,296
Total Substance Abuse and Mental Health Services Administration				72,914
Miscellaneous Programs				
93.RD	*7302*	Hospital for Joint Diseases Ortho. Inst	NIMH	336
93.RD	*7302*	University of Tennessee	R0-3332-50	20,280
Total Miscellaneous Programs				20,616
Total Department of Health and Human Services				4,153,458
TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS				4,157,670
TOTAL PASS-THROUGH GRANTS				$ 11,903,629

*	- **Identification of State Agencies:**
7001	- Department of Education

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$

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, 2003
INDEX OF SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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, 2003
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 the *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
14.228	Community Development Block Grants / State's Program
14.238	Shelter Plus Care
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
17.225	Unemployment Insurance
20.500 and 20.507	Federal Transit Cluster
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, and 93.342	Student Financial Assistance Cluster
84.010	Title 1 Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
84.367	Improving Teach Quality State Grants
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Cluster
93.658	Foster Care-Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.778, 93.775 and 93.777	Medicaid Cluster
93.940	HIV Prevention Activities – Health Department Based
N/A	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$16,346,217
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 – Untimely Redeterminations

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Background: 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 redetermination form, as applicable. The application/redetermination 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.

Criteria: Title 42 CFR Part 435 Section 916 requires the State to redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months. In addition, the State must have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility.

Condition: Eligibility redeterminations of Medicaid recipients of certain medical coverage groups were not performed in a timely manner in eight instances out of the 48 transactions tested. Additionally, one eligibility redetermination document to cover the date of service that was selected for testing was incomplete. 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.

Effect: The above conditions lessen the Department's assurance that only eligible recipients are receiving Medicaid services.

Cause: The Department has taken action to change the redetermination periods for these medical coverage groups. A work request to modify its Eligibility Management System (EMS) to shorten the redetermination period has been initiated. In addition, district offices were notified via email to manually shorten the cycles. However, in the course of our current review, we noted redetermination periods for some recipients in our sample that have not been shortened.

Recommendation: The Department of Social Services should reiterate to its offices to shorten redetermination periods of recipients currently on two-year redetermination cycles and prioritize Eligibility Management System changes to shorten the redetermination periods.

Agency Response: "We agree with this finding. Concerning the inappropriate use of 24 month redetermination cycles, the Department has modified EMS to limit redetermination cycles to a maximum of 12 months. This modification was implemented October 2003 and affects redeterminations completed on or after that date. Additionally, we have requested an ad hoc report identifying any cases that presently have 24 month cycles for correction by regional office staff. Accordingly, corrective action has been taken on this finding.

Our MIS [Management Information System] division is currently working on an EMS correction that will automatically switch active spenddown cases back to an inactive status at the beginning of a new redetermination cycle. They anticipate that this correction will be implemented in the first quarter of 2004."

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 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

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 for Medicare and Medicaid Services (CMS). A pre-defined buy-in selection criterion programmed into MMIS identifies clients who are eligible to have their Medicare Part B premiums paid by the State on their behalf. A file containing a list of accretions (enrollments), deletions, and changes is created and sent to CMS. CMS returns a file responding to each action requested by the State and the data is entered into the State's MMIS.

Per the CMS-64 Report, Part B premiums paid on behalf of clients for the

State fiscal year ended June 30, 2003, totaled $44,102,060, of which $22,051,030 was reimbursed by the Federal government. The Department provided to us a report of clients for whom the Department paid Medicare premiums during the quarter ended December 31, 2002. Based on the coding on this report, we determined that Qualified Medicare Beneficiaries or related coverage groups represented ninety-three percent of the Medicare Part B premiums claimed on the CMS 64. From this report we judgmentally selected 10 clients from the remaining seven percent, which totaled approximately $1,540,000, of the initial population. Our sample was obtained only from the remaining seven percent because we determined that medical coverage groups other than Qualified Medicare Beneficiaries or related coverage groups represented the most risk of the Department erroneously paying the client's Medicare Part B premiums.

Criteria: A state may enroll certain Medicare-eligible recipients under Medicare Part B and pay their premiums. Payments made by states on behalf of cash assistance recipients, Qualified Medicare Beneficiaries (QMB), Specified Low Income Medicare Beneficiaries (SPLIMB) or Qualifying Individuals (individuals who would be eligible for QMB except for the fact that their income exceeds the levels established for QMB and SLIMB) 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)

Condition: Our test of 10 recipients for whom the Department paid the recipients' Medicare Part B premiums totaling $2,144 ($1,072 at the Federal reimbursement rate) during the quarter ending December 31, 2002, disclosed that one client was not entitled to the coverage.

Effect: The Federal share of the premiums paid to the one client for the quarter ending December 31, 2002, totaling $220 ($110 at the Federal reimbursement rate) is subject to disallowance and therefore considered a questioned cost.

Cause: The claims processing buy-in selection criteria is inconsistent with Department policy on who is entitled to receive such coverage. The Department has attempted to correct the problem by modifying the system's buy-in selection criteria through programming changes. However, these attempts have been unsuccessful to date.

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

Agency Response: "The Department agrees with this finding. The Department is continuing in its attempts to correct the problem by modifying the system's buy-in selection criteria. Department staff and the MMIS vendor are now working on a resolution using the SDX file. The resolution is in testing and will be implemented once the test data is deemed successful."

III.A.3. Reporting – Federal Cash Transactions Report PSC 272

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2002-2003
Federal Award Numbers: 05-0305CT5028 and 05-0305CT5048

Background: The Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) is the accounting statement that states use to report program disbursements each quarter to the Centers of Medicare and Medicaid (CMS). The PSC (Program Support Center) 272 Report series are used by the Federal Division of Payment Management (DPM) to control payments to recipients based on disbursement information provided by the recipient.

Criteria: The *DHHS (Department of Health and Human Services) Manual for Recipients Financed under the Payment Management System* provides recipients guidance and instructions for completing the required PSC Reports. This Manual defines Federal share of net disbursements as actual payments made to the program (i.e., checks, warrants, or cash payments).

Condition: Our review of the Department's PSC 272-A Federal Cash Transactions Report filings for the quarters ended March 31, 2003, June 30, 2003, and September 30, 2003, disclosed that preliminary CMS-64 medical assistance expenditure reports used as the basis to report such disbursements were not supported with underlying source documentation. We also noted that the Department used Federal award amounts or revenue estimates to report administrative expenditures for the quarters ended June 30, 2003, and September 30, 2003.

Effect: Disbursements reported to the Division of Payment Management is inaccurate and not properly supported.

Cause: The Department reports preliminary Medicaid medical assistance payment expenditure information available on its CMS 64 reporting system at the time the PSC 272 Report is submitted to DPM. Because the Department routinely submits the CMS-64 expenditure report late and after the filing of the PSC 272 Report, the Department must report Medicaid program disbursements using preliminary expenditures. The reporting of the preliminary expenditure information is communicated to the individual responsible for preparing the PSC 272 Report. However, underlying source data that supports the preliminary expenditure amounts is not prepared by the Department.

Relative to administrative expenditures, the Department's new cost allocation system does not provide the Department with sufficient accounting detail in order for it to determine the amount of actual administrative expenditures that should be reported on the PSC 272 Report.

Recommendation: The Department of Social Services should prepare the Federal Cash Transactions Reports (PSC 272-A) using actual disbursement information. The Department should also ensure that reported amounts are supported by underlying source documentation.

Agency Response: "The Department agrees with this finding, in part. The data used in the preparation of the PSC 272 at the time the report is required to be filed has, for Medicaid, incorporated all information that is known at the time of the required filing. As such, the figure used in the PSC 272 reflects the current status of the CMS-64. While program expenditures are generally completed in that timeframe, administrative expenditures take longer to ascertain and allocate and therefore have not been ready in time for the PSC filing date. Therefore, federal awards amounts have been used in that report.

Once CORE issues are resolved, along with some outstanding issues with our new Cost Allocation software, the Department will be better positioned to meet the federal deadline for the PSC 272 report. [CORE is Connecticut's new accounting system that became operational on July 1, 2003.]

In addition, in the future the appropriate backup to support the PSC 272 figures used for Medicaid will be maintained as noted by the auditors."

III.A.4. 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 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

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. (42 CFR 447.253)

Condition: The Department did not perform periodic audits of financial and statistical records of hospital providers during the audited period.

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 receives hospital Medicare cost reports from the State's Medicare intermediary and Medicaid cost reports from each hospital. The Department uses the information from these filings to determine a hospital's Medicaid discharge rate. The Department assumes that the Medicare cost reports have been audited to the extent that they received the cost report. The Department believes that these procedures satisfy the audit requirements contained in Title 42 CFR Part 447 Section 253.

Recommendation: The Department of Social Services should amend its procedures for establishing inpatient hospital provider rates by incorporating procedures that provide for the periodic audits of inpatient hospital providers. The procedures, at a minimum, should document the type of audits performed, the methodology for determining when audits are conducted, and the objectives, scope and procedures of the audits. If appropriate, the Department should include the hospital audit procedures in its State Plan.

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 completed revised computations of Medicaid cost settlements for 1996 based upon Medicare audit findings. Revised Medicaid settlements for 1997 through 2000 should be completed by the end of SFY [State fiscal year] 2004 as report adjustments received from the Medicare intermediary for the State of New York are processed.

The audit report recommends incorporating hospital audit procedures in the Medicaid State Plan. State regulations governing hospital rate setting include field audit provisions under Section 17-312-105(g)(2). The Department plans to amend the State Plan to also address hospital rate audit objectives, scope and procedures."

III.A.5. 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 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Criteria: Code of Federal Regulations Title 42 Section 455.13 provides that 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.

Condition: We reviewed all 13 complaint files received from April 1, 2003 to June 30, 2003. Our review of the 13 complaints noted that five 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 of Social Services 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. The Department has assigned an additional staff member to assist in the investigation of complaints. Accordingly, corrective action has been completed on this finding."

III.A.6. Allowable Costs/Cost Principles – 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 2002-2003
Federal Award Number: 05-0305CT5028

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 to 2003. 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: The Department of Social Services and DMHAS have discussed the establishment of a new TCM rate system but have not yet agreed on the cost methodology to be used for implementation.

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. The Department is reviewing supplemental Targeted Case Management cost and service volume information provided by the Department of Mental Health to verify the significant cost per day increase. Once the cost increases are verified the rates will be adjusted as warranted."

III.A.7. 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 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Criteria: Title 42 Part 433 Subpart D of the Code of Federal Regulations implements various sections of the Social Security Act concerning third party liability (TPL). This Subpart provides that 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 TPL is established after the claim is paid, reimbursement from the third party should be sought. 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 so that the information

may be incorporated into the eligibility case file and third party database (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)).

Attachment A of the Office of Management and Budget (OMB) Circular A-87 provides that costs must be net of all applicable credits to be allowable under Federal awards. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs.

Condition: In reviewing the Department's various third party operations we noted the following:

Our review of ten cases of third party insurance information identified at intake disclosed that in six cases the third party insurance was not entered in a timely manner in the Department's third party liability database. The number of days noted for the six cases were 64, 66, 69, 88, 150 and 268. In addition, we could not determine the number of days it took for one other case because we could not determine when the insurance was first identified.

The Department did not follow-up on paid claims with trauma diagnosis codes for the purpose of identifying potentially liable third parties.

Our review of claims processed on behalf of six clients where third party liability was established after the claims were paid disclosed that two clients' paid claims were not selected for benefit recovery.

Pharmacy claims processed through the Department's Point of Sale system are excluded from post-payment audits of third party claims conducted by the Department's fiscal agent.

We noted three claims that were benefit recovered from insurers by the Department's TPL contractor that were initially processed and paid to providers based on other insurance codes entered by the provider indicating that other insurance was not applicable or had been exhausted.

We noted that the claims processing system does not select claims for benefit recovery that were previously paid and reduced by other insurance payments in situations wherein the other insurance payments were made by an insurance carrier who was different than the carrier indicated in the Department's Eligibility Management System (EMS).

The Department does not conduct post-payment reviews of paid electronic claims in situations in which the other insurance carrier code submitted on the claim is different than the other insurance carrier code indicated in the Department's EMS to determine the validity of the other insurance. The aforementioned code relates to a unique three digit identifier for each third party payer.

Not all TPL insurance coverage identified by the Department's TPL contractor is being added to the Department's EMS.

Third party recoveries made by the Department's fiscal agent and TPL contractor relative to the various State and/or Federally funded medical assistance programs administered by the Department are all credited to the Medicaid program. Applicable credits should be applied to programs to the extent that such credits relate to the program's costs.

Effect: The effectiveness of the Department's TPL procedures to reduce Medicaid expenditures is lessened.

Cause: The Department's third party liability procedures do not include all the necessary controls required to identify medical services that are legal obligations of third parties.

Recommendation: The Department of Social Services should conduct a risk assessment of its third party liability operations in order to identify and assess relevant risks associated with its program. Once performed, the Department should determine how the risks will be managed.

Agency Response: "The Department agrees with this finding. A summary of the corrective actions taken follows.

Concerning the timeliness of entering data in the TPL system; the Department does not have sufficient staff to keep up with the incoming referrals. This condition may continue since there is now three less staff performing these duties. The Department is attempting alternative methods to increase productivity.

Concerning the follow-up of paid claims with trauma diagnosis codes; the Department is initiating a process with its TPL contractor to identify trauma cases in a timely manner, investigate their potential for recovery and refer recovery to DAS [Department of Administrative Services].

Concerning the instance where recovery was not initiated when TPL was identified subsequent to payment of the claim; it appears it was due to an oversight by the MMIS [Medicaid Management Information System] vendor. The vendor did not correctly identify carrier code F79 in its code file to allow for benefit recovery. The vendor has corrected carrier code F79 and as a result, in the July month end recovery cycle 1450 claims with a billed amount of $200,930 were selected and sent to carrier code F79. In addition, the claim selection logic was revised in April 2003 and at the time of the sample the claim would not have been selected due to its age. With the revision, the logic now looks for claims 2 years back from the month the TPL was added.

Concerning the instances where full TPL recovery was not made when two issurers were involved; the Department will work with its MMIS vendor to ensure system upgrades select claims of this nature for full TPL recovery.

Concerning applicable credits; the Department is having both its TPL contractor and MMIS vendor submit monthly reports that reflect TPL recoveries by program so as to distinguish between Medicaid and state-funded medical benefits.

Concerning post-payment reviews; the Department can identify via Suspect Reports situations where the private insurance information on the claim differs from the client specific information on the eligibility file. However, these claims are not included in the review process due to a lack of detailed information. The Department and the MMIS vendor will determine if a process can be developed to pursue this information.

Concerning the condition that not all TPL coverage is being added to the Department's eligibility file; the Department has submitted work requests to the MMIS vendor to reduce the number of cases that "error out" of the system and increase the cases for which health insurance information is updated to EMS."

III.A.8. 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 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

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 Part 95 Section 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 agencies 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 its ADP installations are secure is lessened.

Cause: The Department has not finalized its plan to perform the review of the MMIS and AIM/Client Server system.

Recommendation: The Department of Social Services should implement procedures to perform Automatic Data Processing system security reviews on a biennial basis as required by Federal regulations.

Agency Response: "The Department agrees with this finding. The Department will initiate an ADP system security review once an MMIS vendor is selected on a long-term basis. A review at this time will not be useful since findings, if any, would not be applicable to another vendor. It should be noted that the current vendor's contract expired on December 31, 2003, and their services have been extended on a short-term basis."

III.A.9. Allowable Costs/Cost Principles – Medical Services

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Social Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Criteria: The Office of Management and Budget Circular A-87 includes factors affecting allowability of costs reimbursable under Federal awards. To be allowable under Federal awards, costs must be adequately documented. To be allowable under Medicaid, costs for medical services must be rendered for an allowable service and be supported by medical records or other evidence indicating that goods and services were actually provided.

Condition: Our audit population for testing Medicaid eligibility totaled $1,606,321,552 ($803,160,776 at the 50 percent Federal reimbursable rate) in expenditures made during the fiscal year ended June 30, 2003. We reviewed supporting documentation for 40 claims totaling $43,967 ($21,984 at the Federal reimbursable rate) paid to Medical services providers. Our testing disclosed that medical documentation in support of one claim in the amount of $136 ($68 at the Federal reimbursement rate) for medical services for a home health aide was not provided. This claim was originally made by a provider who has since filed for bankruptcy and was subsequently sold. However, the new owners of this provider did not have any medical documentation available related to the provider that was purchased. The total payments made for medical services during our audited period to the provider sampled were $1,469,320 ($734,600 at the Federal reimbursement rate).

Effect: The above condition resulted in questioned costs of $68 due to lack of documentation to support the payment made for medical services. The lack of documentation appears to be an isolated instance related to the bankrupt provider and is not representative of other transactions in our sample.

Cause: Since the date of service the provider has filed for bankruptcy and has been sold. The new owner(s) could not provide the necessary documentation.

Recommendation: The Department of Social Services should determine whether reimbursement of Federal funds received related to the payments made to the provider in question is appropriate.

Agency Response: "The Department agrees with this finding. The Department has contacted the physician who authorized the home health service. The physician provided a Home Health Certification and Plan of Care that appropriately authorized the service identified in the claim. Accordingly, the payment for the service was appropriate; hence, the federal funds related to the payment were appropriately claimed."

