# State of Connecticut
# Single Audit Report

For The Year Ended June 30, 2004

Auditors of Public Accounts
Hartford, Connecticut

# STATE OF CONNECTICUT

# Single Audit Report

## For the Year Ended June 30, 2004

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# Letter of Transmittal

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

December 30, 2005

Governor M. Jodi Rell
Members of the General Assembly

We have conducted the Statewide Single Audit of the State of Connecticut for the fiscal year ended June 30, 2004.

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 $5,500,000,000 in Federal financial assistance during the fiscal year ended June 30, 2004. 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 one area that we believe to be of particular significance. This report is being released nine months later than the March 31, 2005, deadline required by the Federal Single Audit Act. The Secretary of the Office of Policy and Management had to request two extensions from the Federal government to that deadline. The reason that the deadline could not be met was that the State did not complete its 2004 financial statements, which would normally have been completed by December 2004, until December 2005. This failure to provide timely financial reporting has also affected the State's ability to comply with the continuing disclosure requirements of the Securities and Exchange Commission with regard to the State's debt issuances, has prevented the State from promptly claiming and receiving payment of over $100,000,000 in Federal reimbursements at the Department of Transportation, and has resulted in noncompliance with the State's own statutes regarding financial reporting.

In requesting the extension to the Federal Single Audit Act reporting deadline, the Secretary reported that the delay was caused by issues surrounding the implementation of a new electronic financial management and human resource system, referred to as the Core-CT system. In our present audit report we noted weaknesses in internal control related to the Core-CT system that are detailed in Section II of the Schedule of Findings and Questioned Costs.

We also 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, 2004.

Respectfully submitted,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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State of Connecticut
Financial Statements

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

# INDEPENDENT AUDITORS' REPORT

Governor M. Jodi Rell
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, 2004, 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 opinions on these financial statements based on our audit. We did not audit:

Government-wide Financial Statements

- the financial statements of the Special Transportation Fund account within the Transportation Fund and the Transportation Special Tax Obligations account within the Debt Service Fund, and the Clean Energy account within the Environmental Programs 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, Bradley International Airport Parking Facility, 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;

Fund Financial Statements

- 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 Clean Energy Fund account, which represents 25 percent of the assets and 36 percent of the revenues of the Environmental Programs 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, Bradley International Airport Parking Facility, 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 of 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, 2004, 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.

As discussed in Note 21 of the financial statements, the State of Connecticut adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*. This standard modifies the criteria for defining component units of a governmental entity. As a result of the implementation of this standard, the University of Connecticut Foundation, Inc. has been added as a component unit.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages B-5 through B-16 and budgetary comparison information on pages B-28 and B-29, are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 30, 2005
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 $5.4 billion less than liabilities, a deterioration in financial position of $0.2 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $3.7 billion, which are by and large unchanged from that of the prior year. In terms of the total, net assets declined from negative $1.6 billion to a negative $1.8 billion, a decrease in total net assets of $0.2 billion.

As noted above, the governmental portion of state liabilities exceeded state governmental assets by $5.4 billion as of June 30, 2004. Of this amount, the unrestricted net asset portion was a negative $10.4 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, 2004 that related to municipal school construction, and other operating grants and loans totaled $3.1 billion. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of $4.1 billion, with no offsetting assets, further contributed to the state's negative net assets.

**Fund Level:**
Total Governmental fund assets exceeded liabilities resulting in a fund balance of $1.9 billion, all of which was reserved leaving a net unreserved fund balance of just under zero. The portion of unreserved undesignated fund balance that pertains to the General Fund was a negative $0.9 billion at June 30, 2004.

Total Enterprise Fund assets exceeded liabilities resulting in net assets of $3.7 billion, substantially all of which was restricted or invested in capital assets.

**Debt Issued and Outstanding:**
Long-term bonded debt of governmental activities totaled $12.9 billion (see Note 16). In addition, $0.3 billion in Economic Recovery Notes was outstanding on June 30, 2004. Other long-term liabilities totaled $4.2 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 of the Notes to Financial Statement section.

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.

**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.

<u>General Fund</u>. 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.

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

<u>Debt Service Fund.</u> The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, Special Tax obligation 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 distinguishes 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 a 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 Health and Educational Facilities Authority. Classified as a major component unit, CHEFA's purpose is to provide resources for financing major projects for health and educational institutions.

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 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.

University of Connecticut Foundation, Inc. The foundation's purpose is to solicit, receive, and administer gifts and financial resources from private sources for the benefit of the University of Connecticut.

## 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 $0.2 billion over the course of Fiscal Year 2004 operations. The net assets of governmental activities decreased by the same $0.2 billion, while net assets from business-type activities remained by and large unchanged from the prior year.

**State Of Connecticut's Net Assets**
**(in Millions)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **ASSETS:** | | | | | | |
| Current and Other Assets | $ 3,902.0 | $ 3,142.0 | $ 3,575.4 | $ 3,515.9 | $ 7,477.4 | $ 6,657.9 |
| Capital Assets | 9,618.8 | 9,531.9 | 2,857.0 | 2,621.5 | 12,475.8 | 12,153.4 |
| ***Total Assets*** | 13,520.8 | 12,673.9 | 6,432.4 | 6,137.4 | 19,953.2 | 18,811.3 |
| **LIABILITES:** | | | | | | |
| Current Liabilities | 2,914.2 | 2,345.6 | 606.9 | 549.8 | 3,521.1 | 2,895.4 |
| Long-term Liabilities | 16,046.9 | 15,638.3 | 2,165.6 | 1,964.3 | 18,212.5 | 17,602.6 |
| ***Total Liabilities*** | 18,961.1 | 17,983.9 | 2,772.5 | 2,514.1 | 21,733.6 | 20,498.0 |
| **NET ASSETS:** | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 3,264.1 | 2,622.4 | 2,209.5 | 2,093.9 | 5,473.6 | 4,716.3 |
| Restricted | 1,686.1 | 1,245.3 | 1,409.9 | 1,402.1 | 3,096.0 | 2,647.4 |
| Unrestricted | (10,390.5) | (9,177.7) | 40.5 | 127.3 | (10,350.0) | (9,050.4) |
| ***Total Net Assets*** | $ (5,440.3) | $ (5,310.0) | $ 3,659.9 | $ 3,623.3 | $ (1,780.4) | $ (1,686.7) |

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 2004.

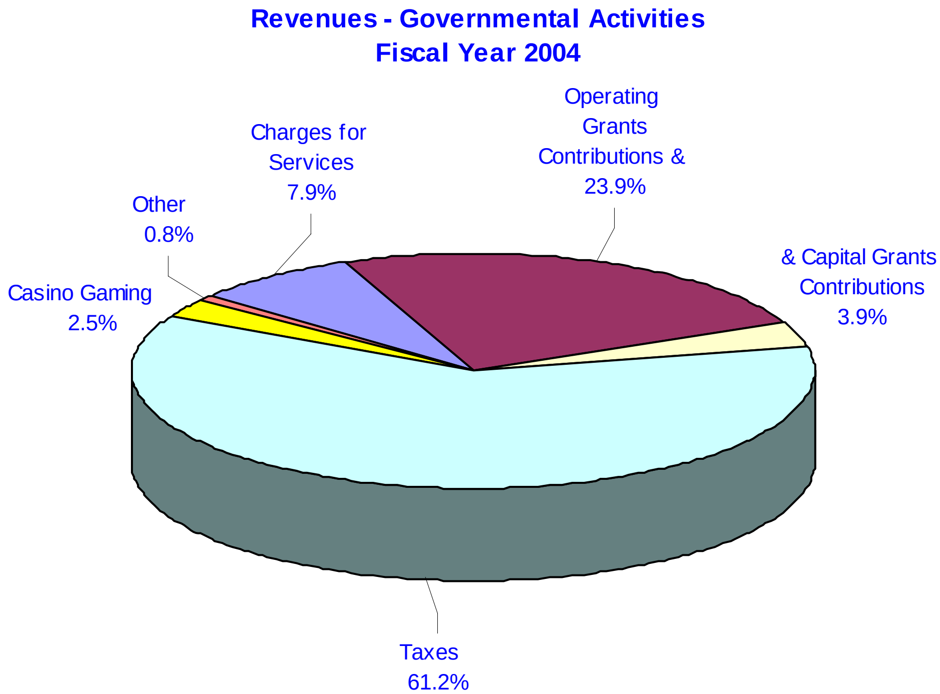
## State of Connecticut's Changes in Net Assets
## (Expressed in Millions)

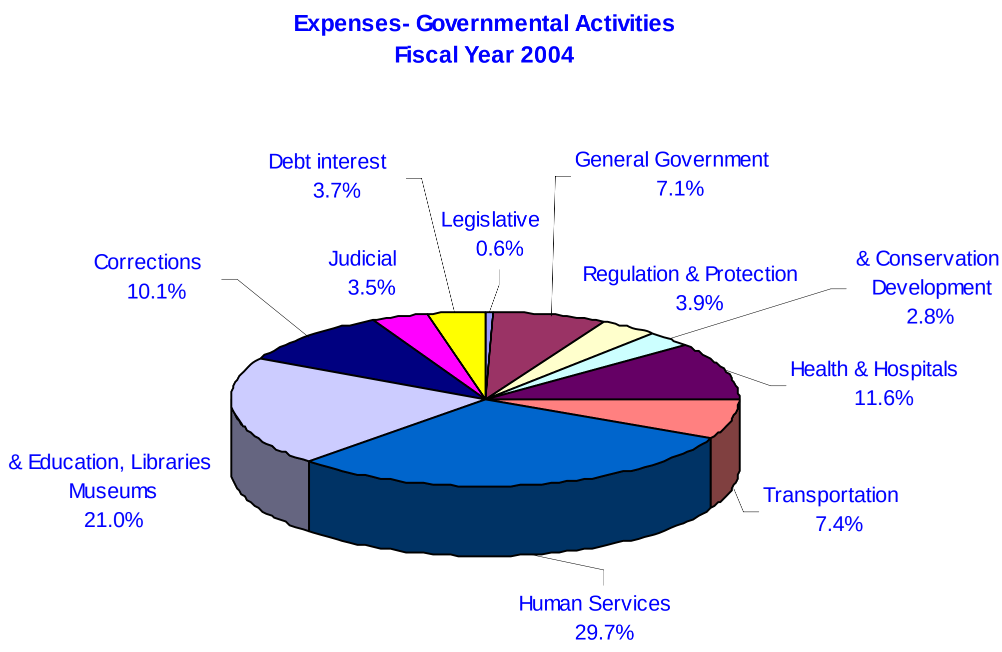
| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **REVENUES** | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | 1,253.7 | 1,072.9 | $ 2,936.0 | $ 2,594.8 | $ 4,189.7 | $ 3,667.7 |
| Operating Grants and Contributions | 3,850.1 | 3,489.2 | 227.7 | 456.2 | 4,077.8 | 3,945.5 |
| Capital Grants and Contributions | 543.8 | 562.6 | 9.3 | 10.2 | 553.1 | 572.8 |
| General Revenues | | | | | | |
| Taxes | 9,741.8 | 8,644.7 | - | - | 9,741.8 | 8,644.7 |
| Casino Gaming Payments | 402.7 | 387.3 | - | - | 402.7 | 387.3 |
| Other | 134.9 | 435.8 | 90.5 | 111.3 | 225.4 | 547.1 |
| ***Total Revenues*** | 15,927.0 | 14,592.5 | 3,263.5 | 3,172.5 | 19,190.5 | 17,765.1 |
| **EXPENSES** | | | | | | |
| Legislative | 89.5 | 80.2 | - | - | 89.5 | 80.2 |
| General Government | 1,100.7 | 1,145.6 | - | - | 1,100.7 | 1,145.6 |
| Regulation and Protection | 590.4 | 574.7 | - | - | 590.4 | 574.7 |
| Conservation and Development | 448.0 | 410.2 | - | - | 448.0 | 410.2 |
| Health and Hospitals | 1,683.4 | 1,711.1 | - | - | 1,683.4 | 1,711.1 |
| Transportation | 1,153.9 | 941.3 | - | - | 1,153.9 | 941.3 |
| Human Services | 4,630.2 | 4,138.9 | - | - | 4,630.2 | 4,138.9 |
| Education, Libraries and Museums | 3,174.3 | 3,090.6 | - | - | 3,174.3 | 3,090.6 |
| Corrections | 1,579.0 | 1,450.4 | - | - | 1,579.0 | 1,450.4 |
| Judicial | 546.2 | 555.8 | - | - | 546.2 | 555.8 |
| Interest and Fiscal Charges | 577.4 | 595.9 | - | - | 577.4 | 595.9 |
| University of Connecticut | - | - | 1,254.4 | 1,187.7 | 1,254.4 | 1,187.7 |
| State Universities | - | - | 469.7 | 463.3 | 469.7 | 463.3 |
| Bradley International Airport | - | - | 59.3 | 54.3 | 59.3 | 54.3 |
| CT Lottery Corporation | - | - | 656.7 | 643.2 | 656.7 | 643.2 |
| Employment Security | - | - | 811.5 | 963.2 | 811.5 | 963.2 |
| Clean Water | - | - | 24.8 | 29.4 | 24.8 | 29.4 |
| Other | - | - | 361.4 | 364.6 | 361.4 | 364.6 |
| ***Total Expenses*** | 15,573.0 | 14,694.7 | 3,637.8 | 3,705.8 | 19,210.8 | 18,400.5 |
| Excess (Deficiency) Before Transfers, Special and Extraordinary Items | 354.0 | (102.2) | (374.3) | (533.3) | (20.3) | (635.5) |
| Transfers | (417.1) | (640.2) | 417.1 | 640.3 | - | 0.1 |
| Special and Extraordinary Items | (157.2) | - | (6.2) | (6.5) | (163.4) | (6.5) |
| ***Increase (Decrease) in Net Assets*** | (220.3) | (742.4) | 36.6 | 100.5 | (183.7) | (641.9) |
| Net Assets (Deficit) - Beginning (Restated) | (5,220.0) | (4,567.6) | 3,623.3 | 3,522.8 | (1,596.7) | (1,044.8) |
| ***Net Assets (Deficit) - Ending*** | (5,440.3) | (5,310.0) | $ 3,659.9 | $ 3,623.3 | (1,780.4) | $ (1,686.7) |