III.A.10. Special Tests and Provisions – Monitoring Provider Complaints

Medical Assistance Program – Title XIX (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Background: States may obtain a waiver of statutory requirements under Sections 1115 and 1915 of the Social Security Act. This allows states to develop a system such as Managed Care that more effectively addresses the health care needs of their population. Such a waiver would be included in a state plan. The Department of Social Services contracts with four Managed Care Organizations (MCOs) to offer comprehensive health coverage through provider networks in each region of the State. The MCO is expected to furnish adequate access and quality health care through a group of contracted providers.

Criteria: As required by a waiver included in the State Plan, the Department must have a system in place to handle provider complaints of not receiving payments for services provided to Medicaid recipients. This system, at a minimum, should include sufficient information documenting the basis of the complaint, actions taken by the Department regarding the complaint, and information regarding the resolution.

Condition: The Department has developed a centralized tracking system for provider non-payment complaints. This system log is maintained to document the MCO; the initial complaint; name and address of complainant; type and date of follow-up action; and type and date of resolution.

Our review of the Department's Provider Complaint Log disclosed that insufficient information was provided with respect to a majority of the complaints and resolutions, if any, were not documented.

The Provider Complaint Log consisted of 107 complaints, of which 77 did not indicate a resolution was made.

Effect: The above condition lessens the Department's assurance that providers are receiving payments for services in a timely manner.

Cause: The Department's Provider Complaint Log has not been maintained and updated on a regular basis.

Recommendation: The Department of Social Services should ensure that information regarding provider complaints 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. The Department is refilling vacant positions, and the new employees will regularly update the centralized tracking system with respect to complaint resolutions.

In addition, assignment and procedural changes will be implemented to ensure that the complaints are tracked to conclusion and the tracking logs updated on a regular basis. These changes will include additional clerical support (to address and issue letters to providers and the MCOs); monthly reporting on incomplete or overdue complaints; supervisory oversight of responsible staff (one of the refill positions is at a supervisory level) and converting the tracking log from an Excel to an Access application to allow for additional flexibility in reporting and updating."

III.A.11. Allowable Costs/Cost Principles – 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 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Background: A state submits invoices to drug manufacturers for any drug a state reimbursed a pharmacy for during the past quarter. The drug manufacturer is required to submit a rebate payment to the Medicaid agency for the invoiced amount. However, manufacturers sometimes question a state's utilization accuracy for various reasons. When a manufacturer has reason to suspect an error in a state's utilization reporting of their product, it is called a dispute. Manufacturers can pay a state for all units not in dispute and withhold payment for the disputed units. Disputes are subsequently resolved using documentation or information provided by the manufacturer and/or the state. The Department of Social Services contracts with its fiscal intermediary to administer the Medicaid drug rebate program.

Criteria: The Medicaid Drug Rebate Operational Training Guide provides that adjustments to drug rebate invoices made by states should be supported by information and/or documentation in support of such adjustments.

Condition: Our review of 13 drug manufacturer disputes that were adjusted in favor of the manufacturers disclosed that no documentation was provided in support of the adjustments for eight of the disputes.

Effect: Drug rebates totaling $4,091 ($2,045 in Federal financial participation) were not paid to the Department of Social Services, the State's Medicaid agency. The amount of unrecovered rebates is not susceptible to any meaningful extrapolation.

Cause The fiscal intermediary staff misinterpreted drug rebate procedures for resolving disputes.

Recommendation: The Department of Social Services should ensure that its fiscal intermediary's staff applies the proper dispute resolution procedures related to the Medicaid drug rebate program.

Agency Response: "The Department agrees with this finding. The fiscal intermediary uses the Medicaid Drug Rebate Operational Training Guide to train new staff and procedures have been expanded to double-check/verify the accuracy of the work being performed. Additionally, ongoing training will be conducted for all staff as a refresher to eliminate errors of this nature in the future."

III.A.12. Activities Allowed 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 2002-2003
Federal Award Number: 05-0305CT5028

Criteria: With certain exceptions, no hospital may be defined or deemed as a disproportionate share hospital under a state plan unless the hospital has at least two obstetricians who have staff privileges at the hospital and who have agreed to provide obstetric services to individuals who are entitled to medical assistance for such services under the state plan. (Section 1923(d) of the Social Security Act)

Aggregate payments made to individual hospitals by states under their disproportionate share hospital programs can not exceed the cost of each of the hospital's uncompensated care costs (upper payment limit). (Section 1923(g) of the Social Security Act)

Condition: Our review of disproportionate share hospital payment adjustments made to 34 hospitals during the Federal fiscal year ended September 30, 2003, disclosed the following:

- Payments totaling $67,856,188 were made to 29 hospitals by the Department without determining whether the hospitals had at least two obstetricians with staff privileges at the hospitals and who had agreed to provide obstetric services to individuals eligible to receive such medical services under the state plan.

- The Department did not monitor the upper payment limits of hospitals receiving aggregate payments under its various disproportionate share hospital programs. We noted that one hospital was possibly paid in excess of its upper payment limit by $1,958. We also noted that an upper payment limit was not determined for two other hospitals, which were paid $4,605,597 in disproportionate share hospital payments.

Effect: The Department could have claimed for Federal reimbursement disproportionate share hospital payments that did not meet the requirements of the Social Security Act.

Cause: The Department does not have internal controls in place that reasonably ensures that the obstetrical requirement or the upper payment limit requirement has been met prior to making disproportionate share payments.

The Department does not perform any proactive reviews of hospitals to determine how many obstetricians they have on staff. The Department assumes that since all hospitals bill for birth and deliveries as acute care hospitals that the requirement has been met.

Upper payment limit calculations are determined by the Office of Health Care Access (OHCA) and are initially compared with payments anticipated to be made to hospitals under the Department's Uncompensated Care disproportionate share hospital program. However, aggregate payments made to hospitals under its other disproportionate share hospital programs are not considered by OHCA or the Department for monitoring a hospital's upper payment limit.

Recommendation: The Department of Social Services should develop and implement internal controls in its disproportionate share hospital programs that reasonably ensure that hospitals receiving payments have met the requirements of Section 1923(d) and Section 1923(g) of the Social Security Act related to obstetrical physicians and upper payment limit.

Agency Response: "The Department partially agrees with this finding. On the first point, the Department will put in place this summer a survey of the hospitals that receive disproportionate share payments adjustments to verify that they have at least two obstetricians with staff privileges. The survey will be conducted annually.

On the second point, the Department will consult with our attorneys on retainer to verify that federal law supports the finding on the upper payment limit. If it is, a new methodology will need to be developed for the calculation of the upper payment limit. This would impact the distribution of the disproportionate share payment appropriation among the acute care hospitals in the state with significant fiscal implications."

III.A.13. Allowable Costs/Cost Principles – Connecticut Home Care

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5028 and 05-0305CT5028

Background: States may obtain a waiver of statutory requirements under Sections 1115 and 1915 of the Social Security Act. Such a waiver should be included in a state plan. This allows states to develop a program such as the Connecticut Home Care Program for Elders, which provides an array of home and community-based services for older individuals at risk of institutionalization. The program provides a wide range of home health and non-medical services to elders who qualify functionally and financially. The program is administered by the Department of Social Services' Alternate Care Unit through contracts with access agencies. The access agencies provide care management, assessment, and monitoring functions, and contract with service providers for the delivery of the community-based services.

Fifteen clients (three clients from each of the five DSS regions) were randomly selected from a universe of 7,359 active clients representing $124,128,296 ($62,061,148 in Federal financial participation) in total claims as of June 30, 2003. For each client, three claims were judgmentally selected from the Medicaid Management Information System (MMIS). These claims consisted of one claim for care management services provided by an access agency and two claims for services provided by performing providers.

Criteria: The Office of Management and Budget Circular A-87 includes factors affecting allowability of costs reimbursable under Federal awards. To be allowable under Federal awards, costs must be adequately documented. To be allowable under Medicaid, costs for medical services must be rendered for an allowable service and be supported by medical records or other evidence indicating that goods and services were actually provided.

As required by a waiver included in the State Plan, in order for a service to be allowable under the Connecticut Home Care Program, the service must be adequately documented; be included in the client's plan of care; and be in compliance with all other requirements of the program.

Condition: Our test of 45 Connecticut Home Care claims totaling $4,886 ($2,443 in Federal financial participation) for allowable services and related costs of those services disclosed the following:

- One claim for Homemaker Services of $15 ($7.50 in Federal financial participation) was not sufficiently documented to determine whether services were actually provided.

- While testing the claim noted above, we noted that three additional claims for Homemaker Services, which were not part of our sample, totaling $45 ($22.50 Federal financial participation) were not sufficiently documented to determine whether services were actually provided.

Effect: Payments totaling $30 for Homemaker Services were charged to the Medicaid program for undocumented services. We could not determine the specific amount of claims attributable to Homemaker Services out of the total amount of Home Care claims.

Cause: The cause could not be determined.

Recommendation: The Department of Social Services should review the audit exceptions in this finding and recoup the amounts in question. In addition, the Department should review procedures with the access agencies, particularly with respect to the verification of required documentation for claims submitted.

Agency Response: "The Department agrees with this finding. The Alternate Care Unit will review, with the Access Agency, their monitoring procedures for verifying the required documentation for claims for their subcontractors. Furthermore, the dollar audit exceptions will be referred for investigation and recouped, if appropriate."

III.A.14. 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 Years 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTTANF and G0301CTTANF

Criteria: Title 42 United States Code (USC) Section 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.

Title 21 USC Section 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 court of mandatory participation in a substance abuse treatment program or mandatory participation in a substance abuse testing program.

Prior to April 1, 2003, the Department required 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. Effective April 1, 2003, this information is included on the application for assistance prepared by the client.

Condition: Our review of 39 TANF cases disclosed 19 did not contain W-1129 Law Enforcement Information forms signed by the clients.

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

Cause: Regional office caseworkers failed to follow established procedures to ensure that the required form was included in the case files.

Recommendation: The Department of Social Services should have followed established procedures for completing the W-1129 Law Enforcement Information form.

Agency Response: "Effective April 1, 2003, the Department revised its application form to address the cited deficiencies. The application form now has questions concerning fleeing felons, parole and probation violators, as well as drug-related felony convictions. Therefore there is no longer a need for the W-1129 Law Enforcement Information form. Accordingly, corrective action has been completed on this finding."

III.A.15. Reporting – TANF ACF-196 Financial Report

Temporary Assistance for 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: G0101CTTANF and G0201CTTANF

Criteria: Title 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.

In accordance with OMB Circular A-87, in order to be allowable under Federal awards, costs must be adequately documented.

The instructions for the preparation of the TANF ACF-196 Financial Report require that all amounts reported must be actual expenditures or obligations made in accordance with all applicable statutes and regulations. In addition, the instructions state that obligations reported on Line 9, "Federal

Unliquidated Obligations," must meet the definition of obligations contained in 45 CFR 92.3.

Title 45 CFR 92.3 defines unliquidated obligations for reports prepared on a cash basis to mean the amount of obligations incurred by the grantee that has not been paid. Unobligated balance means the portion of the funds authorized by the Federal agency that has not been obligated by the grantee and is determined by deducting the cumulative obligations from the cumulative funds authorized.

Unliquidated obligations generally are amounts a state has committed to spend — through contracts that have been established or goods and services that have been received — but has not yet paid out.

Condition: Our review of the TANF ACF-196 Financial Reports, submitted as indicated below, disclosed the following errors:

- In Federal fiscal year 2000-2001, the Department inaccurately reported its unobligated balance as unliquidated obligations for the quarter ended September 30, 2001, TANF ACF-196 Financial Report submitted on September 12, 2002. The unliquidated balance in the amount of $5,503,620 was claimed as cash assistance in Federal fiscal year 2001-2002, and there was no indication prior to such that the funds were committed for a specific purpose.

- Expenditures totaling $560,191, claimed as Child Support Disregard on the TANF ACF-196 Financial Report submitted on September 25, 2003, for the quarter ended September 30, 2002, were not adequately supported. These expenditures were claimed as maintenance of effort.

Effect: The TANF ACF-196 Financial Report is not representative of the actual financial status for the TANF program.

Cause: The Department did not follow instructions for the TANF ACF-196 Financial Report. The Department did not provide adequate supporting documentation upon request.

Recommendation: The Department of Social Services should implement the necessary internal controls to ensure that TANF ACF-196 Financial Reports contain complete and accurate information and that adequate supporting documentation is on file.

Agency Response: "The Department agrees with the finding in part. For FFY 2001, unexpended funds should have been reported as unobligated balances rather than unliquidated obligations. The Department will develop the internal controls and review to prevent this from recurring in the future.

Regarding the inadequate supporting documentation for claiming the Child Support Disregard, the Department now has hard copies of the necessary reports to document the claim that had been questioned. In the future, copies of these reports will be included in the binder containing back-up documentation."

III.A.16. Reporting – Performance Reports

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

Criteria: Title 45 CFR Part 265 Section 3 requires that the State must collect on a monthly basis, and file on a quarterly basis, the data specified in the TANF Data Report. The 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. The 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. The 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.

Title 45 CFR Part 265 Section 3 requires that if the 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 December 31, 2002, disclosed errors, omissions, and/or discrepancies in data elements such as reporting the race, receipt of subsidized childcare, educational level of child recipients, and receipt of supplemental income.

The SSP-MOE Data Report for the quarter ended December 31, 2002, is incomplete. There are omissions in the files provided by the subcontractors for the Safety Net Program and the Transitionary Rental Assistance Program that the Department has to look up and manually enter.

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 insufficient data entry controls. 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 Separate State Program(s)-Maintenance of Effort Data Report.

Agency Response: "The Department agrees with this finding in part. Concerning childcare data not being reported; subsequent to the auditor's sample, the Department received the necessary data from our childcare contractor and we have updated our files retroactively. Therefore the federal fiscal year 2003 is now in compliance.

Concerning the race/ethnicity coding; the Department considers its coding to be correct, however modifications to EMS [Eligibility Management System] are scheduled to provide a more detailed breakdown in the area cited by the auditors.

Concerning the item relative to Aid to the Aged, Blind, and Disabled; this appears to be an isolated incident and does not require a systemic revision."

III.A.17. 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 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTTANF and G0301CTTANF

Background: The Department of Social Services' 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: Title 42 United States Code (USC) Section 608(a)(2) states that if the State agency responsible for administering the State plan approved under Title 42 USC Section 651determines 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 and judgmentally selected F0024S IV-A sanction notices revealed one instance in which the caseworker 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 one instance in which the IV-A sanction notice was not received by the regional caseworker.

Effect: We consider the $622 benefit payment paid to a TANF client for September 2002 to be questioned costs because these costs represent a benefit payment made to a recipient who, at the time, was not cooperating with child support requirements and therefore was 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: Regional office caseworkers continue not to comply with the requirements of Section 8540.65 of the UPM, effective July 1, 1997.

Recommendation: The Department of Social Services 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 Department's Uniform Policy Manual.

Agency Response: "The Department agrees with this finding in part. Concerning the instance where the IV-A sanction notice was not received by the regional case worker; it should be noted that the client subsequently cooperated (12 days later) accordingly there was no break in eligibility and in effect there was no need to send the notice. Concerning the case where the caseworker failed to initiate the penalty for non-cooperation, the Department considers this as an instance of worker oversight versus a misunderstanding of policy. The Department performs annual self-reviews of compliance with federal child-support regulations and reminds staff to adhere to such regulations in areas found to be deficient."

III.A.18. Special Tests and Provisions – Controls Over Income and Eligibility Verification System Related to Non-Assistance Services

Temporary Assistance for 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: G0201CTTANF and G0301CTTANF

Criteria: In January 2001, the Office of Family Assistance (OFA) posted Questions and Answers on TANF policy. One of the questions was "Does [the] Income and Eligibility Verification System (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 his 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 Federal Department of Health and Human Services (DHHS) 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 DHHS a waiver from the IEVS requirements for non-assistance services. In February 2002, DHHS notified the Department that it was unable to grant Connecticut a waiver. The Department of Social Services 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 of Social Services should institute procedures to ensure that the Income and Eligibility Verification System matches are performed for all required services and benefits under the Temporary Assistance for Needy Families program.

Agency Response: "The Department agrees with this finding. The Department is performing required Income and Eligibility Verification matches for recipients of TANF assistance. However the Department has not yet established procedures to perform such matches for recipients of non-assistance services under TANF.

Plans to begin implementation of such matching are scheduled to coincide with passage of the federal TANF reauthorization bill, which is expected to be enacted within the next few months."

III.A.19. Eligibility – Costs of the Department of Corrections

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTTANF and G0301CTTANF

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 operations of the State's Department of Corrections (DOC), certain services provided to inmates were claimed for Federal reimbursement under TANF. During the State fiscal year ended June 30, 2003, DSS claimed for Federal reimbursement expenditures totaling $29,456,253 incurred by DOC on behalf of supporting TANF Purpose 4. TANF Purpose 4 is to provide services to encourage the formation and maintenance of two-parent families. These expenditures were claimed on Line 6i "2-Parent Family Formation and Maintenance" on the TANF ACF-196 Financial Reports that were submitted for the quarter ended June 30, 2003. The financial reports submitted for this quarter were for Federal fiscal years 2001-2002 and 2002-2003 and represented expenditures incurred for the quarter ended June 30, 2003, and the previous six quarters. These claims were reported on the quarterly financial reports submitted to the Department of Health and Human Services (DHHS) on September 25, 2003.