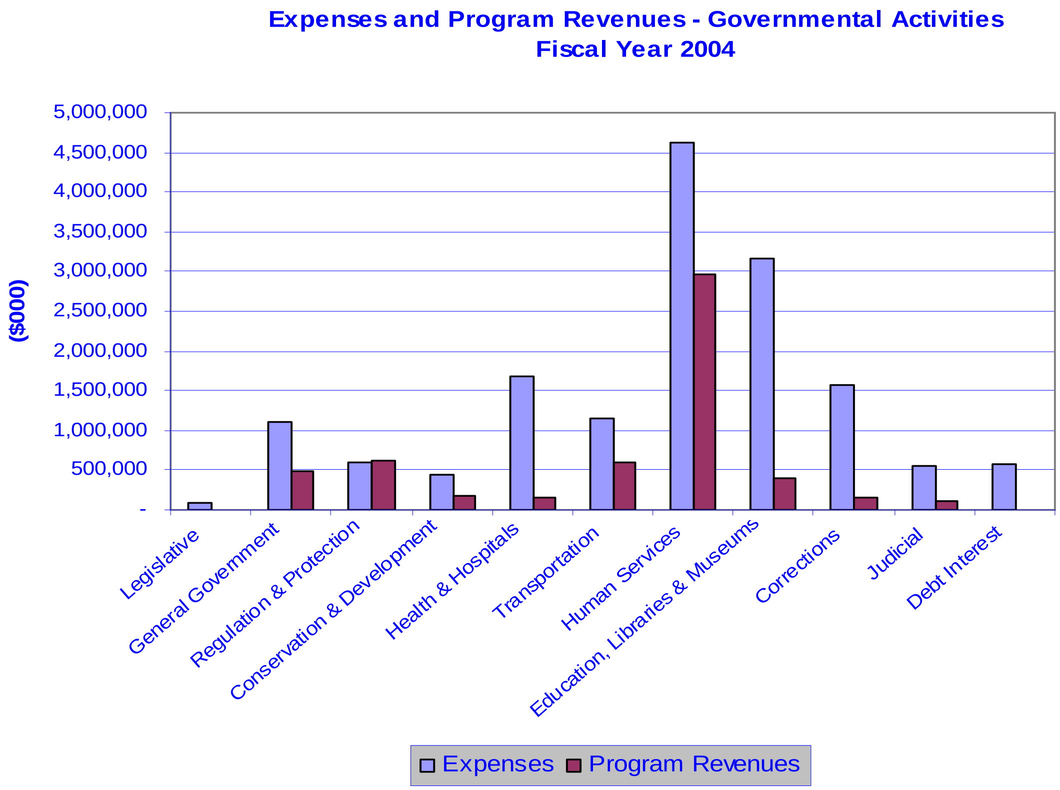
*Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are activities that are both unusual in nature and infrequent in occurrence.*

## GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2004.






Within governmental activities, Fiscal Year 2004 program expenses were $9.9 billion higher than program revenues. However, this excess of expenses over related program revenue was offset by general revenue in the amount of $9.7 billion, resulting in a decrease in net assets of $0.2 billion for the year. Had a transfer of loans to component units of $0.2 billion (a Special Item) not occurred, there would have been almost no change in net assets for the year.

During the fiscal year 2004, budget projections indicated that budgeted revenues would exceed the budgeted level of expenditures (on a modified cash basis of accounting) producing an operating surplus in the General Fund. As a result, legislation was enacted (Public Act 04-216) to restore funding for various program activities that had been cut as part of the state's Fiscal Year 2003 deficit mitigation efforts. The restored funding totaled $112.4 million in Fiscal Year 2004. In addition, $150.3 million of the Fiscal Year 2004 General Fund operating surplus was reserved to support Fiscal Year 2005 anticipated spending requirements.

Business-Type activities achieved a near breakeven on operations for fiscal year 2004. Expenses of the Higher Education institutions, which include the University of Connecticut, the State University System and Connecticut Community Colleges, accounted for 61.7 percent of business-type expenses and 44.2 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 2004 with a fund balance of $2.0 billion in its governmental funds. The unreserved portion of fund balance, totaling a deficit of $47.0 million, is net of a $0.9 billion short fall in the general fund unreserved fund balance. Governmental fund expenditures exceeded fund revenues by $0.5 billion before other financing sources and special items totaling $0.9 billion. As a result fund balance for all governmental funds increased by $0.4 billion in fiscal year 2004.

### General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2004, the General Fund had a negative fund balance of $0.2 billion of which a negative $0.9 billion was unreserved. The excess of general fund revenues over expenditures totaled $0.7 billion. Net other financing uses totaling $0.5 billion included a transfer of $0.3 billion to establish a new special revenue fund, the Restricted Grants & Accounts fund. This resulted in an increase in fund balance of $0.2 billion for the fiscal year. Tax increases and other revenue enhancements enacted by the legislature and signed by the governor during Fiscal Year 2003 (Public Acts 03-2 and 03-1 of the June Special Session) generated over $800 million in additional Fiscal Year 2004 revenue, and spending reductions implemented in fiscal year 2003 and continued and annualized into fiscal year 2004 were projected to save over $300 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 2004 and to ultimately generate a General Fund surplus.

### Transportation Fund

The Transportation Fund ended Fiscal Year 2004 with a fund balance of $0.2 billion of which $0.1 billion was unreserved. Fund balance was reduced by $2.0 million through Fiscal Year 2004 operations.

### Other Funds

The other funds category includes the state's special revenue, capital projects and permanent funds. These funds had a balance of $1.3 billion on June 30, 2004 of which $0.7 billion was unreserved. In fiscal 2004 the Clean Energy fund, which in prior years was combined with the CT Innovations, Inc. component unit, was presented as part of the environmental fund, a special revenue fund of the state.

In Fiscal Year 2004, expenditures exceeded revenues by $1.2 billion in the other funds category. Bonds issued in the amount of $1.3 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, 2004 amounts to $12.4 billion (net of accumulated depreciation). The total of capital assets for governmental activities remained largely unchanged from the prior year while the increase for business-type activities was 9.0%. Depreciation charges for the fiscal year totaled $0.8 billion.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 (1) | 2004 | 2003(2) | 2004 | 2003 |
| Land | $ 935.0 | $ 911.8 | $ 51.9 | $ 44.8 | $ 986.9 | $ 956.6 |
| Buildings | 1,036.3 | 879.9 | 1,916.1 | 1,706.1 | 2,952.4 | 2,586.0 |
| Improvements Other than Buildings | 133.9 | 63.2 | 245.5 | 230.0 | 379.4 | 293.2 |
| Equipment | 445.8 | 458.4 | 350.0 | 355.5 | 795.8 | 813.9 |
| Infrastructure | 6,731.4 | 6,758.4 | - | | 6,731.4 | 6,758.4 |
| Construction in Progress | 336.5 | 460.3 | 293.4 | 285.1 | 629.9 | 745.4 |
| Total | $ 9,618.9 | $ 9,532.0 | $ 2,856.9 | $ 2,621.5 | $ 12,475.8 | $ 12,153.5 |

(1) Totals differ with that of the prior year due to the recording of software costs. See footnote number 21.
(2) Totals differ with that of the prior year due to the implementation of GASB 39. See footnote number 21.

Additional information on the State of Connecticut's capital assets can be found in Note 10 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 the debt service fund and revenue debt, which is payable from specified revenues of enterprise funds.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| General Obligation Bonds | $ 9,606.6 | $ 9,216.4 | $ - | $ - | $ 9,606.6 | $ 9,216.4 |
| Transportation Related Bonds | 3,153.9 | 3,205.8 | - | - | 3,153.9 | 3,205.8 |
| Revenue Bonds | - | - | 1,713.8 | 1,547.5 | 1,713.8 | 1,547.5 |
| Total | $ 12,760.5 | $ 12,422.2 | $ 1,713.8 | $ 1,547.5 | $ 14,474.3 | $ 13,969.7 |