In the "Guide on Funding Services for Children and Families through the TANF program," the fourth TANF purpose offers the opportunity to address issues concerning unmarried mothers with low skills who live with their children apart from low-skilled, underemployed fathers. Two activities provided in the Guide that might reasonably accomplish Purpose 4 included job placement and training services for noncustodial parents and initiatives to promote responsible fatherhood and increase the capacity of fathers to provide emotional and financial support for their children.

The DOC provides an Education and Training program that provides skills necessary for offenders to return to society. In addition, the DOC provides an Addiction Treatment program for chemically dependent offenders that help offenders to return to society by addressing the addictions that may lead to criminal activity or impair the individual's ability to find and secure employment.

Criteria: The Office of Management and Budget Circular A-87 includes factors affecting allowability of costs reimbursable under Federal awards. To be allowable under Federal awards, costs must be necessary and reasonable, allocable, and <u>adequately documented</u>.

Title 45 Code of Federal Regulations (CFR) Part 260, Section 30, provides that a noncustodial parent means a parent of a minor child who lives in the State and does not live in the same household as the minor child.

Title 45 CFR Part 260, Section 20, lists four purposes of the TANF program. The fourth purpose listed is to "encourage the formation and maintenance of two-parent families."

Condition: Our review of the TANF ACF-196 Financial Reports submitted to DHHS for the Federal fiscal years 2001-2002 and 2002-2003, indicated that DSS did not have adequate documentation to support the $29,456,253 claimed for Federal reimbursement under TANF for expenditures incurred by the DOC in support of TANF Purpose 4. The amount claimed for Federal fiscal year 2001-2002 was $16,056,454, and the amount claimed for Federal fiscal year 2002-2003 was $13,399,799.

We selected the data related to the quarter ended September 30, 2002, for audit testing purposes. The data provided to us by the DOC disclosed that 2,951 out of the 6,022 inmates in the related two programs administered by DOC were reported as having dependents. This ratio was used to calculate the related costs that were claimed under TANF. Out of the 2,951 inmates, 319 were serving sentences of greater than ten years. From this population of 319, we judgmentally selected five inmates with long-term sentences. The judgmental selection was made by obtaining certain information on some of the 319 inmates and selecting five who appeared to no longer have eligible dependents. Based on our review of the case files, all five inmates were ineligible for TANF because they no longer had dependents under the age of 19.

We also noted weaknesses concerning inmates reporting of dependents. We noted that the number of dependents is entered into DOC's automated system at intake based on inmate inquiry. Dependents' names, addresses, ages/date of birth, etc. are not identified. As a result, program eligibility is based wholly on inmates' claims to have dependents and is not verified by the DOC. The number of dependents on DOC's automated system is not updated to reflect changes over time for inmates serving long-term sentences or who are readmitted. DOC does not define "dependent" which could lead to subjective interpretation.

Effect: There is a lack of documentation available at the time of the audit to determine that the all of the costs of the DOC that were claimed under TANF are allowable. As mentioned above under the "Condition," we were able to identify five instances of inmates who were definitely ineligible for benefits under the TANF program. Also, the weaknesses noted above in available documentation regarding eligibility suggest a significant weakness in controls in this area. Based on adjusting the Department's allocation statistics by the five inmates determined to be ineligible, we calculated that $24,457 represents known questioned costs.

Cause: It appears that the Department did not take into account the conditions noted in our audit prior to filing the claim.

Recommendation: The Department of Social Services should adjust its Temporary Assistance for Needy Families (TANF) program's claims for Federal reimbursement for the Department of Corrections' expenditures incurred in support of Purpose 4 to include only those costs associated with allowed services. This adjustment should reflect the ineligibility of the five inmates noted in our audit and of any others that further investigation may reveal to be ineligible. The Department should also evaluate the necessity and feasibility of improving controls over eligibility for this segment of the TANF claim.

Agency Response: "The Department does not agree with this finding. When the claim was developed, the Department found that the average age of inmates was the mid-twenties and the average time served was less than 10 years, so it was reasonable to presume that those inmates declaring dependents at the beginning of their incarceration period would have relatively young dependents when their time served was completed. The demographics as of January 1, 2004 of the prison population in Connecticut, show that 64% of the incarcerated population is young – age 35 and under, and the national average for the percent of a sentence that is actually served in prison for all offenses is statistically less than half, at 46.7% as reported in national corrections data for the year 2000 (BJS [Bureau of Justice Statistics]: National Corrections Reporting Program 2000). With these statistics in mind, we believe the percentage of inmates with dependents over the age of 18 would not be significant (the auditor provided documentation for five inmates) and to impose a cumbersome process to exclude what would not likely be a significant number of inmates would not be reasonable. The TANF Block Grant is intended to provide states flexibility and allow them to develop their own eligibility criteria and their own methodologies for claiming costs as long as they are reasonable.

Therefore, the methodology used for the DOC claim is a reasonable process for producing TANF claims in that it excludes inmates that would be most likely to have dependents that are over the age of 18."

Auditors' Concluding Comments:

We consider the costs totaling $24,457 that were claimed on behalf of the five inmates who definitely did not have eligible dependents to represent improper payments and should not have been claimed for Federal reimbursement under the TANF program.

III.A.20. Reporting – Annual Report on State Maintenance of Effort Programs

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTTANF and G0301CTTANF

Criteria: Title 45 Code of Federal Regulations (CFR) Part 265 Section 9 requires that each state must file an annual report containing information on the state's maintenance of effort (MOE) programs under TANF for that year. Each state must provide information on the state's programs for which the state claims MOE expenditures.

Condition: We reviewed the Department's ACF-204 Annual Report on State Maintenance of Effort Programs for Federal fiscal year 2001-2002. We noted the following two exceptions:

- The Department reported that 581 families were served under the program with MOE funds during the fiscal year. However, the actual number of families served under the program with MOE funds during the fiscal year should have been reported as 1,575.

- Revisions that were made to the amount of MOE funds reported on the TANF ACF-196 Financial Report were not reflected on the ACF-204 Annual Report on State Maintenance of Effort Programs. The total MOE funds reported on the ACF 204 was $185,132,636. However, the MOE funds reported on the ACF-196 that was submitted on June 20, 2003, totaled $193,655,576, which we consider to be the correct amount.

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Effect: The Federal government cannot ascertain whether funds are being used as required.

Cause: Clerical errors were noted. Also, there appears to be a lack of communication between the Department's Family Services Division, which compiles the ACF-204 Annual Report on State MOE, and the Department's Division of Fiscal Analysis, which compiles the TANF ACF-196 Financial Report.

Recommendation: The Department of Social Services should institute procedures to ensure that all of the required information of the ACF-204 Annual Report on State Maintenance of Effort Programs is reported correctly. In addition, the Department should submit necessary revisions for the ACF-204 Report to reflect the amounts reported on the TANF ACF-196 Financial Report.

Agency Response: "The Department agrees with this finding. The Department will be submitting a revision to the ACF-204 report to correct the School Readiness number of families and to reflect updates in expenditures included in subsequent submissions of the ACF-196 financial report. It should be noted that while the Department agrees with the condition, the cause of this oversight was turnover of staff assigned to prepare the report rather than a breakdown in communication between units. Accordingly, the Department will ensure that the staff responsible for preparing and submitting the reports is adequately trained and experienced."

III.A.21. Subrecipient Monitoring

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G-020CTCOSR and G-0301CTSOSR

Temporary Assistance to Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CTTANF and G-0301CTTANF

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 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTCCDF and G0301CTCCDF

Criteria: Title 45 Code of Federal Regulations (CFR) Part 92 Section 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 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.

The Office of Management and Budget (OMB) Circular 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 the Department of Social Services' contracts with subrecipients 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 Department does not identify to all of its subrecipients the Federal award information, including the CFDA title and number, award name and number, name of Federal agency, and award year.

For 17 out of the 20 SSBG contracts tested, we noted that some financial status, programmatic and statistical, or monitoring reports, required by the contract, were not on file or submitted to the Department within the time allotted by the provisions of the contracts. Also, the audit reports of two of the 17 subrecipients were not received or could not be found.

The Department of Children and Families (DCF) administers some of the TANF funds that are awarded to subrecipients. Our audit disclosed that DCF is not informing its subrecipients that some of the funds provided to them are Federal funds awarded under TANF. Further, the contracts between DCF and its subrecipients do not include provisions that advise the subrecipients of the Federal requirements imposed on them. As a result, the subrecipients are not providing audits to DCF in accordance with OMB Circular A-133. Our review of five providers' audit reports showed that all the funds given by the DCF to the providers were reported on a State Schedule of Financial Assistance. No expenditures given to the providers were reported on a Schedule of Expenditures of Federal Awards that was required of each of these five providers.

Effect: The contracts are not in compliance with OMB Circular A-133. The Department cannot ensure that Federal funds are used for allowable activities because the subrecipients' auditors would not have been aware of compliance requirements that those auditors should have considered as part of their audit.

The subrecipients are not in compliance with the provisions of their contracts concerning the submission of financial status, programmatic and statistical, or monitoring reports.

Cause: The Department does not have procedures in place to include the Federal award information in some of the contracts for which Federal funds are provided.

We could not determine the cause for those subrecipients not submitting required financial status, programmatic and statistical, or monitoring reports in accordance with contract provisions.

The DCF reports to the DSS the amount of funds that are eligible for TANF reimbursement by provider. The DCF has stated that the DSS does not notify the DCF of the amount of funds that were claimed and reimbursed as TANF. The DCF has stated that when the DSS notifies the DCF of the funds reimbursed as TANF, then the DCF can notify its providers of the amounts claimed as TANF.

Recommendation: The Department of Social Services should implement procedures to ensure that subrecipients, including those that will be claimed under Temporary Assistance for Needy Families 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: "While the Department does not fully agree with the findings presented, we are currently reviewing our options as to how we can best address the concerns expressed by the auditors. Our contractor providing assistance on the TANF claim has proposed to work both internally and externally to assist the State in this regard. That proposal is currently under review while consideration is also being given to an in-house effort to do the same. DCF should also look at its available resources and determine how best to address this audit concern."

III.A.22. Special Tests and Provisions – Electronic Benefits Transfers

Food Stamps (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: 4CT400400

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTTANF and G0301CTTANF

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: Title 7 Code of Federal Regulations (CFR) Part 274 Section 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).

Title 7 Code of Federal Regulations (CFR) Part 274 Section 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 issuances of two of the 15 (13 percent) emergency replacement cards issued in June 2003.

- 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. This report included a finding that remains unresolved. This finding stated that 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.

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 of Social Services should follow established procedures for the control over Emergency Electronic Benefits Transfer Connect Cards, correct flawed Eligibility Management System processing, and implement the remaining unresolved recommendation made by the Department's Office of Quality Assurance in its report on Electronic Benefits Transfer Card-Related Services.

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

Concerning the emergency replacement cards, the formal procedure issued on 9/27/01 has been effective in reducing the number of emergency EBT cards. The two instances cited in the report did not result in errors. In one instance the worker entered the wrong EMS code and in the other instance there was a system problem that required special handling. In both cases, however, the card was promptly issued and the use of the emergency process was warranted.

Concerning physical security over processing, the Central Office EBT staff are visiting every regional office to observe the entire EBT card issuance process. Thus far, the results show compliance with existing procedures. When these site visits are finished the Department will reissue the procedures with any appropriate changes.

Concerning the segregation of duties, the Department of Social Services EBT manual states "…workers involved with EBT connect cards/activities or functions should be prohibited from performing PIN selection/change activities. Each regional office should develop a plan to ensure that these duties are segregated."

When regional office managers request new IDs for their staff to PIN EBT cards, a reminder in the form of a memo is sent. Furthermore, Central Office has established a system of automatically inactivating any security clearance if the person has not used the system in the last 90 days. In addition, the Central Office EBT Supervisor periodically screens the list for staff with possible incompatible duties. These lists have been shared with the regional administrators to insure that the people on the list are not able to actually grant cases. This process will be continued."

III.A.23. Special Tests and Provisions – Controls Over Income and Eligibility Verification System Related to Wage Matches

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2002-2003
Federal Award Number: 05-0305CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2002-2003
Federal Award Number: G0301CTTANF

Food Stamp Program (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Year: Federal Fiscal Year 2002-2003
Federal Award Number: 4CT400400

Criteria: Title 42 Code of Federal Regulations (CFR) Part 435 Section 948 requires that the Agency request information and verify Medicaid eligibility. Title 42 United States Code (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 Department's Eligibility Management System (EMS) between October 1, 2002 and December 31, 2002, disclosed deficiencies. We sampled 30 of the alerts that were dispositioned. Our review disclosed that out of these 30 alerts, 11 alerts were not properly investigated, updates were not made to EMS, and apparently the alerts were simply removed from the system. In addition, ten out of the 30 alerts were invalid alerts; alerts that, if compared to current data, would not have been generated.

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. We were unable to determine questioned costs due to the fact that timely data is not readily available to correctly determine monthly unemployment compensation benefit and wage amounts.

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.

Recommendation: The Department of Social Services 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 nine (9) of the ten (10) alerts that were cited as invalid, were actually valid alerts. The seven (7) UCB alerts were valid alerts because there was a UCB benefit balance and a potential claim; UCB benefits do not have to be paid-out for the generation of this alert. The other two (2) alerts related to wages from a previous employer. These alerts were generated to remind the worker to verify that the job terminated.

Nevertheless, the Department is aware of the condition and has initiated projects to improve the criteria used to generate wage and unemployment compensation benefit alerts. This should reduce the number of erroneous alerts and make the alert workload more manageable for the worker."

III.A.24. Allowable Costs/Cost Principles – Administration Costs

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G02B1CTLIEA and G03B1CTLIEA

Criteria: Office of Management and Budget (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." In addition, this Circular provides that costs should be reasonable and allocable when disbursing Federal funds.

Title 42 Section 8624 subsection (b)(1)(D) of the United States Code (USC) provides that the State may use Low-Income Home Energy Assistance program (LIHEAP) funds to plan, develop and administer LIHEAP.

Condition: <u>Personnel Costs:</u>
Payroll expenses of four Department employees were funded entirely from 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 LIHEAP.

<u>Grants Made to Subrecipients:</u>
For the Federal fiscal year ended September 30, 2002, the Department provided a subrecipient $203,111 in grant payments to be used for administration costs on behalf of administering LIHEAP; however, the subrecipient's financial reports indicated that only $191,539 was expended for administrative costs. Based on the documentation provided to us, expenditures totaling $11,572 made under LIHEAP were not adequately documented.

Effect: Inappropriate charges were made to LIHEAP. We were unable to determine the exact amount of the questioned costs related to personnel costs claimed for reimbursement. We consider undocumented expenditures totaling $11,572 that were made to a subreceipient to be questioned costs.

Cause: We were unable to determine why the Department did not allocate the payroll costs properly or obtain adequate documentation from a subrecipient.

Recommendation: The Department of Social Services should determine all programs that the four employees funded entirely from Low-Income Home Energy Assistance program (LIHEAP) work on and allocate their salaries accordingly. In addition, the Department should determine whether a LIHEAP subrecipient expended the funds provided on behalf of administering LIHEAP or have the subrecipient return any unallowable funds.

Agency Response: "The Department agrees with this finding. The interim CEAP [Connecticut Energy Assistance Program] Administration Report submitted by the subrecipient indicates that they did not expend the total amount that they received for expenses incurred in the operation of the CEAP program. The Energy Services Unit has been advised by Fiscal Analysis, that the subrecipient had refunded the amount of $2,552 that was due to the State of Connecticut per the Certificate of Termination for the period mentioned in the audit report."

III.A.25. Cash Management – Cash Balances of Subrecipients

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G02B1CTLIEA and G03B1CTLIEA

Criteria: Department of Treasury Title 31 Code of Federal Regulations (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.
- 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 of the Low-Income Home Energy Assistance program (Community Action Agencies) were maintaining cash balances in excess of actual fund requirements.

We reviewed seven dates during the audited period for all of the Community Action Agencies to determine whether the Community Action Agencies had excessive cash on hand. Our review disclosed that some or all of the Community Action Agencies had excessive cash balances on all the seven dates reviewed. For the dates reviewed, the net balance of cash on hand above program expenditures ranged between $98,027 in December 2002 and $2,358,333 in April 2003.

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.

Recommendation: The Department of Social Services should develop controls to ensure that advances made to subrecipients of the Low-Income Home Energy Assistance program are made in accordance with the Department of Treasury Title 31 Part 205 of the Code of Federal Regulations.

Agency Response: "The Department agrees with this finding.

We have notified the Executive Directors of the importance of expending LIHEAP funds within 72 hours or receipt, as required by the Cash Management Improvement Act of 1990. We have also continued to include the 72 hours requirement for disbursement of those funds, in Part III of the contracts with the CAAs [Community Action Agencies].

We have tried various methods in trying to address this issue including the processing of 345 payments within a 7 month period, to avoid having excessive balances at the CAAs. As of this date the Energy Services Unit continues to work with the Community Action Agencies (CAA) to expend LIHEAP funds within 72 hours of receipt, to avoid having cash balances in excess of amounts needed to cover actual fund requirements."

III.A.26. Allowable Costs/Cost Principles – Housing Assistance Payment Reconciliations

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: ACC CT 901 VO

Criteria: Chapter 20 of the Housing and Urban Development's Housing Choice Vouchers 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 contracts with a subrecipient to administer this program. 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 to the Department monthly balance sheets and monthly statements of program costs.

The Department advances monthly housing assistance payments to the subrecipient, based on estimated housing assistance payments for the following month. As a result, the amounts on the HAP Register and the Department's payments to the subrecipient will not be the same amounts. The amounts on the HAP Register and the subrecipient's financial statements should agree. Reconciliations of variances should be performed to ensure that program activity is accurately recorded and reported.

Condition: As described below, the Department's payments to the subrecipient, the HAP Register, and the subrecipient's financial statements do not agree.

Reconciliation of HAP Register and Payments Made to Subrecipient:
The Department did not reconcile housing assistance payments per the HAP Registers to the payments to the subrecipient. For the 2002-2003 fiscal year, the Department's housing assistance payments to the subrecipient totaled $34,327,853. Payments per the HAP Register totaled $34,076,853. The Department's payments to the subrecipient exceeded payments based on the HAP Register by $251,000.

Reconciliation of HAP Register and Subrecipient's Financial Statements:
The HAP Register did not record all reported housing assistance payments. A comparison of HAP amounts per the HAP Register and the subrecipient's housing assistance payments reported on its financial statements showed that the subrecipient's reported housing assistance payments totaled $34,827,866; however, the payments per the HAP Register totaled $34,076,853. Reported payments were $751,013 higher than the HAP Register.

Effect: The Department could be paying incorrect amounts or for units that are not leased to Section 8 tenants if payments are not based on the actual units that are leased to Section 8 tenants. We consider the $251,000 paid to the subrecipient in excess of the amount recorded on the HAP registers to be questioned costs because we consider the amount reported on the HAP registers to represent the amount of monthly housing assistance payments made on behalf of clients.

Cause: The Department has not implemented procedures to independently verify and reconcile the amounts paid to the subrecipient and the amounts reported on the subrecipient's financial statements against the actual amount of housing assistance payments.

We were informed that beginning in the 2003-2004 fiscal year, the Department instructed the subrecipient to reconcile both the HAP Register and the Department's payments and the HAP Register and the subrecipient's financial statements. We were also informed that as of January 5, 2004, the first reconciliation has not been completed.

Recommendation: The Department of Social Services should reconcile housing assistance amounts per the Housing Assistance Payment Registers with Department payments made to the subrecipient. The Department should also ensure that the subrecipient submits more accurate accounting information for Section 8 funding.

Agency Response: "The Department agrees with this finding in part. While discrepancies may exist, the Department has recently received financial information from the housing contractor that addresses the two audit reconciliation findings (Reconciliation of HAP Register and Payments Made to Subrecipient and Reconciliation of HAP Register and Subrecipient's Financial Statements). The information is being reviewed by staff to ensure financial accuracy."

III.A.27. Allowable Costs/Cost Principles – Housing Assistance Payments

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: 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 seven of the Department's 38 on-site inspections of housing units that were completed during the fiscal year ended June 30, 2003. For five housing units the Department found failure with housing quality standards. However, the Department did not verify that the corrective action was taken. The Department also did not verify that housing assistance payments were discontinued for these five housing units until corrective actions were taken.

Effect: There were tenants occupying housing units that did not meet housing quality standards, and violations of housing quality standards were not corrected in a timely manner. The Department informed us of the dates that the housing quality standards violations were corrected.

We identified noncompliance with Federal requirements that resulted in overpayments of $4,300, which represents additional housing assistance payments that were made to five housing units after the payments should have been stopped. The $4,300 in questioned costs cannot be extrapolated to the population in any meaningful manner.

Cause: The Department contracts with a subrecipient who is responsible for ensuring compliance with housing quality standards and the termination of housing assistance payments. For the instances of noncompliance identified, the subrecipient did not perform its contracted duties.

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. The Department should recover overpayments of housing assistance.

Agency Response: "The Department agrees with this finding. The Department is in the process of developing a protocol with the subrecipient to ensure that abatement letters are mailed and payments discontinued in a timely manner. The Department will review the hold reports to ensure that units are correctly placed in abatement and that tenants are promptly issued vouchers and referred to one of three mobility counseling/search assistance contractors that work with the Department and subrecipient to place tenants. Per HUD [Housing and Urban Development] regulations tenants are given up to 180 days in which to locate a new unit."

III.A.28. Subrecipient Monitoring

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: ACC CT 901 VO

Background: The Section 8 Housing Choice Vouchers program is funded by the 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).

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 $37,040,132 to the subrecipient during the fiscal year ended June 30, 2003. This represents over 98 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 Vouchers 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 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, 2005. 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 housing quality standards (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…"

This contract also requires that DSS conduct quality control reviews of the contractor's performance.

The Housing and Urban Development's (HUD) Housing Choice Vouchers Program Guidebook and the Department of Social Services Administrative Plan for the Section 8 Certificate and Vouchers 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 Section 8 program was administered in compliance with Federal and State requirements.

We selected a sample of the Department's on-site inspections of 21 tenant files and/or housing units. The Department could not locate its monitoring forms for three of those tenants. For the 18 inspections that we were able to review, we found that the Department identified noncompliance in all of its reviews. However, the Department did not verify that the corrective action was taken for all of its findings for 14 of those tenants. For the 18 inspections that we reviewed, we also found seven of the Department's on-site inspections did not reflect that compliance requirements for annual income reexaminations, Report HUD-50058, reasonable rent, utility allowance, and selection from the waiting list were reviewed by the Department.

Before May 2003, the Department did not enforce the contractual requirement that the subrecipient review 5-10 percent of subcontractor activity. We were informed that beginning in May 2003, the subrecipient began performing these reviews. We were also informed that the Department did not verify or examine these reviews or the logs of these reviews.

Effect: The subrecipient may not have administered the Section 8 Housing Choice Vouchers 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 can only review a small percentage of the subrecipient's activity regarding individual tenants and that the Department did not have time for in-depth analysis and complete follow-up of the sample of inspections reviewed by the Department.

Recommendation: The Department should ensure that the subrecipient performs all contracted services and is monitored for compliance with all Section 8 Housing Choice Vouchers program requirements. Also, the Department should take appropriate action when performance problems arise.

Agency Response: "The Department agrees with this finding. The Department's monitoring sample has been reduced from 10% of tenant files to 3% in order to allow for more in-depth analysis and complete follow-up. A new exit interview procedure was also established October 2003. In an effort to close the gap between the time a file exception is noted and when it is cleared, findings will be shared with each HA [Housing Authority] at the end of the review period on an informal basis prior to the exit interview. The exit interview includes the HA Section 8 Manager, the Housing Director from the contractor subrecipient DSS monitoring staff. At the end exit interview, the HA will provide documentation of corrective action. The quarterly DSS monitoring report to the contractor will note corrected findings as well as findings that remain open that require further action. A staff person has been assigned to ensure complete and timely follow-up. The subrecipient is required to review at least 5% of subcontractor activity. Status reports are now required for submission to DSS on a regular basis."

III.A.29. Allowable Costs/Cost Principles – Administrative Fees

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: ACC CT 901 VO

Criteria: The Office of Management and Budget (OMB) Circular A-87 allows costs to be charged or allocable to Federal awards if necessary and reasonable for administration of Federal awards, and, if the goods or services are charged in accordance with benefits received.

The Department contracts with a subrecipient to administer this program. The Department pays administrative fees to the subrecipient for leased units (e.g. those units that the Department is paying landlords housing assistance payments and those units that are "Hold Status" because of factors such as housing quality standard violations, the tenant is searching for a new unit, or other factors). The Department's Administrative Plan requires that tenants be removed from the program if housing assistance payments have not been made for their benefit for 180 days. The Department should not be paying an administrative fee to the subrecipient for those tenants that should be removed from the program.

Condition: We reviewed the Hold Report dated October 30, 2003, and found that the Department paid administrative fees to the subrecipient for tenants that apparently should have been terminated from the Section 8 Housing Choice Vouchers program. That Hold Report showed that there were 421 tenants on "hold status." There were 52 tenants on the Hold Report with hold dates that were more than 180 days before the Hold Report date. Identified questioned costs totaled $11,712 for administrative fees that incurred during the period December 2001 to October 2003 for those 52 tenants.

We also noted that the monthly Hold Reports for the 2002-2003 fiscal year showed an average of 466 names each month. This represents almost ten percent of the total tenants in this program during that period. This appears high. During the 2002-2003 fiscal year, the Department paid $239,338 in administrative fees to the subrecipient for all those on the Hold Report. The administrative fee rate was $43 per unit per month. We were informed that the Department performed no review of the validity of the names on the Hold Reports.

Effect: There appear to be names on the Hold Reports for households who are no longer participating in the Federal program. We identified $11,712 in questioned costs for administrative fees paid for 52 tenants on the Hold Reports.

If the Department removes nonparticipating households from the active program records, new households may be eligible for housing assistance.

Cause: It appears that a lack of review of names on the Hold Report, both by the Department and by the subrecipient, attributed to this condition.

Recommendation: The Department of Social Services should not pay administrative fees to the subrecipient for tenants on the Hold Report who should be terminated from the Section 8 Housing Choice Vouchers program. The Department should also confirm that only valid names appear on the Hold Reports and should terminate those who are not participating in the program.

Agency Response: "The Department agrees with this finding. The subrecipient began a review of the Hold Status Reports in October 2004. Each subcontractor was directed to review their 'on hold' cases and terminate them where appropriate."

III.A.30. Eligibility – Ineligible Recipients

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 2001-2002,and 2002-2003
Federal Award Numbers: G0201CTCCDF and G0301CTCCDF

Background: The Department of Social Services entered into a contract with a vendor to determine eligibility and make benefit payments for the Department's Care 4 Kids Program, which is claimed under CCDF.

Criteria: The approved state plans provide the specific eligibility requirements selected by each state. Code of Federal Regulation Title 45 Section 98.20 requires that those requirements must comply with the following Federal requirements for individual eligibility. To be eligible children must be under age 13 (or up to age 19, if incapable of self care or under court supervision), reside with a family whose income does not exceed 85 percent of state median income for a family of the same size, and reside with a parent who is working or attending a job-training or education program; or be children who are in need of, or are receiving, protective services.

Condition: Our review of 40 payments totaling $10,927 disclosed the following:

- One payment of $228 was not supported by adequate source documentation to support the child's age, relationship to the head of household, and citizenship.
- One payment of $3 was paid to the wrong day care provider and was not recouped, although it appeared that the caseworker was aware of this error.

The above transactions were randomly selected from payments totaling $100,591,818. These payments were claimed as Federal expenditures and maintenance of effort.

Our review also disclosed one instance in which the vendor did not assess a family fee which is to be paid by the eligible family and deducted from the portion of the authorized cost of care that was paid to the day care provider. This instance was not part of our original sample and resulted in an overpayment of $108.

Effect: The above errors resulted in questioned costs relating to the sample payments tested totaling $231. An overpayment of $108 occurred that was not related to the sampled payments that were tested.

Cause: The first instance was caused by failure to follow established procedures. The second and third instances were due to worker error. In addition, the vendor does not have an automated recoupment process in place.

Recommendation: The Department of Social Services should ensure that eligibility determinations and payment calculations are processed accurately and completely and overpayments are pursued.

Agency Response: "The Department agrees with this finding in part. The Department does not dispute the $111.00 in erroneous payments or the $228.00 in questioned costs. However, systemic corrective action is not required since adequate contract monitoring procedures are in place. The Department's Office of Quality Assurance performs quarterly reviews of the contractor's eligibility and payment process; issues reports; and the contractor is required to take corrective action, as needed."

III.A.31. Earmarking – Temporary Assistance for Needy Families Transfers

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G-020CTCOSR and G-0301CTSOSR

Background: The State may transfer up to ten percent of its Temporary Assistance for Needy Families (TANF) funds for a given fiscal year to carry out programs under the Social Services Block Grant (SSBG). Per the SSBG Post-Expenditure Reporting Form submitted for the Federal fiscal year ended September 30, 2002, TANF funds totaling $33,581,839 were used to carry out programs under SSBG.

Criteria: The State shall use all of the amount transferred into the Social Services Block Grant (SSBG) from the Temporary Assistance for Needy Families (TANF) program only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by the Department of Health and Human Services (42 USC 604(d)(3)(A) and 9902(2)).

Condition: Our review disclosed that the Department of Social Services did not have procedures in place to provide reasonable assurance that the portion of TANF funds expended on behalf of the SSBG program were for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by the Department of Health and Human Services

Effect: TANF funds transferred to the SSBG program could be expended for programs and services that were not allowed. We could not, however, determine the amount of funds that might have been improperly used.

Cause: The Department does not perform any analysis to determine whether the TANF funds transferred to the SSBG program were used for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline.

Recommendation: The Department of Social Services should implement procedures to ensure that Temporary Assistance for Needy Families funds transferred to the Social Services Block Grant are used for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline.

Agency Response: "The Department agrees with this finding. The Department has begun to implement record keeping procedures to document the amount of the TANF funds charged to the administration of the SSBG program."

III.A.32. Special Tests and Provisions – Lack of Documentation

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 0204CT4004 and 0304CT4004

Background: We reviewed the State's procedures related to the following requirements of the Child Support Enforcement program:

- Location of noncustodial parents (45 CFR303.3);
- Establishment of support obligations (45 CFR 303.4);
- Establishment of paternity (45 CFR 303.5);
- Enforcement of support obligations (45 CFR 303.6); and
- Provision of services in interstate IV-D cases (45 CFR 303.7).

Criteria: Title 45 Part 303 Section 2 includes provisions for establishing cases and maintaining of case records. Subsection (c) of this Section states that "the case record must be supplemented with all information and documents pertaining to the case, as well as all relevant facts, dates, actions taken, contacts made and results in a case."

Title 45 Part 303 Section 7 requires that within ten working days of receipt of an interstate IV-D case from an initiating State, the central registry must inform the IV-D agency in the initiating State where the case was sent for action.

Condition: Our review of 46 child support cases administered by the State disclosed the following:

- Six "hard copy" case files could not be found at the time of our fieldwork and thus were not available for review.
- Six cases selected for review did not have valid source documentation in the "hard copy" case files that should have supported information in the Connecticut Child Support Enforcement System.
- For two interstate cases tested, the State did not respond to the initiating States within the appropriate ten-day time frame.

Effect: The State did not comply with certain Federal requirements of the Child Support Enforcement program.

Cause: The cause was not determined.

Recommendation: The Department should implement procedures to ensure that adequate records are maintained for the Child Support Enforcement program. In addition, the State should notify, within the required time frame of ten days, the States initiating child support cases where the cases were sent for action.

Agency Response: “The Department agrees with this finding. The Department performs a federally mandated periodic self-review of the agency’s compliance with child support regulations. Staff is reminded to adhere to documentation requirements and any other requirements found to be deficient during the self-reviews.”

III.A.33. Reporting – FNS-209 Report

Food Stamps (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: 4CT400400

Background: If a household receives more program benefits than it is entitled to receive, the State must ordinarily establish a claim against that household and demand repayment. On a quarterly basis, the State is required to account for the status of these claims to the USDA through the FNS (Food and Nutrition

Services)-209 report. Concerning the management of its established claims, there are two common approaches that the State may employ to effect repayment. For those claims involving active program households, repayment will most likely take place through a series of reductions against future benefit allotments. If the household is no longer involved with the program, the claim could be referred to a collection agency. The key instrument involved in either collection process is the initial notification document sent to the household, otherwise known as the demand letter.

Criteria: The required content of the State's initial demand letter is specified under Title 7 Code of Federal Regulations (CFR) Part 273 Section 18(e)(3)(iv). Effective August 1, 2001, a regulatory revision required language stating the following:

- The intent to collect from all adults who had resided in the household when the overpayment occurred.
- How the claim was calculated.
- The opportunity to inspect and copy records related to the claim.
- That the State may reduce any part of the claim if it believes that the household is not able to repay the claim.

Condition: Our test of collection actions taken by the Department consisted of a review of applicable Departmental policy, as well as detailed reviews of ten established overpayment claims. We noted that Departmental policy prescribing the content of the initial demand letter has not been updated since September 21, 1996. Our review of established overpayment claims disclosed that none of the associated demand letters processed by the Department had fully satisfied the content requirements specified under 7 CFR 273.18(e)(3)(iv). In particular, we noted that the Department's demand letters failed to present such required information, as follows:

For both active and inactive households:

- The intent to collect from all adults who had resided in the household when the overpayment occurred.
- How the claim was calculated.
- That the State may reduce any part of the claim if it believes that the household is not able to repay the claim.

For active households only:

- The opportunity to inspect and copy records related to the claim.

Effect: Affected households were not made fully aware of all of their legal obligations and rights upon the Department's establishment of overpayment claims.

Cause: The Department had not amended the content of its demand letter in recent years.