In Fiscal Year 2004 the state increased outstanding bonds by $0.6 billion. For the year, outstanding debt in governmental activities increased by 2.7 percent and for business-type activities the increase was 10.8 percent. It should also be noted that the state also issued $97.7 million in economic recovery notes (see note 17). 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, 2004
(Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ 986,019 | $ 436,936 | $ 1,422,955 | $ 139,538 |
| Deposits with U.S. Treasury | - | 477,197 | 477,197 | - |
| Investments | 106,120 | 171,156 | 277,276 | 233,307 |
| Receivables, (Net of Allowances) | 1,969,678 | 559,784 | 2,529,462 | 63,626 |
| Due from Component Units | 1,484 | - | 1,484 | - |
| Due from Primary Government | - | - | - | 22,179 |
| Inventories | 55,152 | 8,637 | 63,789 | - |
| Restricted Assets | - | 12,334 | 12,334 | 1,308,138 |
| Internal Balances | (134,416) | 134,416 | - | - |
| Other Current Assets | 16,242 | 7,413 | 23,655 | 7,135 |
| Total Current Assets | 3,000,279 | 1,807,873 | 4,808,152 | 1,773,923 |
| Noncurrent Assets: | | | | |
| Cash and Cash Equivalents | - | 102,145 | 102,145 | - |
| Due From Component Units | 10,606 | - | 10,606 | - |
| Investments | - | 367,558 | 367,558 | 68,794 |
| Loans, (Net of Allowances) | 208,875 | 549,380 | 758,255 | 137,447 |
| Restricted Assets | 634,596 | 540,904 | 1,175,500 | 3,318,946 |
| Capital Assets, (Net of Accumulated Depreciation) | 9,618,867 | 2,856,957 | 12,475,824 | 227,926 |
| Other Noncurrent Assets | 47,657 | 207,572 | 255,229 | 32,068 |
| Total Noncurrent Assets | 10,520,601 | 4,624,516 | 15,145,117 | 3,785,181 |
| Total Assets | 13,520,880 | 6,432,389 | 19,953,269 | 5,559,104 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Accrued Liabilities | 589,450 | 192,507 | 781,957 | 50,827 |
| Due to Component Units | 22,179 | - | 22,179 | - |
| Due to Primary Government | - | - | - | 1,484 |
| Due to Other Governments | 124,514 | - | 124,514 | - |
| Current Portion of Long-Term Obligations | 1,328,704 | 171,112 | 1,499,816 | 167,885 |
| Amount Held for Institutions | - | - | - | 431,010 |
| Deferred Revenue | 10,917 | 142,314 | 153,231 | 36 |
| Medicaid Liability | 561,118 | - | 561,118 | - |
| Liability for Escheated Property | 77,106 | - | 77,106 | - |
| Other Current Liabilities | 200,256 | 100,935 | 301,191 | 24,156 |
| Total Current Liabilities | 2,914,244 | 606,868 | 3,521,112 | 675,398 |
| Noncurrent Liabilities: | | | | |
| Non-Current Portion of Long-Term Obligations | 16,046,894 | 2,165,604 | 18,212,498 | 3,565,108 |
| Total Noncurrent Liabilities | 16,046,894 | 2,165,604 | 18,212,498 | 3,565,108 |
| Total Liabilities | 18,961,138 | 2,772,472 | 21,733,610 | 4,240,506 |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 3,264,134 | 2,209,541 | 5,473,675 | 42,867 |
| Restricted For: | | | | |
| Statutory Budget Reserve Requirements | 302,155 | - | 302,155 | - |
| Transportation | 102,268 | - | 102,268 | - |
| Debt Service | 605,123 | 68,094 | 673,217 | - |
| Capital Projects | 215,136 | 68,507 | 283,643 | - |
| Unemployment Compensation | - | 635,902 | 635,902 | - |
| Clean Water Projects | - | 449,055 | 449,055 | - |
| Bond Indenture Requirements | - | - | - | 684,009 |
| Permanent Investments or Endowments: | | | | |
| Expendable | 4,471 | - | 4,471 | 77,929 |
| Nonexpendable | 88,820 | 11,499 | 100,319 | 174,761 |
| Other Purposes | 368,116 | 176,858 | 544,974 | 95,016 |
| Unrestricted (Deficit) | (10,390,481) | 40,461 | (10,350,020) | 244,016 |
| Total Net Assets (Deficit) | $ (5,440,258) | $ 3,659,917 | $ (1,780,341) | $ 1,318,598 |

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

# Statement of Activities

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

| Functions/Programs | Expenses | Program Revenues: Charges for Services, Fees, Fines , and Other | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| **Primary Government** | | | | |
| Governmental Activities: | | | | |
| Legislative | $ 89,532 | $ 2,410 | $ 58 | $ - |
| General Government | 1,100,700 | 306,472 | 170,124 | - |
| Regulation and Protection | 590,377 | 502,182 | 107,716 | - |
| Conservation and Development | 448,077 | 106,922 | 73,643 | - |
| Health and Hospitals | 1,683,465 | 45,206 | 110,279 | - |
| Transportation | 1,153,888 | 57,277 | - | 543,805 |
| Human Services | 4,630,154 | 93,407 | 2,876,193 | - |
| Education, Libraries, and Museums | 3,174,305 | 19,953 | 381,877 | - |
| Corrections | 1,579,043 | 20,730 | 125,137 | - |
| Judicial | 546,163 | 99,113 | 5,105 | - |
| Interest and Fiscal Charges | 577,448 | - | - | - |
| Total Governmental Activities | 15,573,152 | 1,253,672 | 3,850,132 | 543,805 |
| Business-Type Activities: | | | | |
| University of Connecticut | 1,254,402 | 677,819 | 149,998 | 8,243 |
| State Universities | 469,712 | 282,447 | 31,908 | - |
| Bradley International Airport | 59,338 | 51,157 | - | 1,096 |
| Connecticut Lottery Corporation | 656,716 | 907,866 | - | - |
| Employment Security | 811,483 | 778,797 | - | - |
| Clean Water | 24,759 | 16,518 | 1,991 | - |
| Other | 361,367 | 221,351 | 43,777 | - |
| Total Business-Type Activities | 3,637,777 | 2,935,955 | 227,674 | 9,339 |
| Total Primary Government | $ 19,210,929 | $ 4,189,627 | $ 4,077,806 | $ 553,144 |
| **Component Units** | | | | |
| Connecticut Housing Finance Authority (12-31-03) | $ 207,982 | $ 182,868 | $ - | $ - |
| Connecticut Health and Educational Facilities Authority | 4,184 | 4,253 | - | - |
| Other | 240,922 | 231,826 | 4,929 | 4,995 |
| Total Component Units | $ 453,088 | $ 418,947 | $ 4,929 | $ 4,995 |

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
Contributions to Endowments
Special Items:
Statutory Payment from Component Units
Payment from Lease/Lease Back Transaction
Transfer of Loans to Component Unit
Statutory Payment to State
Loss on Disposal of Assets
Extraordinary Item-Loss on Early Retirement of Debt
Transfers-Internal Activities
Total General Revenues, Contributions, 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 |
| $ (87,064) | $ - | $ (87,064) | $ - |
| (624,104) | - | (624,104) | - |
| 19,521 | - | 19,521 | - |
| (267,512) | - | (267,512) | - |
| (1,527,980) | - | (1,527,980) | - |
| (552,806) | - | (552,806) | - |
| (1,660,554) | - | (1,660,554) | - |
| (2,772,475) | - | (2,772,475) | - |
| (1,433,176) | - | (1,433,176) | - |
| (441,945) | - | (441,945) | - |
| (577,448) | - | (577,448) | - |
| (9,925,543) | - | (9,925,543) | - |
| - | (418,342) | (418,342) | - |
| - | (155,357) | (155,357) | - |
| - | (7,085) | (7,085) | - |
| - | 251,150 | 251,150 | - |
| - | (32,686) | (32,686) | - |
| - | (6,250) | (6,250) | - |
| - | (96,239) | (96,239) | - |
| - | (464,809) | (464,809) | - |
| (9,925,543) | (464,809) | (10,390,352) | - |
| - | - | - | (25,114) |
| - | - | - | 69 |
| - | - | - | 828 |
| - | - | - | (24,217) |
| 4,392,403 | - | 4,392,403 | - |
| 473,505 | - | 473,505 | - |
| 3,061,423 | - | 3,061,423 | - |
| 1,274,149 | - | 1,274,149 | - |
| 470,001 | - | 470,001 | - |
| 70,411 | - | 70,411 | - |
| 402,733 | - | 402,733 | - |
| 116,578 | - | 116,578 | - |
| 18,350 | 90,486 | 108,836 | 25,137 |
| - | - | - | 41,339 |
| 17,500 | - | 17,500 | - |
| 29,357 | - | 29,357 | |
| (204,117) | - | (204,117) | - |
| - | - | - | (15,000) |
| - | (4,190) | (4,190) | - |
| - | (1,983) | (1,983) | - |
| (417,062) | 417,062 | - | - |
| 9,705,231 | 501,375 | 10,206,606 | 51,476 |
| (220,312) | 36,566 | (183,746) | 27,259 |
| (5,219,946) | 3,623,351 | (1,596,595) | 1,291,339 |
| $ (5,440,258) | $ 3,659,917 | $ (1,780,341) | $ 1,318,598 |

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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 89 of *the Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2004*, as issued by the State Comptroller.