Recommendation: The Department of Social Services should promptly take all necessary action to ensure that its demand letter notices comply fully with all content requirements set forth by Title 7 Code of Federal Regulations Part 273 Section 18(e)(3)(iv).

Agency Response: "The Department agrees with this finding. The Department has initiated a data processing work request to update the demand letter to include language as noted in the FNS regulations. Upon completion, with one exception, the Department will be in compliance with regulatory requirements.

The statement 'that the state may reduce any part of the claim if the agency believes that the household is not able to pay the claim' has not been included in the notice. The Department has made a decision to apply for a waiver of federal regulations regarding compromising claims. The waiver application will be submitted to FNS after meeting with the FS [Food Stamp] program staff on this."

III.A.34. Allowable Costs/Cost Principles – Unnecessary Costs

State Children's Insurance Program (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 05-0205CT5021 and 05-0305CT5021

Background: The Department of Social Services entered into a contract with a vendor to determine eligibility for the Department's Healthcare for Uninsured Kids and Youth (HUSKY) Part B program, which is claimed under the State Children's Insurance Program (SCHIP). In addition, the vendor determines the total capitated payments that the Department is required to pay the managed care organizations.

Criteria: The Office of Management and Budget Circular A-87 includes factors affecting allowability of costs reimbursable under Federal awards. To be allowable under Federal awards, costs must be necessary and reasonable.

Condition: We reviewed supporting documentation for 40 claims totaling $4,887 ($3,176 at the Federal reimbursable rate) paid to the managed care organizations. These transactions were randomly selected from payments totaling $22,249,207 ($14,461,984 at the Federal reimbursable rate). Our testing disclosed that the Department made a capitated payment for $147 ($96 at the Federal reimbursable rate) on behalf of a child whose participation in the program should have been ended by the vendor. A parent of the child notified the Department's vendor to remove the child's participation in the program because private insurance was obtained for the child. However, subsequent to this parent's request, the Department made a capitated payment to the managed care organizations.

Effect: A capitated payment for $96 was unnecessarily charged to SCHIP. We consider this payment to be questioned costs.

Cause: Rather than manually removing the child from the program, the vendor decided to allow the child to remain in the computer system up to the eligibility expiration date. The vendor's system would automatically remove a child's participation from the program after 12 months unless the child's participation in the program is renewed.

Recommendation: The Department of Social Services should review the audit exception in this finding and recoup the amount in question. In addition, the Department should review procedures with its vendor to ensure that requests for removing children's participation in the State Children's Insurance Program are processed timely.

Agency Response: "The Department agrees with this finding. The Department will reimburse the Federal Government $96.00.

In addition, to prevent this type of error from recurring, the Department has revised the vendor's existing procedures to make it more clear for the staff to follow. The vendor will provide training to their staff on the revised procedures in their next staff development day."

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, 2003
Federal Award Number: M-01-SG-09-0100

Community Development Block Grant/State's Program (CDBG) (CFDA #14.228)
Federal Award Agency: Department of Housing and Urban Development (HUD)
Award Year: State Fiscal Year Ended June 30, 2003
Federal Award Number: B-01-DC-09-0001

Criteria: OMB Circular A-87 "Cost Principles for State Governments" states that costs are allocable to a Federal award if the services can be charged to the program in accordance with relative benefits received. OMB Circular A-87 also states that direct charges to Federal awards must be for allowable costs and supported by appropriate documentation such as vendor invoices and should be charged as to account, amount, and period.

The invoicing, payment and miscellaneous features section of personal service agreements (PSA) should require the contractor to provide sufficient documentation of the number of hours worked on each project when more than one funding source is used. Descriptions on invoices should clearly state the type of work that is performed and the number of hours worked on each project.

Condition: The Department of Economic and Community Development (DECD) entered into a PSA with a retired State employee to assist in the review and evaluation of project applications, design drawings and specifications, budgets, cost estimates and bids; conduct and coordinate site inspections and evaluations; coordinate environmental reviews and perform other duties as specified in the PSA. The amount of this PSA was for $10,260 and was for the period July 1, 2002, to September 30, 2003. According to the PSA, the cost of the contract was to be divided equally between the HOME and CDBG programs. Our review of three payments revealed that the payment was split equally between the HOME and the CDBG programs. The invoice submitted by the contractor detailed the various projects that the contractor worked on, the hourly rate, the total hours, and the amount to be reimbursed. The invoice did not indicate, however, whether the project was a HOME or CDBG project. We interviewed a DECD staff member who stated that in addition to the HOME and CDBG programs, the contractor also worked on Section 8 Moderate Rehabilitation (CFDA #14.856). The Section 8

Moderate Rehabilitation program was not charged for the work of the contractor. It should also be noted that the contractor's description of work listed on the invoice for work performed gives the impression that the contractor actually performed such work as installing glass windows and repairing stonewalls. Our interview with a DECD staff member stated that the contractor was only present at the site reviewing the work that was performed by other contractors. Also, the DECD was unable to provide us with the number of hours worked on each project listed on the invoice. Our review of all the other payments to this contractor revealed these same conditions.

Effect: We could not determine how much of the contract total of $10,260 should be charged to each of the Federal programs.

Cause: A request to the Office of Policy and Management to hire the contractor because of special abilities originally stated that the funding sources for this contractor would be divided equally among the Moderate Rehabilitation, HOME and CDBG programs. It could not be determined why the PSA only reflects two funding sources for the contract.

The PSA does not state that invoices are to be provided showing the number of hours worked by project.

Recommendation: The Department should clearly state in its personal service agreements how the contractor is to bill the State when the contractor works on multiple projects. Vendor invoices should provide documentation to support charges to Federal programs to show that the costs are allocable to that Federal program.

Agency Response: "The Department agrees with this finding.

Personal Service Agreements for consultant services shall stipulate, more clearly, how the contractor is to bill the State when the contractor performs services on multiple projects and/or programs and the projects are funded under different funding programs. Contractors shall be required to submit invoices that separate and identify the services provided, in greater detail than is now required, to properly allocate the reimbursement to the appropriate funding source.

The Department will develop an internal agency supplement to the Office of Policy and Management's Personal Service Agreement Standards and Procedures, which will provide Department staff with appropriate instructions on how to prepare and administer PSAs involving multiple funded consultant services. This supplement will ensure that the concerns raised in the finding are addressed."

III.B.2. Cash Management

Community Development Block Grants/State's Program (CFDA #14.228)
Federal Award Agency: Department of Housing and Urban Development
Award Year: State Fiscal Year Ended June 30, 2003
Federal Award Numbers: B-96-DC-09-0001, B-99-DC-09-0001, B-02-DC-09-0001

Criteria: 31 CFR 205.11 states that a "State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes."

24 CFR 570.509(b)(3) states that "any unused grant funds disbursed from the United States Treasury which are in the possession of the recipient, shall be refunded to the Department of Housing and Urban Development (HUD)."

The Integrated Disbursement and Information System (IDIS) is the Federal computer system that is used by the Department to request Federal funds. The IDIS Reference Manual states that when funds are returned by the subrecipients for ineligible use, then the grantees can either return the funds to HUD, or if it is expected that these returned funds will be used within a short period of time for an eligible activity, then the grantee can use the returned funds for the eligible activity.

Condition: Our review of 10 projects for compliance with cash management requirements found that grant refunds of $1,056,081 were not returned to HUD, nor were the funds used within a short period of time for an eligible activity. The grant refunds were returned and disbursed as follows:

Grant Refund Amount	Returned to State Account	Disbursed from State Account
$549,104	5/8/02	4/03 (various dates)
505,583	5/8/02	12/02, 1/03 (various dates)
1,250	6/12/03	10/30/03
144	6/18/03	10/30/03

As a result, the Department held grant refunds from six to 11 months before disbursing the funds for eligible activities.

Effect: The Federal government incurs unnecessary interest costs when funds are held by the State.

Cause: The DECD stated that it was waiting for large dollar amounts of expenditures to apply to the refunds in order to easily track the grant refunds. The DECD also stated that HUD informed them not to return grant refunds. The DECD also stated that they were unaware that the refunds should be used prior to making other Federal drawdowns of funds for eligible activities.

Recommendation: The Department should either return grant refunds to the Federal government or apply the grant refund to current expenditures within a short period of time.

Agency Response: "The Department agrees with the finding.

The Department intended to reallocate the funds returned by the two CDBG grantees as soon as requests by other grantees were made for eligible activities. As stated in the cause, the Department was waiting for large dollar amounts of expenditures to apply the grant refunds to facilitate the accounting of grant refunds. Since the Department could not anticipate when this would occur, the reallocation of the grant refunds were processed over a longer time period than intended.

The Department is now aware of the Federal requirement to reallocate grant funds within a shorter period of time. The Department will ensure that grant refunds are reallocated within a reasonable time period."

C. DEPARTMENT OF LABOR

III.C.1. Reporting – Employment and Training Administration (ETA) 227 Overpayment Detection and Recovery Activities

Unemployment Insurance (UI) (CFDA 17.225)
Federal Award Agency: Department of Labor
Award Year: State Fiscal Year June 30, 2003
Federal Award Numbers: UI12629KS 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: The ETA 227 report for the quarter ended June 30, 2003, was prepared using the same type of supporting documentation used in preparing previous ETA 227 reports. As previously reported not all amounts could be traced to the Department's financial accounting system using this documentation.

Effect: The amounts reported on the Department's ETA 227 report could be incorrect.

Cause: The Department has been working with the Federal agency in trying to determine a way to report the overpayments that all the states can utilize. This has led to various reporting conflicts and therefore, a delay in a form that will be compatible for all states to use. Once a reporting format is agreed upon, the Department will be able to compile the information needed.

The Department's system does not provide an adequate audit trail for the accounting of overpayments.

Recommendation: The Department's reporting system should accurately account for overpayments reported on the ETA 227 report and should have adequate documentation to support these amounts.

Agency Response: "We agree with this finding. The Department of Labor along with Labor Departments in many other states has been working with the Federal Department of Labor to make the statistical data generated by the ETA 227 more reflective of the actual performance of each particular state.

The varying Statutes of each state regarding overpayment collections skews the statistical data produced by the ETA 227. The majority of states have a four-year statute of limitations on collections and the ETA 227 is geared toward those states. Connecticut has no time limit as to collecting overpayments; the older overpayments adversely affect the aging of overpayment collections in the report.

The Department has been working with our Information Technology Unit to automate the ETA 227 report with limited success. Additionally, we are working with the regional office of the Federal Department of Labor to develop a permanent solution to this issue. The ETA 227 is currently under review by the Department of Labor for possible revisions to the form, which would make the data produced reflective of performance.

We are also taking steps to improve our internal procedures regarding proper documentation of all collected and outstanding overpayments. It is our objective to develop a comprehensive audit trail for all overpayment detection and recovery activities."

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 2002 and 2003
Federal Award Numbers: H23/CCH104484-12 and H23/CCH122525-01

HIV Prevention Program (CFDA #93.940)
Federal Award Agency: Department of Health and Human Services
Award Years: Calendar Years 2002 and 2003
Federal Award Numbers: U62/CCU102002-17 and U62/CCU102002-18

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 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.

Effect: Federal cash management requirements are not being adhered to.

Cause: The Department had not addressed previous recommendations calling for improved cash management.

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. As an initial effort to comply with Federal cash management requirements, effective July 1, 2003, a change was made to adjust all contracts that disburse $300,000 or more in Federal funds:

Four payments per year are made for contracts between $300,000 and $500,000 in Federal funds; six payments per year are made for contracts that exceed that amount. In addition to a quarterly expenditure report, contractors are now required to submit a cash needs statement prior to receiving their next payment. Based on that statement, the amount of the payment may be adjusted up or down.

Contracts staff will evaluate the effect of analyzing this additional reporting with the goal of lowering the $300,000 limit in future years if staffing levels and associated workloads permit."

Auditors' Concluding Comments:

Federal cash management regulations require a direct match of reimbursements to expenditures. Grant payments should be made on this basis regardless of the size of the contract.

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 2001-2002 and 2002-2003
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, 2003, found that the Department had only performed management evaluation reviews of four of the 17 local agencies. Four local agencies had not been subjected to an MER since 1997, although limited-scope reviews had been periodically performed. The remaining nine local agencies received a partial review, consisting of either the financial or program portions of the MERs.

Effect: The failure to perform the required reviews reduces the level of assurance that local agencies are performing in accordance with program requirements.

Cause: As noted previously, the fiscal staff and the program staff had not coordinated visits to ensure that MERs were conducted in their entirety. Staff reductions caused by retirements and layoffs contributed to the condition.

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. In 2002-2003, the Department revised the schedules of fiscal and program reviews so that they would be coordinated and performed on a timely basis. However, layoffs and early retirements delayed implementation of the revised schedule. It has now been implemented, and all management evaluation reviews in the two-year cycle are scheduled to be completed by January 31, 2004."

III.D.3. Subrecipient Monitoring – Schedules of Expenditures of Federal Awards

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 2001-2002 and 2002-2003
Federal Award Number: 4CT700700

Immunization Program (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Calendar Years 2002 and 2003
Federal Award Numbers: H23/CCH104484-12 and H23/CCH122525-01

Criteria: Amounts of non-cash assistance reported to subrecipients on grant advice notices should be reconciled to the total amount of assistance expended by the Department of Public Health in order to provide assurance that reporting is complete.

In order to determine if programs funded by the Department of Public Health receive adequate coverage during the audit of subrecipients, Department staff must examine the audited Schedules of Expenditures of Federal Awards for completeness.

Condition: The value of immunizations issued to the various clinics within each not-for-profit subrecipient was not reconciled to the total non-cash assistance awarded.

Staff responsible for reviewing the Schedules of Expenditures of Federal

Awards submitted by recipients of the WIC and Immunization Programs did not have a process in place to detect whether the auditors had included the value of WIC food instruments and vaccinations in the Schedules.

Effect: Each of these conditions served to lessen the value of the subrecipient monitoring process and increased the risk that funding provided by the Department of Public Health may not have received the intended audit coverage.

Cause: The primary cause of these conditions was the lack of familiarity possessed by new employees assigned the function of reviewing subrecipient audits.

Recommendation: The Department of Public Health should institute procedures designed to provide increased assurance that subrecipients' Schedules of Expenditures of Federal Awards are complete.

Agency Response: "We agree with this finding.

Accounting and program staff will work to develop a report of recipients of vaccines by FEIN number. This will ensure that all locations for municipal and not-for-profit recipients with multiple sites are included in the annual report that is compiled for a contractor.

Failure to detect that auditors had not included the value of WIC food instruments and vaccinations in audit schedules was the result of a complete change and downsizing of staff related to statewide layoffs. Newly-assigned staff are aware of this requirement."

III.D.4. Allowable Costs/Cost Principles - Allocation of Salaries to Multiple Activities

HIV Prevention Program (CFDA #93.940)
Federal Award Agency: Department of Health and Human Services
Award Years: Calendar Years 2002 and 2003
Federal Award Numbers: U62/CCU102002-17 and U62/CCU102002-18

State Public Water System Supervision (CFDA #66.432) Non-Major Program
Federal Award Agency: Environmental Protection Agency
Award Year: Federal Fiscal Year 2002-2003
Federal Award Number: F-00147003

State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs (CFDA #66.471) Non-Major Program

Federal Award Agency: Environmental Protection Agency
Award Years: October 1, 2002 to September 30, 2008
Federal Award Number: CT-98174601

Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA #93.283) Non-Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: U90/CCU116996-03, U55/CCU121932-01, U58/CCU119326-03 and U57/CCU119190-03

Assistance Programs for Chronic Disease Prevention and Control (CFDA #93.945) Non-Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: U58/CCU120287-02 and U50/CCU121345-01

Injury Prevention and Control Research and State and City Based Programs (CFDA #93.136) Non-Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Number: VF1/CCV119896-02

State Capacity Building (CFDA #93.240) Non-Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: U61/ATU190061-12 and U61/ATU190061-13

Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems (CFDA #93.988) Non-Major Program
Federal Award Agency: Department of Health and Human Services
Award Year: July 1, 2002 to March 29, 2003
Federal Award Number: U32/CCU110618-08

Maternal and Child Health Services Block Grant (CFDA# 93.994) Non-Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: 6 B04 MC 00338-06 and 6 B04 MC 00338-07

Criteria: Office of Management and Budget (OMB) Circular A-87 requires that employees working on multiple cost objectives maintain activity reports or similar documentation to support the allocation of salary costs to the affected programs. Budget estimates determined before the services are performed do not qualify as support for charges to federal awards.

Condition: Our test of documentation supporting personnel costs of the Department of Public Health (DPH) employees that were charged in part to the HIV Prevention Program revealed $15,830 in salaries that were not supported with personnel activity reports. These costs were apparently charged to the Program based on a predetermined budget, without regard to where the actual efforts were expended.

Further sampling of other non-major Federal programs revealed that the practice of charging salaries based on budgeted amounts was not uncommon. We identified approximately $454,000 in annual split-funded salaries that were charged without adequate support. Including fringe benefits and indirect costs, we have calculated $808,967 of personal services costs that can be questioned. Below is a summary of questioned costs by Program:

#66.432	$124,722
#66.471	$12,387
#93.136	$25,391
#93.240	$24,684
#93.283	$92,127
#93.940	$81,350
#93.945	$43,740
#93.988	$132,927
#93.994	$261,801
Total	$808,967

Effect: Certain charges to Federal programs were not adequately supported.