# Balance Sheet
# Governmental Funds

June 30, 2004

(Expressed in Thousands)

| | General | Debt Service | Transportation | Other Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and Cash Equivalents | $ - | $ - | $ 124,227 | $ 843,046 | $ 967,273 |
| Investments | - | - | - | 106,120 | 106,120 |
| Securities Lending Collateral | - | - | - | 15,346 | 15,346 |
| Receivables: | | | | | |
| Taxes, Net of Allowances | 830,383 | - | 45,443 | - | 875,826 |
| Accounts, Net of Allowances | 186,672 | - | 10,922 | 57,943 | 255,537 |
| Loans, Net of Allowances | - | - | - | 208,875 | 208,875 |
| From Other Governments | 590,687 | - | - | 193,780 | 784,467 |
| Interest | - | 4,487 | 170 | - | 4,657 |
| Other | - | - | - | 70 | 70 |
| Due from Other Funds | 19,740 | 1,083 | 5,964 | 287,572 | 314,359 |
| Advances to Other Funds | 4,700 | - | - | - | 4,700 |
| Due from Component Units | 12,090 | - | - | - | 12,090 |
| Inventories | 37,478 | - | 13,069 | - | 50,547 |
| Restricted Assets | - | 634,596 | - | - | 634,596 |
| Other Assets | 57 | - | - | - | 57 |
| Total Assets | $ 1,681,807 | $ 640,166 | $ 199,795 | $ 1,712,752 | $ 4,234,520 |
| **Liabilities and Fund Balances** | | | | | |
| **Liabilities** | | | | | |
| Accounts Payable and Accrued Liabilities | $ 277,531 | $ - | $ 22,484 | $ 188,034 | $ 488,049 |
| Due to Other Funds | 250,775 | 4,487 | 534 | 99,679 | 355,475 |
| Due to Component Units | - | - | - | 22,179 | 22,179 |
| Due to Other Governments | 122,053 | - | - | 2,461 | 124,514 |
| Deferred Revenue | 392,102 | - | 10,339 | 35,089 | 437,530 |
| Medicaid Liability | 561,118 | - | - | - | 561,118 |
| Liability For Escheated Property | 77,106 | - | - | - | 77,106 |
| Securities Lending Obligation | - | - | - | 15,346 | 15,346 |
| Other Liabilities | 180,712 | - | - | 2,709 | 183,421 |
| Total Liabilities | 1,861,397 | 4,487 | 33,357 | 365,497 | 2,264,738 |
| **Fund Balances** | | | | | |
| Reserved For: | | | | | |
| Petty Cash | 996 | - | - | - | 996 |
| Inventories | 37,478 | - | 13,069 | - | 50,547 |
| Loans | 16,790 | - | - | 208,875 | 225,665 |
| Continuing Appropriations | 212,862 | - | 34,166 | 3,975 | 251,003 |
| Debt Service | - | 635,679 | - | - | 635,679 |
| Restricted Purposes | - | - | - | 400,450 | 400,450 |
| Statutory Surplus Reserve- FYE '05 | 150,300 | | | | 150,300 |
| Transfer to Budget Reserve Fund | 302,155 | - | - | - | 302,155 |
| Unreserved Reported In: | | | | | |
| General Fund | (900,171) | - | - | - | (900,171) |
| Transportation Fund | - | - | 119,203 | - | 119,203 |
| Special Revenue Funds | - | - | - | 512,106 | 512,106 |
| Capital Project Funds | - | - | - | 221,849 | 221,849 |
| Total Fund Balances | (179,590) | 635,679 | 166,438 | 1,347,255 | 1,969,782 |
| Total Liabilities and Fund Balances | $ 1,681,807 | $ 640,166 | $ 199,795 | $ 1,712,752 | $ 4,234,520 |

***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, 2004
(Expressed in Thousands)

| | | | |
|---|---|---|---|
| Total Fund Balance - Governmental Funds | | $ | 1,969,782 |
| 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 | 2,756,332 | | |
| Equipment | 1,138,144 | | |
| Infrastructure | 11,290,148 | | |
| Other Capital Assets | 1,260,843 | | |
| Accumulated Depreciation | (6,870,548) | | 9,574,919 |
| 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. | | | 45,890 |
| 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. | | | 426,742 |
| 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. | | | (9,133) |
| 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 | (3,440,354) | | |
| Worker's Compensation | (276,681) | | |
| Capital Leases | (53,761) | | |
| Compensated Absences | (365,559) | | |
| Claims and Judgments | (13,183) | | (4,149,538) |
| 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 Notes | (273,215) | | |
| Bonds Payable | (12,760,560) | | |
| Unamortized Premiums | (457,491) | | |
| Less: Deferred Loss on Refundings | 276,124 | | |
| Accrued Interest Payable | (83,778) | | (13,298,919) |
| Net Assets of Governmental Activities | | $ | (5,440,258) |

***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, 2004

(Expressed in Thousands)

| | General | Debt Service | Transportation | Other Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Taxes | $ 9,181,928 | $ - | $ 535,460 | $ 25,413 | $ 9,742,801 |
| Assessments | - | - | - | 25,827 | 25,827 |
| Licenses, Permits and Fees | 154,159 | - | 310,811 | 50,079 | 515,049 |
| Tobacco Settlement | - | - | - | 116,578 | 116,578 |
| Intergovernmental | 2,827,350 | - | - | 1,556,148 | 4,383,498 |
| Charges for Services | 39,714 | - | 55,054 | 3,457 | 98,225 |
| Fines, Forfeits and Rents | 107,843 | - | 27,138 | 3,638 | 138,619 |
| Casino Gaming Payments | 402,733 | - | - | - | 402,733 |
| Investment Earnings | 1,262 | 12,304 | 2,534 | 11,431 | 27,531 |
| Miscellaneous | 131,157 | - | 5,795 | 319,889 | 456,841 |
| Total Revenues | 12,846,146 | 12,304 | 936,792 | 2,112,460 | 15,907,702 |
| **Expenditures** | | | | | |
| Current: | | | | | |
| Legislative | 82,134 | - | - | 2,138 | 84,272 |
| General Government | 716,950 | - | 1,582 | 337,937 | 1,056,469 |
| Regulation and Protection | 267,305 | - | 68,743 | 223,171 | 559,219 |
| Conservation and Development | 106,668 | - | - | 325,922 | 432,590 |
| Health and Hospitals | 1,399,824 | - | - | 242,973 | 1,642,797 |
| Transportation | 6,511 | - | 437,277 | 83,538 | 527,326 |
| Human Services | 4,209,227 | - | - | 329,542 | 4,538,769 |
| Education, Libraries, and Museums | 2,214,534 | - | - | 876,602 | 3,091,136 |
| Corrections | 1,486,471 | - | - | 39,333 | 1,525,804 |
| Judicial | 506,420 | - | - | 26,364 | 532,784 |
| Capital Projects | - | - | - | 780,194 | 780,194 |
| Debt Service: | | | | | |
| Principal Retirement | 724,973 | 236,300 | 4,035 | 5 | 965,313 |
| Interest and Fiscal Charges | 398,406 | 179,030 | 13,125 | 57,236 | 647,797 |
| Total Expenditures | 12,119,423 | 415,330 | 524,762 | 3,324,955 | 16,384,470 |
| Excess (Deficiency) of Revenues Over Expenditures | 726,723 | (403,026) | 412,030 | (1,212,495) | (476,768) |
| **Other Financing Sources (Uses)** | | | | | |
| Bonds/Notes Issued | 97,700 | - | - | 1,297,845 | 1,395,545 |
| Premiums on Bonds Issued | - | 200,328 | - | 68,730 | 269,058 |
| Transfers In | 607,456 | 428,328 | 26,906 | 617,168 | 1,679,858 |
| Transfers Out | (1,242,481) | (26,605) | (440,789) | (388,750) | (2,098,625) |
| Refunding Bonds Issued | - | 1,961,040 | - | - | 1,961,040 |
| Payment to Refunded Bond Escrow Agent | - | (2,146,469) | - | - | (2,146,469) |
| Total Other Financing Sources (Uses) | (537,325) | 416,622 | (413,883) | 1,594,993 | 1,060,407 |
| Special Items: | | | | | |
| Statutory Payment from Component Units | 17,500 | - | - | - | 17,500 |
| Tranfer of Loans to Component Units | - | - | - | (204,117) | (204,117) |
| Payment From Lease/Lease Back Transaction | - | - | - | 29,357 | 29,357 |
| Net Change in Fund Balances | 206,898 | 13,596 | (1,853) | 207,738 | 426,379 |
| Fund Balances - Beginning (as restated) | (381,843) | 622,083 | 168,303 | 1,139,517 | 1,548,060 |
| Changes in Reserves for Inventories | (4,645) | - | (12) | - | (4,657) |
| Fund Balances - Ending | $ (179,590) | $ 635,679 | $ 166,438 | $ 1,347,255 | $ 1,969,782 |

***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, 2004

(Expressed in Thousands)

| | | |
|---|---|---|
| Net Change in Fund Balances - Total Governmental Funds | | $ 426,379 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Bond proceeds provide current financial resources to governmental funds. However issuing debt increases long term-liabilities in the Statement of Net Assets. Bond proceeds were received this year from | | |
| Bonds Issued | (1,395,545) | |
| Refunding Bonds Issued | (1,961,040) | |
| Premium on Bonds Issued | (269,058) | (3,625,643) |
| Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Long-term debt repayments this year consisted of: | | |
| Principal Retirement | 965,313 | |
| Payments to Refunded Bond Escrow Agent ($25,100 reported in debt service) | 2,171,568 | |
| Capital Lease Payments | 14,227 | 3,151,108 |
| Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are: | | |
| Capital Outlays | 690,099 | |
| Depreciation Expense | (654,603) | 35,496 |
| Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories. | | (4,657) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | | |
| Decrease in Accrued Interest | 5,510 | |
| Decrease in Interest Accreted on Capital Appreciation Debt | 8,835 | |
| Amortization of Bond Premium | 26,234 | |
| Amortization of Loss on Debt Refundings | (16,865) | |
| Increase in Compensated Absences Liability | (23,210) | |
| Increase in Workers Compensation Liability | (11,036) | |
| Increase in Claims and Judgments Liability | (5,571) | |
| Increase in Net Pension Obligation | (183,757) | (199,860) |
| Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year | | 17,857 |
| Internal service funds are used by management to charge the costs of certain activities such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with the governmental activities | | (42,526) |
| Debt issue costs are recorded as expenditures in the govenmental funds. However these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are | | |
| Debt Issue Costs Payments | 24,356 | |
| Amortization of Debt Issue Costs | (2,822) | 21,534 |
| Change in Net Assets of Governmental Activities | | $ (220,312) |

***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, 2004
(Expressed in Thousands)

| | General Fund | | | |
|---|---|---|---|---|
| | Budget | | | Variance with Final Budget positive |
| **Revenues** | Original | Final | Actual | (negative) |
| Budgeted: | | | | |
| Taxes, Net of Refunds | $ 8,624,000 | $ 9,121,600 | $ 9,182,569 | $ 60,969 |
| Operating Transfers In | 380,600 | 401,300 | 401,277 | (23) |
| Casino Gaming Payments | 410,000 | 402,700 | 402,733 | 33 |
| Licenses, Permits, and Fees | 149,500 | 149,800 | 154,595 | 4,795 |
| Other | 238,800 | 268,900 | 271,804 | 2,904 |
| Federal Grants | 2,527,000 | 2,539,800 | 2,564,256 | 24,456 |
| Transfer to the Resources of the General Fund | 207,700 | - | 232,305 | 232,305 |
| Refunds of Payments | (500) | (600) | (574) | 26 |
| Operating Transfers Out | (85,000) | (3,000) | (85,000) | (82,000) |
| Transfer out- Transportation Strategy Board | - | - | - | - |
| Total Revenues | 12,452,100 | 12,880,500 | 13,123,965 | 243,465 |
| **Expenditures** | | | | |
| Budgeted: | | | | |
| Legislative | 62,033 | 66,284 | 57,221 | 9,063 |
| General Government | 436,640 | 444,573 | 394,193 | 50,380 |
| Regulation and Protection | 217,255 | 217,790 | 198,945 | 18,845 |
| Conservation and Development | 72,474 | 99,486 | 81,580 | 17,906 |
| Health and Hospitals | 1,259,016 | 1,377,476 | 1,206,942 | 170,534 |
| Transportation | 8,953 | 7,613 | 5,931 | 1,682 |
| Human Services | 3,779,660 | 3,875,193 | 3,776,416 | 98,777 |
| Education, Libraries, and Museums | 2,834,745 | 2,860,859 | 2,789,367 | 71,492 |
| Corrections | 1,172,902 | 1,200,187 | 1,165,666 | 34,521 |
| Judicial | 390,253 | 390,824 | 368,327 | 22,497 |
| Non Functional | 2,564,981 | 2,615,747 | 2,502,331 | 113,416 |
| Total Expenditures | 12,798,912 | 13,156,032 | 12,546,919 | 609,113 |
| Appropriations Lapsed | 260,311 | 285,300 | - | (285,300) |
| Excess (Deficiency) of Revenues Over Expenditures | (86,501) | 9,768 | 577,046 | 567,278 |
| **Other Financing Sources (Uses)** | | | | |
| Prior Year Appropriations Carried Forward | 86,647 | 86,647 | 86,647 | - |
| Appropriations Continued to Fiscal Year 2004-2005 | - | - | (212,862) | (212,862) |
| Miscellaneous Adjustments | - | 105,881 | 1,624 | (104,257) |
| Total Other Financing Sources (Uses) | 86,647 | 192,528 | (124,591) | (317,119) |
| Net Change in Fund Balance | $ 146 | $ 202,296 | 452,455 | $ 250,159 |
| Budgetary Fund Balances (deficit) - July 1 | | | 792,654 | |
| Changes in Reserves | | | (578,796) | |
| Budgetary Fund Balances - June 30 | | | $ 666,313 | |

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

**Transportation Fund**

| Budget Original | Budget Final | Actual | Variance with Final Budget positive (negative) |
|---|---|---|---|
| $ 535,400 | $ 538,500 | $ 535,298 | $ (3,202) |
| - | - | - | - |
| - | - | - | - |
| 353,400 | 370,900 | 374,233 | 3,333 |
| 30,700 | 27,800 | 28,254 | 454 |
| 3,300 | - | - | - |
| - | - | - | - |
| (2,800) | (2,500) | (2,507) | (7) |
| (8,500) | (8,500) | (8,500) | - |
| (10,000) | (23,000) | (22,850) | 150 |
| 901,500 | 903,200 | 903,928 | 728 |
| | | | |
| - | - | - | - |
| 2,250 | 2,250 | 1,589 | 661 |
| 55,932 | 56,406 | 48,690 | 7,716 |
| - | - | - | - |
| - | - | - | - |
| 361,462 | 361,613 | 340,996 | 20,617 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 519,852 | 519,226 | 502,032 | 17,194 |
| 939,496 | 939,495 | 893,307 | 46,188 |
| 22,064 | 10,675 | - | (10,675) |
| (15,932) | (25,620) | 10,621 | 36,241 |
| 19,866 | 19,866 | 19,866 | - |
| - | - | (34,166) | (34,166) |
| - | - | 4 | 4 |
| 19,866 | 19,866 | (14,296) | (34,162) |
| $ 3,934 | $ (5,754) | (3,675) | $ 2,079 |
| | | 356,314 | |
| | | (189,200) | |
| | | $ 163,439 | |

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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 Aviation and Ports of the State of Connecticut, Department of Transportation and the Board of Directors of the Airport. 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 wastewater treatment projects.