Cause: Agency policies requiring activity reports were not being adhered to on a constant basis.

Recommendation: The Department of Public Health should take steps to fully implement a method of salary allocations that conforms to the requirements of OMB Circular A-87.

Agency Response: "We agree with this finding in part. The agency has fully implemented a method of maintaining documentation to support the allocation of salary costs that conforms to the requirements of OMB Circular A-87. The agency published these requirements in 1998 and reissued them in 1999, 2001 and 2003. On an individual grant basis, since 1998 accountants have repeatedly discussed these requirements with program managers. As a result of this finding, the agency's executive staff have discussed this issue and are committed to conveying again to program managers that the requirements to maintain documentation to support the allocation of salary costs is mandatory."

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 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CT1401 and G-0301CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CT1407 and G-0301CT1407

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G0201CTTANF and G0301CTTANF

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers 05-0205CT5028 and 05-0305CT5028

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 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). The payroll and fringe benefit costs accumulated in these cost pools that were used to allocate funds to Federal programs for the State fiscal year ended June 30, 2003, totaled $189,697,317. Of this $189,697,317, approximately $172,569,958 was allocated to Federal programs of which approximately $86,284,979 was claimed for Federal reimbursement. Costs that are allocated to TANF and Medicaid programs 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 a public assistance cost allocation plan. 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: We sampled 21 payroll transactions totaling $64,355 (including fringe benefits) that were accumulated in the cost pools that were used to allocate costs to Federal programs. Our review disclosed that six out of the 21 payroll transactions tested were not coded to the proper expenditure codes. One error of $2,204 out of the six errors effected the allocation of costs charged to Federal programs. The net effect of this error resulted in costs that were not properly allocated to the Foster Care, Medicaid, TANF, Adoption Assistance, and State programs.

Effect: The charging of expenditures to improper function activity codes does not provide reasonable assurance that only allowable costs are being claimed for Federal reimbursement. Provided below is the effect of the audit error based on adjusting the amounts accumulated in the cost pools by the $2,204 error, as applicable.

Program	Original Allocation	Correct Allocation	Gross Undercharge (Overcharge)	Net Effect * Undercharge (Overcharge)
Foster Care	$ 0	$ 733	$ 733	$ 370
Adoption Assistance	1,706	41	(1665)	(829)
TANF	0	1,265	1,265	1,265
Medicaid	0	12	12	6
State	498	153	(345)	(345)
Total	$ 2,204	$ 2,204	$ 0	$ 467

* The net effect is based on the programs applicable Federal financial participation rates.

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 Department will adjust the amounts claimed for these programs related to these incorrectly coded items. Prior to the November 4, 2003 payroll, the State's human resources and financial information systems were separate. The State's new information system (CoreCT) consolidates both functions. It is anticipated that this consolidation will eliminate the possibility of miscoded payroll items."

III.E.2. Allowable Costs/Cost Principles, 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 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CT1401 and G-0301CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
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, 2003, 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 three quarters of the State fiscal year ended June 30, 2003. These differences totaled $2,470, $33,048 and $44,142 for the quarters ended September 30, 2002, December 31, 2002, and March 31, 2003, respectively, and reflected $89,660 more in board and care payments 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. The Department stated that the LINK system applies any retroactive adjustments to the month the initial payment was made rather than the month of the adjustment while the Board and Care account reflects adjustments at the time of the adjustment. 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. During State Fiscal Year 2003, there were minor differences between the payment extracts used for Title IV-E claiming and the disbursement recorded from the Board and Care Checking Account. As of June 2003, a computer modification was implemented and the discrepancy has been corrected – the total disbursements used for Title IV-E extracts and the Board and Care account were both $21,989,369.76 for that month."

III.E.3. 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 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CT1401 and G-0301CT1401

Background: The Department of Children and Families (DCF) claims for Federal reimbursement under the Foster Care-Title IV-E program 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 represent board and care payments made to foster homes and institutions for the care of these children, miscellaneous payments and Department adjustments. Our audit population of $25,822,622, at the 50 percent reimbursement rate, for testing eligibility requirements included new claims made during the fiscal year. 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 the foster care provider for licensing and enters the status (i.e., approved or unapproved) of the foster care provider's license into the LINK system.

Criteria: Title 45 Section 1356.30(a) of the CFR (Code of Federal Regulations) states that the State must provide documentation that criminal records checks have been conducted with respect to prospective foster parents. According to

Section 41-17-13 of the DCF's Policy Manual, the foster family's licensing record (provider file) contains the Department's official documentation that determines if a license may be granted. In addition to the documentation filed in the hard copy record, the family's licensing status shall be entered in LINK.

Title 45 CFR Section 1356.30(f) states 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 that verifies that safety considerations with respect to the staff of the institution have been addressed.

Title 45 CFR Section 1355.20(a)(2) states in part, foster family home means, for the purpose of IV-E eligibility, the home of an individual or family licensed or approved as meeting the standards established by the State licensing or approval authority, that provides 24-hour out-of-home care for children. The term may include group homes, agency-operated boarding homes or other facilities licensed or approved for the purpose of providing foster care by the State agency responsible for approval or licensing of such facilities. Foster family homes that are approved must be held to the same standards as foster family homes that are licensed. Anything less than full licensure or approval is insufficient for meeting Title IV-E eligibility requirements.

Title 45 CFR Section 1356.60 (a)(i) requires that for a payment to be recovered under Foster Care Title IV-E, the payment must be made on behalf of a child that is determined to be eligible and for a time period that is determined to be reimbursable. For foster care payments, the child must have been removed form the home by means of a judicial determination or a voluntary placement agreement followed by a judicial determination. The child must also be eligible under AFDC and can only be eligible until the child's 18^{th} birthday. In addition, the provider must be properly licensed during that time.

Provider files should be accessible to users and should include the required documentation necessary to support compliance with Federal requirements.

Condition: We selected a random sample of 40 transactions, representing $44,652 in monthly maintenance costs, or $22,326 at the 50 percent Federal reimbursable rate. We reviewed those transactions to verify that they were correctly claimed for Federal reimbursement on behalf of eligible children. Thirty one of the 40 transactions represented payments to foster homes. The other nine transactions represented payments to child care institutions. We found a lack of adequate documentation at the time of our audit for 26 of the 40 transactions.

Inadequate State required license documentation for foster homes

Out of the 40 transactions tested, 31 transactions were payments to foster homes. The Federal regulations require that a criminal history record check be done for prospective parents who are licensed or approved after November 19, 1997. A State Police background check for criminal activity of the prospective foster parents was performed in each of the applicable cases in our sample, which would appear to have satisfied the Federal requirement if the State did not have additional criminal records checks as part of the State's requirement for issuing a license to the foster parents. Specifically, the State policy for licensing requires that a Federal Bureau of Investigation (FBI) check of national records be performed before an initial license is awarded and also requires additional State and local Police records checks be performed every two years as part of its re-licensing procedure. Because the Federal Foster Care program will only reimburse Foster Care payments made by the State to **licensed** foster parents, we had to test whether documentation was in the provider files for the initial FBI check and for the recurring biannual State and local Police checks.

We found that there was inadequate documentation regarding the additional State required FBI and biannual State and local Police checks in the provider files for 21 of the 31 transactions. The FBI documentation was inadequate in that it did not routinely include a positive confirmation of negative findings by the FBI. The lack of positive FBI confirmations effects 17 of these transactions. In addition, three of these 17 also did not have documentation for the biannual State of local Police background checks. Four of the 21 transactions we are questioning are based strictly on a lack of positive documentation of biannual State or local Police background checks. We believe that the lack of adequate available documentation at the time of the audit indicates that all 21 of these transactions should be considered to represent questioned costs.

Despite the fact that we could not locate the documentation regarding the additional State required FBI and biannual State and local Police checks for the 21 cases, for all but two of these 21, DCF had documented its conclusion that the providers were licensed and thus the cases were eligible for reimbursement under the Federal Foster Care program. The two that were not documented as licensed represented cases in which the children had been placed in out of State residences. Nevertheless, the two that were not documented as licensed had been charged for reimbursement by the Federal government. We believe that these two transactions represent improper payments, based on the lack of documented licenses.

Documentation of safety considerations regarding child care institutions

Out of the 40 transactions tested, nine were payments to child care institutions. We could not find positive documentation that safety considerations relative to staff members of the institution had been addressed relative to four of the nine payments. Nonetheless, DCF had documented its conclusion that the institutions were licensed and thus the cases were eligible for reimbursement under the Federal Foster Care program. We believe that the lack of adequate available documentation at the time of the audit indicates that all four of these transactions should be considered to represent questioned costs.

Missing documentation for deprivation of parental support

For one of the 40 transactions tested, we could not find adequate documentation that demonstrated the deprivation of parental support that is necessary to determine eligibility for the payment. Nonetheless, DCF had documented its conclusion that this child was eligible for reimbursement under the Federal Foster Care program. This transaction is not one of the 25 transactions we are questioning under the two preceding headings. We believe that this transaction should be considered to represent a questioned cost because of the lack of available documentation at the time of the audit.

Effect: The 26 transactions lacking adequate documentation at the time of the audit represented $13,496 in questioned costs at the 50 percent Federal reimbursement rate. For two of the 26 transactions where we did not find documentation that we considered adequate, DCF could not demonstrate that the foster parents were licensed. Thus, for these two of the 26 transactions we questioned, we consider the cost to represent improper payments because the three payments appear to have been made to ineligible recipients based on not having a documented license or required specific evidence of eligibility. The two transactions that appear to be improper payments represent $788 at the 50 percent Federal reimbursement rate. This $788 in improper payments is included in the $13,496 in questioned cost.

Cause: We could not determine whether files or the required contents of files were misplaced or if the Department did not obtain the required documentation. However, part of the cause at least is that DCF did not have clear procedures that required positive confirmation of the results of certain checks such as the FBI criminal activity search. Part of the problem also appears to have resulted from a lack of policy related to the records that should be provided by Child Placement Agencies. Another contributing factor appears to be an absence of instructions to staff for uniform maintenance of document files which demonstrate compliance with Federal requirements.

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. The Department should also ensure that all documents supporting the eligibility of Foster Care-Title IV-E maintenance costs are in the case files.

Agency Response: "The following addresses the Agency's response to the multiple components of this audit finding.

Criminal Records Checks / Documentation lacking for fully licensed foster family homes

a) Foster care – We agree to this finding in part. The finding inferred that all criminal checks (state/local/FBI) were missing in the files, however, some of the files did contain state and local checks but lacked FBI checks.

All licensed foster parents will have documentation in their files that all criminal checks were completed. These files will also contain copies of the fingerprints that were sent to the FBI. Relative providers will also have documentation in their files that criminal records checks were completed. For Child Placing Agencies, the Department will add to their contractual language a caveat requiring that every record have criminal record background checks inclusive of local, state and FBI check documentation, which will be subject to Departmental review.

b) Biennial criminal records check – We agree to this finding in part. The finding inferred that all criminal checks (state/local/FBI) were missing in the files, however, some of the files did contain state and local checks but lacked FBI checks.

All licensed foster parents will have documentation in file that all criminal checks were completed. These files will also contain copies of the fingerprints that were sent to the FBI. Relative providers will also have documentation in their files that criminal records checks were completed. For Child Placing Agencies, the Department will add to their contractual language a caveat requiring that every record have criminal record background checks inclusive of local, state and FBI check documentation, which will be subject to Departmental review.

c) Out of State licenses – We agree with this finding in part. One of the cases did not contain a license, but does approve the home for foster care. Background checks are documented. The second case does not contain a license because the state does not issue licenses for relatives. The case does document background checks being done. Both of these homes were approved for foster care by the receiving state.

Interstate cases will contain a document sent to the receiving state, which will be a declaratory statement regarding appropriate background checks being done in accordance with that state's laws, and the home meeting licensing standards in that state. We will ask that the receiving state's Interstate staff sign the document upon approval of the home, as well as provide a license or approval document, if one exists. If the receiving state cannot or will not comply, the payment will not be claimed.

Safety Considerations

Institution safety considerations – We disagree with this finding that safety considerations could not be found. The Department performed biennial license reviews for the residential facilities cited in the finding and documented specific areas of non-compliance in the licensing reports. Since all the three facilities were re-licensed, a lack of documentation of non-compliance is interpreted as being compliant with safety requirements.

The licensing unit will research modifying current practice to explicitly make reference in their reports to safety considerations."

Auditors' Concluding Comments:

Regarding safety considerations, Title 45 CFR Section 1356.30(f) requires documentation of safety considerations. The Department's review of licensing requirements of residential facilities infers that a review was made of safety considerations if no findings are noted. To be in compliance with Federal regulations, the Department must document that a review was made of safety considerations and that the facility was in compliance with required Federal regulations.

III.E.4. 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 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CT1401 and G-0301CT1401

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 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 three out of 40 transactions tested. Further, for one out of these three transactions, the eligibility determinations were not made within two years.

Effect: Although the Department missed the twelve-month eligibility redetermination schedule in three 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.

Cause: It appears that the Revenue Enhancement Unit of the DCF overlooked the three transactions where more than one year had lapsed between the IV-E redetermination pertaining to the service dates tested and the previous determination.

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. Revenue Enhancement centralized the IV-E eligibility determination process in September 2003 to create efficiencies that better position staff to stay current with the annual re-determinations."

III.E.5. Eligibility – Ineligible Adoption Assistance Recipients

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: G-0201CT1407 and G-0301CT1407

Background: The Department of Children and Families (DCF) claims for Federal reimbursement under the Adoption Assistance program 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 represent adoption subsidy payments made to adoptive parents for the care of these children, other miscellaneous payments and Department adjustments. Our audit population for testing the Adoption Assistance eligibility requirements totaled $12,970,106 at the 50 percent reimbursement rate. For the costs to be included in the quarterly claim certain criteria must be met.

Criteria: Title 45 Section 1356.30(a) requires that the State must provide documentation that criminal records checks have been conducted with respect to prospective adoptive parents. According to Section 41-17-13 of the DCF's Policy Manual, the adoptive family's licensing record (provider file) contains the Department's official documentation that determines if a license may be granted. In addition to the documentation filed in the hard copy record, the family's licensing status shall be entered in LINK.

Title 45 CFR section 1356.41 requires that the agreement for the subsidy must be signed and 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 $28,814 in adoption assistance payments, or $14,407 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 17 out of the 40 transactions represented questioned costs totaling \$6,013 at the 50 percent Federal reimbursement rate because we could not determine compliance with Federal laws and regulations regarding criminal records checks.

One of the eligibility requirements for Adoption Assistance is that the State must provide documentation that criminal records checks have been performed with respect to prospective adoptive parents. Out of 40 transactions, we could not locate 13 adoptive parents' files, which should contain the required criminal records check for prospective adoptive parents. In addition, for four transactions in which files were provided, we could not locate the criminal history records checks in the Department's files. Nonetheless, DCF had documented its conclusion that these cases were eligible for Federal reimbursement under the Adoption Assistance program. We believe the lack of adequate available documentation at the time of the audit indicates that these transactions should be considered questioned costs.

We also found a condition that we believe represents a weakness in internal control. In five transactions, the Department did not have original adoption decrees on file. The Department only used photocopies of the adoption decrees to determine if the children were eligible for Adoption Assistance.

Effect: As a result of our testing of a random sample of transactions, we found that the Department's Adoption Assistance claims included \$6,013 (net Federal reimbursement), in costs that we questioned as lacking adequate documentation at the time of the audit.

There are inadequate controls in the Department's ability to maintain required documentation and files to support compliance with Federal requirements.

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 decree of adoption.

Cause: We could not determine whether files or the required contents of files were misplaced or if the Department did not obtain the required documentation.

We were informed that original documents are not always obtained from the courts in a timely or straightforward manner. It appears that the Department's staff used copies of the court documents in order to accelerate the Adoption Assistance eligibility process.

Recommendation: The Department of Children and Families should ensure that all documents supporting the eligibility of Adoption Assistance are in the adoption files and that the files can be located by the Department. The Department should develop procedures to ensure that the original documentation is maintained in the children's case records.

Agency Response: "The following addresses the multiple components of the audit finding.

a) Adoptive parent files missing. We agree with this finding. The Department's Office of Foster and Adoptive Support (OFAS) will develop practices to ensure that adoptive parents' files are maintained for all cases that do not involve CPA- private agency files or out-of-state files that are inaccessible to DCF.

b) Criminal history checks missing. We agree with this finding. The Department's OFAS will develop a system of documentation for adoption cases, which will require regional offices to insert copies of license or approval and background checks for initial licensure and re-licensure into the adopted child's closed record. This will include both DCF homes and Child Placement Agency homes. ICO (Interstate Compact Office) homes will have this documentation already in the ICO file, located at OFAS, and it will be inserted into the adoptive child's file.

c) Original Adoption decrees not on file: We agree with this finding. DCF practice has been revised to require that each adoption file contain an original or certified copy of the decree. Adoption cases contain ancillary documentation, both in hard copy as well as LINK, to verify the date on the decree is the actual date of finalization. However, original documentation is not a federal requirement and therefore, results in no financial adjustment."