***Nonmajor Funds***
Nonmajor proprietary funds are presented by fund type, beginning on page 112 of *the Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2004,* as issued by the State Comptroller.

# Statement of Net Assets
# Proprietary Funds

June 30, 2004
(Expressed in Thousands)

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Enterprise Funds | | | |
| | University of Connecticut | State Universities | Bradley International Airport | Connecticut Lottery Corporation |
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ 247,584 | $ 69,179 | $ 19,637 | $ 23,802 |
| Deposits with U.S. Treasury | - | - | - | - |
| Investments | 587 | 122,849 | - | 47,720 |
| Receivables: | | | | |
| Accounts, Net of Allowances | 91,409 | 96,211 | 4,927 | 9,799 |
| Loans, Net of Allowances | 2,229 | 1,425 | - | - |
| Interest | - | - | - | 14,263 |
| From Other Governments | - | 1,874 | 1,163 | - |
| Due from Other Funds | 50,204 | 36,683 | - | - |
| Inventories | 7,641 | - | - | - |
| Restricted Assets | 157 | - | 12,177 | - |
| Other Current Assets | 2,296 | 1,195 | 690 | 1,977 |
| Total Current Assets | 402,107 | 329,416 | 38,594 | 97,561 |
| Noncurrent Assets: | | | | |
| Cash and Cash Equivalents | 1,450 | 100,695 | - | - |
| Investments | 11,514 | - | - | 334,568 |
| Loans, Net of Allowances | 10,083 | 10,243 | - | - |
| Restricted Assets | 25,925 | - | 129,105 | - |
| Capital Assets, Net of Accumulated Depreciation | 1,624,428 | 595,865 | 312,335 | 2,484 |
| Other Noncurrent Assets | 9,498 | 2,600 | 6,236 | 4,713 |
| Total Noncurrent Assets | 1,682,898 | 709,403 | 447,676 | 341,765 |
| Total Assets | 2,085,005 | 1,038,819 | 486,270 | 439,326 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Accrued Liabilities | 95,653 | 33,846 | 9,075 | 11,785 |
| Due to Other Funds | 8,908 | 1,636 | 2,071 | - |
| Current Portion of Long-Term Obligations | 45,971 | 16,372 | 8,780 | 50,661 |
| Deferred Revenue | 36,732 | 101,371 | 656 | 438 |
| Other Current Liabilities | 23,707 | 18,505 | 3,397 | 38,671 |
| Total Current Liabilities | 210,971 | 171,730 | 23,979 | 101,555 |
| Noncurrent Liabilities: | | | | |
| Noncurrent Portion of Long-Term Obligations | 287,359 | 356,468 | 242,514 | 334,568 |
| Total Noncurrent Liabilities | 287,359 | 356,468 | 242,514 | 334,568 |
| Total Liabilities | 498,330 | 528,198 | 266,493 | 436,123 |
| **Net Assets (Deficit)** | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,372,885 | 462,358 | 103,800 | 2,484 |
| Restricted For: | | | | |
| Debt Service | 10,794 | - | 35,241 | - |
| Unemployment Compensation | - | - | - | - |
| Clean Water Projects | - | - | - | - |
| Capital Projects | 21,743 | - | 46,764 | - |
| Nonexpendable Purposes | 10,962 | 517 | - | - |
| Other Purposes | 19,648 | 27,340 | 22,868 | 3,203 |
| Unrestricted | 150,643 | 20,406 | 11,104 | (2,484) |
| Total Net Assets | $ 1,586,675 | $ 510,621 | $ 219,777 | $ 3,203 |

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

| Business-Type Activities — Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|
| Employment Security | Clean Water | Other Funds | Total | Internal Service Funds |
| $ - | $ 2,966 | $ 73,768 | $ 436,936 | $ 18,746 |
| 477,197 | - | - | 477,197 | - |
| - | - | - | 171,156 | - |
| 155,490 | - | 26,317 | 384,153 | 8,515 |
| - | 136,926 | 3,773 | 144,353 | - |
| - | 6,705 | 436 | 21,404 | - |
| 6,428 | 409 | - | 9,874 | - |
| 1,474 | - | 63,357 | 151,718 | 6,008 |
| - | - | 996 | 8,637 | 4,605 |
| - | - | - | 12,334 | - |
| - | - | 1,255 | 7,413 | 839 |
| 640,589 | 147,006 | 169,902 | 1,825,175 | 38,713 |
| - | - | - | 102,145 | - |
| - | - | 21,476 | 367,558 | - |
| - | 479,120 | 49,934 | 549,380 | - |
| - | 307,315 | 78,559 | 540,904 | - |
| - | - | 321,845 | 2,856,957 | 43,948 |
| - | 163,080 | 21,445 | 207,572 | 1,767 |
| - | 949,515 | 493,259 | 4,624,516 | 45,715 |
| 640,589 | 1,096,521 | 663,161 | 6,449,691 | 84,428 |
| - | 6,432 | 35,716 | 192,507 | 12,940 |
| 4,687 | - | - | 17,302 | 63,387 |
| - | 38,207 | 11,121 | 171,112 | 212 |
| - | - | 3,117 | 142,314 | 129 |
| - | 2,589 | 14,066 | 100,935 | 1,489 |
| 4,687 | 47,228 | 64,020 | 624,170 | 78,157 |
| - | 543,339 | 401,356 | 2,165,604 | 15,404 |
| - | 543,339 | 401,356 | 2,165,604 | 15,404 |
| 4,687 | 590,567 | 465,376 | 2,789,774 | 93,561 |
| - | - | 268,014 | 2,209,541 | 43,948 |
| - | - | 22,059 | 68,094 | - |
| 635,902 | - | - | 635,902 | - |
| - | 449,055 | - | 449,055 | - |
| - | - | - | 68,507 | - |
| - | - | 20 | 11,499 | - |
| - | - | 103,799 | 176,858 | - |
| - | 56,899 | (196,107) | 40,461 | (53,081) |
| $ 635,902 | $ 505,954 | $ 197,785 | $ 3,659,917 | $ (9,133) |

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

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Enterprise Funds | | | |
| | University of Connecticut | State Universities | Bradley International Airport | Connecticut Lottery Corporation |
| **Operating Revenues** | | | | |
| Charges for Sales and Services | $ 585,961 | $ 161,814 | $ 37,587 | $ 907,656 |
| Assessments | - | - | - | - |
| Intergovernmental | 160,962 | 30,545 | - | - |
| Private Gifts and Grants | 31,809 | 1,363 | - | - |
| Interest on Loans | - | - | - | - |
| Other | 49,085 | 73,282 | - | 192 |
| Total Operating Revenues | 827,817 | 267,004 | 37,587 | 907,848 |
| **Operating Expenses** | | | | |
| Cost of Sales and Services | 157,333 | - | - | 611,844 |
| Salaries, Wages and Administrative | 798,488 | 287,956 | 29,464 | 11,881 |
| Unemployment Compensation | - | - | - | - |
| Claims Paid | - | - | - | - |
| Depreciation and Amortization | 89,684 | 37,549 | 16,477 | 458 |
| Other | 188,337 | 144,207 | - | 3,126 |
| Total Operating Expenses | 1,233,842 | 469,712 | 45,941 | 627,309 |
| Operating Income (Loss) | (406,025) | (202,708) | (8,354) | 280,539 |
| **Nonoperating Revenue (Expenses)** | | | | |
| Interest and Investment Income | 4,513 | 5,023 | 3,705 | 29,758 |
| Interest and Fiscal Charges | (10,198) | - | (13,397) | (29,407) |
| Other | (10,362) | 47,351 | 13,570 | 18 |
| Total Nonoperating Revenues (Expenses) | (16,047) | 52,374 | 3,878 | 369 |
| Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers | (422,072) | (150,334) | (4,476) | 280,908 |
| Capital Contributions | 8,243 | - | 1,096 | - |
| Federal Grants | - | - | - | - |
| Special Item-Loss on Disposal of Capital Assets | (4,190) | - | - | - |
| Extraordinary Item-Loss on Early Retirement of Debt | - | - | - | - |
| Transfers In | 479,467 | 206,705 | 8,695 | - |
| Transfers Out | - | - | - | (280,763) |
| Change in Net Assets | 61,448 | 56,371 | 5,315 | 145 |
| Total Net Assets - Beginning (as restated) | 1,525,227 | 454,250 | 214,462 | 3,058 |
| Total Net Assets - Ending | $ 1,586,675 | $ 510,621 | $ 219,777 | $ 3,203 |