F. DEPARTMENT OF EDUCATION

III.F.1. Cash Management – Subrecipient Cash Balances

Title 1, Part A Improving Basic Grants (CFDA# 84.010)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: S010A010007 and S010A020007

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: H027A010021 and H027020021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: H173A010024 and H173A020024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2002-2003
Federal Award Number: S367A020006

Background: In our 2001 Federal 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 by subrecipients. Instead, the State DOE based payments on the subrecipients' predetermined or projected needs.

Our prior audit follow-up found 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 existed with respect to other prepayment grant programs administered by the State DOE, including Federal programs that were not included as major Federal programs for prior Single Audit testing purposes.

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: Our current review found that the previously reported condition continued to exist for the fiscal year ended June 30, 2003. While the Department's monitoring controls were able to identify current period non-complying Local Education Agencies, they were not able to prevent excess cash drawdowns for local districts not previously identified for individualized tracking.

For our current testing, we judgmentally selected all LEAs from the Department's reports with total State and Federal excess cash balances in excess of $100,000 and five percent of payments. For the twenty-three LEAs meeting our testing criteria, the excess cash balances for our major Federal programs were identified and summarized as follows:

Program:	Number of LEAs	Excess Cash
Title 1 (CFDA# 84.010	20	$ 1,080,913
IDEA (CFDA# 84.027/84.173)	23	2,756,330
ITQSG (CFDA# 84.367)	22	732,422
		$ 4,569,665

The results reflect FYE 2003 grant funds only. Also, as noted previously, this condition extended to other non-major Federal grant programs not included in our testing.

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 that were significantly greater than the subrecipients' actual program expenditures for the covered periods. The Department's monitoring reports are primarily designed to detect and not prevent cash management exceptions.

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. We will continue to collect quarterly actual cash disbursement reports lowering the threshold for required submission to all grantees with balances in excess of $100,000 and 10% of payments. Last year's threshold was $100,000 and 25%.

We will also work with the Office of Internal Audit to monitor compliance with the cash management provisions."

Auditors' Concluding Comment:
Our review found that non-compliance with Cash Management requirements had been substantially reduced for local districts previously identified for individualized tracking. However, there continues to be a significant number of local districts not subject to individualized tracking that have excess cash balances for our major Federal programs. Therefore, the Department should expand its prevention efforts to include all local districts that are not in compliance with Cash Management requirements.

III.F.2. Special Tests – 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 by a distributing agency, subdistributing agency, recipient agency, processor, food service management company, warehouse or other entity to maintain records required by this Section shall be considered prima facie evidence of improper distribution or loss of donated foods and the agency, processor or entity shall be subject to the provisions of Sec. 250.13(3)." That provision references Sec. 250.15(c) that indicates the types of claims that may be made against the distributing agency (e.g. replacement of the donated food, payment of the value of the donated food).

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 adopted, as permitted, a single inventory recordkeeping system that combines purchased food and commodities donated for the School Nutrition Program into one system. Thus, even though this compliance requirement is no longer applicable at the recipient agency level to which this condition applies, we are nevertheless repeating this finding because the Department has not taken the corrective action it stated in the Summary Schedule of Prior Audit Findings and because it does not have an adequate combined inventory system.

Effect: The Regional Vocational-Technical Schools are unable to document the receipt and usage of donated foods and are not in adherence 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 with this finding. New policies, procedures, and electronic forms are being developed to record commodities as they are delivered and then as they are utilized in the production of school meals.

The schools will be required to submit a summarized monthly commodities inventory to the VTSS Nutrition and Food Services Unit for review and follow up. This issue will also be reviewed during the VTSS site reviews.

The agency is hopeful that the implementation of phase two of PeopleSoft in calendar year 2005 will further facilitate inventory control including the donated commodities from the United States Department of Agriculture (USDA)."

III.F.3. Allowable Costs/ Cost Principles – Attendance and Timesheet Procedures at the Regional Vocational-Technical Schools

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: H027A010021 and H027020021

Special Education – Preschool Grants (IDEA Preschool) (CFDA # 84.173)

Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: H173A010024 and H173A020024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2002-2003
Federal Award Number: S367A020006

Criteria: OMB Circular A-87, Attachment B, Section (h)(1), requires that, "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit."

The establishment and maintenance of uniform attendance and timesheet policies and procedures is central to an effective time and attendance system. Effective attendance and timesheet controls require adequately trained personnel who are supervised and periodically monitored.

While there are no formal policies and procedures with respect to attendance and the approval of timesheets, the Regional Vocational-Technical Schools have established certain common record keeping practices that vary to some extent from facility to facility.

Condition: The Regional Vocational-Technical School (RVTS) System does not have formal policies and procedures for attendance and timesheet controls. Many of the RVTS have adopted the practice of having the Director of the school sign a cover sheet authorizing all of the period's payroll transactions in one batch. Other RVTS tested have adopted the more traditional practice of having a supervisor directly sign off on each employee's timesheet.

Our current test of a sample of 15 payroll transactions revealed the following deficiencies:

- Two payroll transactions did not have any authorizations on the timesheet.
- For eleven other payroll transactions, the timesheets were not signed by the immediate supervisor of the employee. Four of these payroll transactions involved two of our major Federal assistance programs: IDEA (three) and ITQSG (one).

The practice of having the Director of the school sign a cover sheet for all employees does not appear to meet the compliance requirement established by OMB Circular A-87, Attachment B, Section (h)(1).

The Directors are too far removed from the work activities of the employees to be the responsible official for certifying those activities. Further, the attendance recordkeeping system upon which the Directors have based their payroll authorizations cannot be relied upon. Our Audit Report for the Department of Education (under Section 2-90 of the Connecticut General Statutes) for the period ending June 30, 2002, included a recommendation to that effect and was agreed to by the Department.

Effect: Employees may be paid for hours not worked and/or not charged for sick or vacation time taken and not reported. Management may have inadequate information to approve timesheets, evaluate employee performance, and determine staffing requirements on a daily basis.

Cause: Attendance and timesheet controls are inconsistently applied throughout the Regional Vocational-Technical School System. Deficiencies found and reported by the Department's own internal reviews are not always resolved in a timely manner.

Recommendation: Uniform attendance and timesheet procedures should be established and maintained by the Regional Vocational-Technical Schools. Timesheets should be approved by supervisors with the most direct knowledge of their employees work activities. The Department's Regional Vocational-Technical School personnel should be adequately trained in the application of those policies and procedures and their efforts should be supervised and periodically monitored.

Agency Response: "We agree with this finding. The agency has already established and implemented new attendance and timesheet procedures in conjunction with the implementation of the new Core-CT Human Resource Management System (HRMS). Agency staff, including the primary and secondary timekeepers, has attended both state and agency training regarding time and attendance.

The agency training consisted primarily of PowerPoint presentations. What remains to be completed is the development of a formal policy and procedures manual."

III.F.4. Special Tests and Provisions – Comparability

Title 1, Part A Improving Basic Grants (CFDA# 84.010)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2001-2002 and 2002-2003
Federal Award Numbers: S010A010007 and S010A020007

Background: Local Educational Agencies (LEAs) may receive funds under Title 1, Part A only if those funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title 1, Part A funds.

Criteria: The OMB Circular A-133 Compliance Supplement, Department of Education Cross-Cutting Section, (N.) Special Tests and Provisions (3.) Comparability, requires that each "LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. They must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA [State Education Agencies], however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Title 1, Section 1120A(c) of ESEA [Elementary and Secondary Education Act] (20USC 6321(c)))"

Condition: This compliance requirement is subject to audit by the LEAs' independent public accountants. However, the Department remains primarily responsible for ensuring that LEAs adhere to this compliance requirement.

Our review confirmed that on a biennial basis, the Department is reminding LEAs of the Federal regulations related to the Title 1 comparability requirement and is receiving written assurances from those LEAs subject to the requirement.

However, the Department has no established controls in place to verify that the LEAs have developed procedures for complying with the comparability requirement and that the LEAs have established and maintained the records documenting that compliance.

Effect: The Department's current procedures cannot ensure that the LEAs remain in compliance with the comparability requirement.

Cause: The Department's compliance procedures are limited in scope and do not include any examination of supporting documentation from the LEAs.

Recommendation: The Department should take steps to periodically review the LEAs comparability documentation and supporting records to verify their submitted assurances with respect to the comparability requirement.

Agency Response: "We agree. According to Section 1120A (c)(2) of the Title I statute, a local educational agency (LEA) shall be considered to have met the comparability requirements if such agency has filed with the state educational agency a written assurance that such agency has established and implemented a local educational agency-wide salary schedule; a policy to ensure equivalence among schools in teachers, administrators, and other staff; and a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. We have complied with the comparability requirements by collecting this written assurance on a biennial basis from LEAs subject to these requirements. (The statute does not require the state to collect supporting documentation from LEAs. The data may be maintained at the LEA and reviewed by the state through monitoring or technical assistance visits to the LEA.)

Second, we are in compliance with the comparability provision by ensuring that LEAs comply with the audit requirements identified in OMB circular A-133 which includes testing for this provision.

In addition, however, a review of LEAs' comparability documentation will be included as part of LEA No Child Left Behind monitoring/technical assistance site visits scheduled to begin in early 2004."

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: National Science Foundation
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
Group Research on Ultracold Science and Spectroscopy (CFDA# 47.049)
Grant # PHY-9987762
Account # 521211 "Group Research"

Federal Award Agency: National Science Foundation
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
Da Vinci Engineering Ambassadors in Classrooms (CFDA # 47.076)
Grant # DGE-0139307
Account # 523040, "Engineering Ambassadors"

Federal Award Agency: Department of Education
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
The National Research Center on the Gifted and Talented (CFDA # 84.206)
Grant # R206R000001
Account # 522860 "Research Center"

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: The sample for our test of matching was drawn from the population of Federal Research and Development expenditures of $54,336,686 and consisted of 15 grants with expenditures totaling $8,124,361. Based upon our analysis of the University's grant files 4 of the 15 grants tested required a University match. We calculated the required match for these 4 grants as $650,077. We found that for 3 of these 4 grants, required match totaling $612,546, was not verifiable in accordance with Federal requirements. The details are described in the following:

- For the National Science Foundation grant entitled "Group Research on

Ultracold Science and Spectroscopy" (CFDA# 47.049), we noted amounts claimed as match, totaling $55,996, relating to personal services that were not supported by signed time and effort reports.

- For the National Science Foundation grant entitled "Da Vinci Engineering Ambassadors in Classrooms" (CFDA # 47.076), we noted amounts claimed as match, totaling $30,000, relating to personal services that were not supported by signed time and effort reports.

- For the Department of Education grant entitled "The National Research Center on the Gifted and Talented" (CFDA#84.206), we noted amounts claimed as match, totaling $526,550, relating to personal services that were not supported by signed time and effort reports.

Effect: The amounts claimed as match 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 match.

Recommendation: The University of Connecticut should develop procedures for obtaining time and effort reports that address the current inadequacies for certain amounts claimed as match.

Agency Response: "We agree with this finding. The current procedures are under review. Changes will be implemented to ensure that all charges for cost shared time and effort will be recorded in separate match accounts and verified by the effort certification process. Certification of the three questioned costs should be completed by February 29, 2004.

An additional person will be hired in OSP [Office of Sponsored Programs] to manage the time and effort certification and perform quality assessment throughout the year. This position is expected to be filled by the summer 2004."

III.G.2. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: United States Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:

Cooperative State Research, Education and Extension Service:
Cooperative Extension Service (CFDA 10.500)
Grant #3(D) EFNEP
Account #528032 "Youth – Professional"

Federal Award Agency: United States Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
Cooperative State Research, Education and Extension Service:
Cooperative Extension Service (CFDA 10.500)
Grant #3 (D) EFNEP
Account #528033 "Expanded Food & Nutritional Program for Adult - Professional – Storrs"

Federal Award Agency: United States Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
State Administrative Matching Grants for Food Stamp Program (CFDA 10.561)
Grant #03-UCN-FSP-02
Account #528130 "UConn Family Nutrition Program: Children with Special Needs"

Criteria: Time and effort reporting is mandated by the Office of Management and Budget (OMB) Circular A-21, which 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.

Condition: Our review covered charges for 40 employees, totaling $79,013, drawn from a population of $21,425,964, whose salaries were charged to Federal Research and Development Grants. We found three instances in which charges for salaries and associated fringe benefits totaling $967 were not supported by time and effort reports. Further, the charges to Federal Research and Development grants for the entire period covered by these missing time and effort reports was $11,061.

Effect: Certain charges to Federal awards were not adequately supported.

Cause: Employees responsible for signing and returning time and effort reports have not assigned the task a high priority.

Recommendation: The University of Connecticut should emphasize the importance of a timely response to any request to complete a time and effort report.

Agency Response: "We agree with this finding. As of January 20, 2004, all reports selected for testing had been received in the Office for Sponsored Programs. Staffing issues at the University have contributed to the delay in requesting and receiving effort reports. As indicated above [in the preceding finding], an individual will be hired in OSP to manage the effort certification process. This individual will be responsible for sending and receiving effort reports and will follow up on all outstanding requests and perform quality assessments. This position is expected to be filled by summer 2004."

III.G.3. 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, 2003
Research and Development Programs:

Criteria: The Office of Management and Budget (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 January 7, 2004, over 30 percent of the time and effort reports prepared for the fiscal year ending June 30, 2003, 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 of Connecticut should assess whether the current time and effort reporting system will be adequate to meet Federal requirements.

Agency Response: "We agree with this finding. The Office of Sponsored Programs is continuing follow up requests for outstanding reports with the University departments and continues to receive certifications daily. As of January 21, 2004 the University's Office for Sponsored Programs has received 83% of the time and effort reports prepared for the fiscal year 2003. The addition of new personnel will enable OSP to follow up on requests to ensure that reports will be received on time.

OSP is involved in an outgoing review of systems at other institutions, but these systems will need significant modifications to meet the University's needs. An improvement in process should be in place by the summer of 2004."

III.G.4. Allowable Costs/Cost Principles – Procurement Procedures (Non Major Program) (University of Connecticut)

Federal Award Agency: Department of Energy
Award Year: State Fiscal Year Ended June 30, 2003
Office of Science-Financial Assistance Program (CFDA#81.049)
Grant# DE-FG02-92CH10501
Account #520302 "Design and Construction of the Advance Technologies Institute Building"

Criteria: Office of Management and Budget (OMB) Circular A-110, Section 43, provides that procurement transactions shall be conducted in a manner to provide open and free competition. It provides that awards shall be made to the bidder or offeror whose bid or offer is most advantageous to the recipient when considering price, among other factors. OMB Circular A-110, Section 44c, as well as Code of Federal Regulations 10CFR 600.144, prohibit cost-plus-a-percentage-of-cost methods of contracting. Such methods establish a project cost after selection of a contractor. Price is not a factor in the selection of a contractor.

Condition: The University used $1,175,960 and $6,594,201 in Federal funds during State fiscal years 2003 and 2002, respectively, for the construction of an Advanced Technologies Institute Building (also called Agriculture Biotech II building). The applicable contractual arrangement, called Construction Manager at Risk with a Guaranteed Maximum Price by University officials, had the attributes of a cost-plus-a-percentage-of-cost arrangement. A contractor was selected to provide advisory services during the preconstruction phase and to build the project. A price was not determined until after the selection. Price was not included as a factor in the proposal process.

Effect The University has failed to comply with Circular A-110 and Department of Energy regulations pertaining to procurement methods.

Cause: The University administration believes the method of procurement used to construct the Advance Technologies Institute is acceptable.

Recommendation: The University of Connecticut should comply with Federal procurement regulations.

Agency Response: "We do not agree with this finding. We believe the University is in compliance with the applicable Federal requirements. While OMB Circular A-110 prohibits 'cost plus a percentage of cost', the Federal government does not consider Construction Manager At Risk to be a cost plus contract. Federal Acquisition Regulation Subpart 16.201 states: 'Fixed priced types of contracts provide for a firm price, or, in appropriate cases, an adjustable price. Fixed price contracts providing for an adjustable price may include a ceiling price, a target price (including target cost) or both. Unless otherwise specified in the contract, the ceiling price, or target price is subject to adjustment only by operation of contract clauses providing for equitable adjustment or other revision of the contract under stated circumstances.'

The form of contract used in the Ag–Biotech II contract follows these guidelines in the providing for adjustments and therefore complies with applicable federal regulations. Moreover, the University's contract in this instance, a Guaranteed Maximum Price (GMP) is precisely the form of contract which 'places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss,' as specified in Subpart 16.202-1. A copy of the FAR is attached.

Progress reports were made to the US Department of Energy throughout the project. We have attached as examples two reports that state clearly the form of the contract is a Guaranteed Maximum Price. DOE has not taken exception to this form of delivery."

Auditors' Concluding Comments:

Clearly the University's application of the Construction Manager at Risk technique, having not established a price prior to selection of the contractor, is a cost-plus agreement and not a fixed price or lump sum arrangement. For this reason, such an arrangement restricts competition and is prohibited by OMB circular A-110.

Further, the University's cite of the Federal Acquisition Regulations is inappropriate since the University is required to follow the cost principles established by OMB Circular A-21.

III.G.5. Allowable Costs/Cost Principles – Time and Effort Reporting (University

of Connecticut Health Center)

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2003
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 certified by 38 researchers covering payments to individuals charged in whole or part to Federal Research and Development Programs. We found that the integrity of the certifications made by four researchers had been compromised, as their passwords had been disclosed to others.

Similar problems were noted in our prior reviews and in each case the Health Center took corrective action. However, 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.

Effect: The condition described above lessens the reliability of the documentation produced by the time and effort reporting system.

Cause: Efforts to educate staff members as to the importance of maintaining the integrity of electronic signatures have not been completely successful.

Recommendation: The University of Connecticut 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: "The Health Center will continue efforts to educate faculty (and staff) concerning the security of their passwords when accessing the Time & Effort website."

III.G.6. Allowable Costs/Cost Principles – Fringe Benefits (University of Connecticut Health Center)

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs

Criteria: OMB Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

Condition: When we reviewed fringe benefit assessments charged to Federal accounts, we noted overcharges of $21,264 related to payments for accrued compensated absences at termination. The overcharges involved relatively small amounts charged to a number of awards during the fiscal years ended June 30, 2001, 2002 and 2003.

Effect: A number of Federal awards were overcharged by relatively small amounts.

Cause: One overcharge appeared to have resulted from a clerical error. The others were due to a programming problem (i.e., the routine that determined what rate to use based on object coding was not working correctly).

Recommendation: The University of Connecticut Health Center should make correcting entries to remove the excess charges.

Agency Response: "The Health Center is reviewing this matter and will make the correcting entries to adjust the charges."

III.G.7. Davis-Bacon Act (University of Connecticut Health Center)

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
Health Care and Other Facilities (CFDA 93.887):
Account # 022679 – "Health Care Facilities and Other Construction" – 4 C76 HF00185-01-02 from the Health Resources and Services Administration, project period September 30, 2001 through August 31, 2003
Federal Award Agency: National Aeronautics and Space Administration
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs:
Research Grant Award (CFDA N/A):
Account # 022703 – "Development of a Laboratory for Improving Communication Between Air Traffic Controllers and Pilots" – NAG 2-1544 from

the Ames Research Center, project period April 1, 2002 through September 30, 2003

Criteria: Under the Davis-Bacon Act, employees of contractors or subcontractors working on Federally funded construction contracts in excess of $2,000 must be paid wages not less than those established for the locality of the project (prevailing wage rates). To further this objective, contractors must (29 CFR Section 5.5) submit copies of their payrolls, together with a statement of compliance (certified payrolls), to the awarding agency.

Condition: The Health Center did not have a formal review and signoff procedure for submitted certified payrolls.

Effect: The lack of formal documentation lessens the assurance that the certified payrolls have been adequately reviewed.

Cause: We were told that certified payrolls were generally reviewed, but it appears that procedures for documenting that review had never been developed.

Recommendation: The University of Connecticut Health Center should require signoff on certified payrolls to document that they have been reviewed.

Agency Response: "The Director of Campus Planning & Construction or his designee will develop procedures for the review and sign off on all payrolls of contractors and subcontractors working on Federally funded construction contracts at the Health Center."

III.G.8. Subrecipient Monitoring (University of Connecticut Health Center)

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2003
Research and Development Programs

Criteria: As stated in the OMB Circular A-133 Compliance Supplement, a pass-through entity is responsible for ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition: In order to track compliance, the Health Center creates a list of subrecipients by extracting data from a contract preparation system. We created a similar list by analyzing payments to subrecipients as recorded in the Health

Center's accounting system. We found that 10 of the 37 subrecipients on our list were not on the Health Center's list. Five had been omitted because only a small portion of the contract period fell in the current fiscal year, three were omitted because they were funded from pass-through accounts, and two were accidentally omitted.

Effect: The Health Center's system for monitoring subrecipient compliance with audit and audit related requirements did not cover all subrecipients.

Cause: Health Center personnel decided to omit contracts for periods that fell mostly outside the current fiscal year because they felt that current year activity would not be material. However, end-of-period activity, which could involve subrecipient closeout procedures, might actually have a higher likelihood of resulting in audit findings.

The others appear to have been overlooked because the contract preparation system was not designed with this requirement in mind; it is difficult to identify all subrecipients using the system. For example, the system does not identify contracts funded from pass-through accounts as Federally funded.

Recommendation: The University of Connecticut Health Center should improve its system for identifying subrecipients subject to Federal audit requirements.

Agency Response: "The Health Center will update and improve its system for identifying subrecipients."

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, 2003:

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 Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2002-2003

Criteria: Controls established in Banner, the Central Connecticut State University's information system, and/or procedures performed by University staff should ensure compliance with Federal regulations related to awarding and disbursing Title IV funds.

Condition: From a sample of 40 students who received various forms of Title IV funds at Central Connecticut State University (CSU), we noted weaknesses in the following areas:

Satisfactory Academic Progress (SAP)
The University relied on automated procedures established in the Banner system to evaluate student eligibility related to satisfactory academic progress. This process required an evaluation of the various criteria related to SAP. We found that the criteria used did not include all information that should be considered in making that determination. Banner did not include transfer credits in making a determination of SAP. In addition, the automated process may not accurately reflect a student's SAP status when that student repeats a course in a subsequent award year. We noted that the Banner system did not identify one student who had not met the quantitative requirements of satisfactory academic progress.

In our testing, we noted Title IV disbursements to one student who had not met SAP requirements. This student received a Pell Grant in the amount of $3,500, which we are treating as questioned costs.

We also noted one student who was identified in Banner as having met SAP requirements, when he should have been identified as being on academic probation. We consider this to be an internal control weakness.

Incorrect Direct Loans
We noted that automated procedures in Banner, in conjunction with manual procedures established by the Financial Aid Office, resulted in the following:

- Eligibility for student loans is partially dependent on the student's class rank (Freshman, etc.) as defined by the University. An automated procedure in the Banner system made this determination based on student-reported data, which may not be accurate, rather than on information in the Registrar's records.

- Students in a teaching certificate program are awarded financial aid as undergraduates for Federal purposes, while they are reflected in the Banner system as graduate students. We noted that one student received a Direct Loan overaward of $4,521 on this basis, which we are treating as questioned costs.

- There is no established procedure to review the awards of students who cancelled Federal Work-Study awards at the beginning of the award year. This could affect subsequent Direct Loan awards.

<u>Inaccurate Student Budgets</u>
We noted that the Banner process used to record insurance waivers required the Financial Aid Office to adjust student budgets accordingly in order to reflect an accurate costs of attendance figure for awarding students. The process developed by the Financial Aid Office was not applied consistently, resulting in the incorrect distribution of awards between subsidized and unsubsidized Direct Loans for two students and incorrect budgets for nine students.

<u>Pell Grant Underaward</u>
We noted that one student did not receive a Pell Grant in the amount of $1,750 to which she was entitled. The calculation and awarding of Pell Grants is an automated process in Banner. The Financial Aid Office believes the cause was an omission of certain manual steps followed in the dataload process.

Effect: One student received a Pell Grant overaward totaling $3,500, while one student did not receive a Pell Grant for $1,750 to which she was entitled. One student received a Direct Loan overaward totaling $4,521. From this sample, we are treating $1,750 in charges to the Pell Grant program and $4,521 in Direct Loan awards as questioned costs. The total costs charged to the Pell Grant program in our sample were $40,988, while total Direct Loan awards in the sample were $174,398. Total expenditures of the Pell Grant program at Central CSU during the 2002-2003 award year were $4,167,828; total Direct Loan awards at Central CSU during the award year were $19,156,119.

Cause: Automated processes in the University's information system and manual procedures performed by the Financial Aid Office did not sufficiently ensure compliance with various Federal student eligibility requirements.

Recommendation: Central Connecticut State University should improve internal controls over processing under the Banner system, as well as over certain manual procedures followed by the Financial Aid Office to ensure compliance with Federal student eligibility requirements.

Agency Response: "We agree with this finding."

III.H.2. Special Tests - Verification

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
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 Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2002-2003

Criteria: Central Connecticut State University (CSU) participates in the Quality Assurance Program, which allows the Financial Aid Office to implement a system to verify financial aid application data that fits the student population. The Financial Aid Office verifies student and parental income and household data by comparing financial data found on signed tax returns (if available) with that on the Institutional Student Information Record (ISIR) and household data found on the verification worksheet with that found on the ISIR.

Condition: Using a sample of ten students that were selected for verification, we noted that the required verification for one student was not performed. We also noted that conflicting information relating to the marital status of one student was not resolved. As a result, this student's expected family contribution was calculated treating the student's status as independent, although reliable evidence indicated that the student's actual status was dependent. This student received a Pell Grant of $3,150 for which he was ineligible.

Effect: The University was not in compliance with Federal regulations relating to verification. We are treating $3,150 in Pell Grant charges as questioned costs. Total Pell Grant expenditures in our sample were $22,975, while total expenditures of the Pell Grant program at Central CSU were $4,167,828.

Cause: The University's internal control system was not sufficient to ensure verification of student information for students selected by the Financial Aid Office.

Recommendation: Internal controls at Central Connecticut State University should be improved to ensure compliance with regulations related to verification.

Agency Response: "We agree with this finding."

III.H.3. Special Tests - Disbursements to Students – Credit Balances

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: 2002-2003

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 16 Title IV recipients at the University of Connecticut (UConn) who had credit balances in their student accounts, eight recipients did not receive payment of these credit balances within the required timeframes. Credit balances between $12 and $1,925 were paid to students between one week and two-and-a-half-months later than required. We also noted six students whose credit balances were applied to subsequent charges rather than being paid to the students. In each case, the University hadn't obtained written authorization from these students to retain the credit balance in each student's account.

Effect: The University is not in compliance with either the required timeframe for paying students the credit balance in their student accounts or the requirement that written authorization must be obtained in order to hold Title IV funds that would otherwise be paid to the student.

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 within the required timeframes.

Recommendation: University of Connecticut should pay credit balances resulting from Title IV program funds directly to the student or student's parents within the required timeframes, and should not hold credit balances without written authorization from the student or parent.

Agency Response: "We agree with this finding."

III.H.4. Special Tests - Return of Title IV Funds

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2002-2003

Criteria: Per 34 CFR 668.22(c), the withdrawal date used to calculate the return of Title IV funds is the date that the student provided official notification, orally or in writing, to the institution of his or her intent to withdraw.

Condition: From a sample of ten students who withdrew from Central Connecticut State University (CSU), we found the following:

- For one student, the withdrawal date recorded by the University was different than the date the student notified the University of his intent to withdraw. The return of funds calculation was based on the incorrect date.

- For two students, the status date recorded in the student module in Banner, which should reflect the effective date of the student's withdrawal, was not correct. In these two instances, the return of funds calculations were performed correctly, despite the incorrect withdrawal date.

Effect: The University was not in compliance with regulations related to the return of Title IV funds.

Cause: The University is not in compliance with 34 CFR 668.22(c).

Recommendation: Central Connecticut State University should improve internal control related to the return of Title IV funds.

Agency Response: "We agree with this finding."

III.H.5. Special Tests - Student Loan Repayments

Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Award Agency: Department of Education
Award Year: 2002-2003

Criteria: Per 34 CFR 674.31(b), repayment begins nine months after the borrower ceases to be at least a half-time regular student.

Condition: At the University of Connecticut (UConn), we selected 25 students for testing purposes. We noted the following:

- Six instances in which the separation date reported to the Perkins Loans servicer was earlier than the student's actual separation date in periods between one month and one year.

- Three instances in which the separation date reported to the servicer was later than the student's actual separation date in periods between one month and three months.

- Five instances (excluding the three noted above) in which the change in the student's enrollment status was not reported to the servicer in a timely manner. Delays ranged from one month to four months.

At Central Connecticut State University (CSU), the Financial Aid Office notifies the Perkins Loan Office when a student graduates, withdraws to less than half-time status, or is academically dismissed from the University. Our review revealed that this notification was not consistently provided to the Perkins Loan Office.

Effect: These Universities were not in compliance with Federal due diligence requirements.

Cause: Controls in place were not sufficient to prevent these conditions from occurring.

Recommendation: These universities should ensure that information relating to the enrollment status of borrowers is provided in a consistent manner to the offices responsible for billing and collection of loans.

Agency Response: *UConn:* "We agree with this finding."

Central CSU: "We agree with this finding."

III.H.6. Special Tests - Borrower Data Transmission and Reconciliation

Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2002-2003

Criteria: The Direct Loan Technical Reference Manual requires the University to prepare a monthly reconciliation between institutional records and US Department of Education records.

Condition: In our review of Direct Loan Transmission and Reconciliation at Central Connecticut State University, we noted that monthly reconciliations were not prepared.

Effect: The University is not in compliance with Federal requirements.

Cause: New procedures for transmitting electronic Direct Loan School Account Statements went into effect during the audited period.

Recommendation: Central Connecticut State University should download and reconcile Direct Loan School Account Statements on a periodic basis.

Agency Response: "We agree with this finding."

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, 2003
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 UMTA 9100.1B, *"Standard Assurances for Urban Mass Transportation Administration (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.

Under the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000, that are financed by Federal assistance funds, must be paid wages no less than those established for the locality of the project by the Department of Labor.

The 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. Metro-North is bound by the agreement language to monitor the compliance of their subcontractors with Davis-Bacon Act provisions.

It is the responsibility of the Department to inform to contractors working on qualifying construction projects of the requirement to pay wages in accordance with the Davis-Bacon Act. The Department is also required to monitor for compliance with the Act.

Condition: Metro-North has been awarded many construction contracts and in turn hires subcontractors for projects relating to the Department's rail operations. The Department's construction agreements with Metro-North contain language, which require both Metro-North and its subcontractors to comply with the requirements of the Davis-Bacon Act. Our Federal Single Audits since the State fiscal year ended June 30, 1998, have cited the Department for failure to monitor compliance with the Davis-Bacon Act for Metro-North or Metro-North's subcontractors.

Our current audit, for the fiscal year ended June 30, 2003, disclosed that the Department has still not implemented corrective action. The Department has not established a plan to periodically inspect the records of Metro-North to ensure that it, and its subcontractors, are in compliance with the Davis-Bacon Act.

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 is systemic to all Federally participating payments to Metro-North Railroad for labor costs.

Cause: In its response to our finding in the previous audit, the Department stated that it agreed with the finding and that the Department will seek clarification from the Federal Transit Administration on the appropriate application of Davis-Bacon Act requirements. According to the Office of Rails Unit, they have made an attempt at implementing the compliance procedures; however, Metro-North does not think that it should be classified as a contractor and thus does not have to comply.

Recommendation: The Department should put in place monitoring controls to provide reasonable assurance that prevailing wage rates are paid on rail construction projects covered by the Davis-Bacon Act.

Agency Response: “The Department has continued discussions with the Federal Transit Administration (FTA) and Metro-North regarding application of the Davis-Bacon provisions and monitoring of Metro-North employees on Department projects. We have formalized our request for clarification in a letter to FTA dated November 12, 2003.

The Department continues to seek resolution of this matter and anticipates clarification from FTA by January 15, 2004."

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, 1994, 1995 and 2001
Federal Award Numbers: CT26C93-1109, CT26C94-0059, CT26C94-0060, CT26C95-0039, CT26C10-4004, CT26C10-4005, CT26C10-6005

Criteria: Matching requirements under Section 582.110 of the Code of Federal Regulations require that supportive services for the 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: An automated system was used to account for program match by tracking the value of services provided to program participants. Matching transactions were entered into the automated system based on periodic reports received from participating providers. Our review disclosed the following weaknesses concerning the program match.

A test check of 30 matching transactions for three grants disclosed the following:

- Six out of ten transactions for Norwalk contract CT26C10-6005 could not be substantiated.
- Five out of ten transactions for Middletown contract CT26C10-4004 could not be substantiated.
- Seven out of ten transactions for Middletown contract CT26C10-4005 could not be substantiated.

Based on Annual Progress Reports, matching requirements were not met for two grant contracts, as follows:

- Match of $146,876 was reported for Norwalk contract CT26C93-1109 at May 31, 2003, when rental assistance payments amounted to $1,982,254.
- Match of $705,374 was reported for Stamford contract CT26C94-0060 at October 31, 2002, when rental assistance payments amounted to $1,812,921.

Effect: Support Services could not be substantiated for 18 out of 30 transactions tested. Minimum Federal matching requirements for two grant contracts were not met by a total of $2,942,925.

Cause: Match amounts on the automated system were either not supported by provider reports or reports could not be located. Reasons for not meeting match requirements for the two contracts are uncertain.

Recommendation - The Department of Mental Health and Addiction Services should ensure that matching for the 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.

In order to substantiate the six unsubstantiated transactions for Norwalk contract CT26C10-6005 a review of the reporting system records, kept at the DMHAS Central Office, will be conducted and completed by April 15, 2004.

The Southwest Connecticut Mental Health System will update and revise its tracking, reporting and filing system. This will entail creating tracking logs to identify the service providers, names of participants served and other relevant clinical information.

A filing system will be developed to minimize the risk of losing or misplacing supportive documentation (i.e. service logs.) The filing system will be coded to identify different geographical areas as well as program components. Files will be alphabetically listed by provider and divided by month and year.

These steps should strengthen the matching and accounting requirements for the Shelter Plus Care Program. The anticipated date of completion for the above items is May 31, 2004."