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

| Business-Type Activities | | | | Governmental |
|---|---|---|---|---|
| Enterprise Funds | | | | Activities |
| Employment Security | Clean Water | Other Funds | Totals | Internal Service Funds |
| $ - | $ - | $ 83,199 | $ 1,776,217 | $ 91,090 |
| 628,026 | - | 93,965 | 721,991 | - |
| 150,771 | - | 36,944 | 379,222 | - |
| - | - | 935 | 34,107 | - |
| - | 12,268 | 1,216 | 13,484 | - |
| - | - | 41,799 | 164,358 | 1,026 |
| 778,797 | 12,268 | 258,058 | 3,089,379 | 92,116 |
| - | - | 7,077 | 776,254 | 74,151 |
| - | 604 | 279,701 | 1,408,094 | 38,585 |
| 811,483 | - | - | 811,483 | - |
| - | - | 36,496 | 36,496 | - |
| - | - | 14,721 | 158,889 | 20,248 |
| - | - | 12,610 | 348,280 | 1,659 |
| 811,483 | 604 | 350,605 | 3,539,496 | 134,643 |
| (32,686) | 11,664 | (92,547) | (450,117) | (42,527) |
| 25,451 | 18,829 | 3,207 | 90,486 | 62 |
| - | (24,155) | (10,762) | (87,919) | (61) |
| - | 4,250 | 1,172 | 55,999 | - |
| 25,451 | (1,076) | (6,383) | 58,566 | 1 |
| (7,235) | 10,588 | (98,930) | (391,551) | (42,526) |
| - | - | - | 9,339 | - |
| - | 1,991 | 5,898 | 7,889 | - |
| - | - | - | (4,190) | - |
| - | - | (1,983) | (1,983) | - |
| - | 10,282 | 208,384 | 913,533 | - |
| (3,262) | (659) | (211,787) | (496,471) | - |
| (10,497) | 22,202 | (98,418) | 36,566 | (42,526) |
| 646,399 | 483,752 | 296,203 | 3,623,351 | 33,393 |
| $ 635,902 | $ 505,954 | $ 197,785 | $ 3,659,917 | $ (9,133) |

# Statement of Cash Flows
# Proprietary Funds

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Enterprise Funds | | | |
| | Uconn | State Universities | Bradley International Airport | Connecticut Lottery Corporation |
| **Cash Flows from Operating Activities** | | | | |
| Receipts from Customers | $ 597,353 | $ 256,882 | $ 37,255 | $ 907,015 |
| Payments to Suppliers | (341,499) | (32,796) | (18,316) | (20,917) |
| Payments to Employees | (741,620) | (278,039) | (10,855) | (10,090) |
| Other Receipts (Payments) | 247,666 | (107,232) | - | (595,347) |
| Net Cash Provided by (Used in) Operating Activities | (238,100) | (161,185) | 8,084 | 280,661 |
| **Cash Flows from Noncapital Financing Activities** | | | | |
| Proceeds from Sale of Bonds | - | - | - | - |
| Retirement of Bonds and Annuities Payable | - | - | - | (51,090) |
| Interest on Bonds and Annuities Payable | - | - | - | (31,207) |
| Transfers In | 327,745 | 189,417 | 8,695 | - |
| Transfers Out | - | - | - | (280,763) |
| Other Receipts (Payments) | 7,987 | 47,524 | - | - |
| Net Cash Flows from Noncapital Financing Activities | 335,732 | 236,941 | 8,695 | (363,060) |
| **Cash Flows from Capital and Related Financing Activities** | | | | |
| Additions to Property, Plant and Equipment | (212,734) | (124,022) | (28,481) | (1,549) |
| Proceeds from Capital Debt | 123,410 | 117,731 | - | - |
| Principal Paid on Capital Debt | (51,795) | (68,312) | (6,140) | - |
| Interest Paid on Capital Debt | (35,293) | - | (13,783) | - |
| Transfer In | 71,317 | - | - | - |
| Federal Grant | - | - | - | - |
| Capital Contributions | - | 15,289 | 2,840 | - |
| Other Receipts (Payments) | 34,112 | 231 | 11,051 | - |
| Net Cash Flows from Capital and Related Financing Activities | (70,983) | (59,083) | (34,513) | (1,549) |
| **Cash Flows from Investing Activities** | | | | |
| Proceeds from Sales and Maturities of Investments | - | 62 | 70,849 | 50,559 |
| Purchase of Investment Securities | (27,563) | (23,778) | - | - |
| Interest on Investments | 4,249 | 4,987 | 4,658 | 31,557 |
| (Increase) Decrease in Restricted Assets | - | - | - | - |
| Other Receipts (Payments) | - | 40 | - | - |
| Net Cash Flows from Investing Activities | (23,314) | (18,689) | 75,507 | 82,116 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 3,335 | (2,016) | 57,773 | (1,832) |
| Cash and Cash Equivalents -Beginning of Year | 271,127 | 171,890 | 85,473 | 25,634 |
| Cash and Cash Equivalents -End of Year | $ 274,462 | $ 169,874 | $ 143,246 | $ 23,802 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities** | | | | |
| Operating Income (Loss) | $ (406,025) | $ (202,708) | $ (8,354) | $ 280,539 |
| Adjustments not Affecting Cash: | | | | |
| Depreciation and Amortization | 89,684 | 37,549 | 16,477 | 458 |
| Others | 47,295 | 300 | - | 51 |
| Change in Assets and Liabilities: | | | | |
| (Increase) Decrease in Receivables, Net | 8,625 | (14,266) | (654) | (285) |
| (Increase) Decrease in Due from Other Funds | 1,515 | (2,999) | - | - |
| (Increase) Decrease in Inventories and Other Assets | 547 | 13,574 | - | (19) |
| Increase (Decrease) in Accounts Payables & Accrued Liabilities | 19,501 | 7,311 | 615 | (83) |
| Increase (Decrease) in Due to Other Funds | 758 | 54 | - | - |
| Total Adjustments | 167,925 | 41,523 | 16,438 | 122 |
| Net Cash Provided by (Used In) Operating Activities | $ (238,100) | $ (161,185) | $ 8,084 | $ 280,661 |
| **Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets** | | | | |
| Cash and Cash Equivalents - Current | $ 247,584 | $ 69,179 | $ 19,637 | |
| Cash and Cash Equivalents - Noncurrent | 1,450 | 100,695 | - | |
| Cash and Cash Equivalents - Restricted | 25,428 | - | 123,609 | |
| | $ 274,462 | $ 169,874 | $ 143,246 | |

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

| Business-Type Activities — Enterprise Funds: Employment Security | Clean Water | Other | Totals | Governmental Activities: Internal Service Funds |
|---|---|---|---|---|
| $ 761,758 | $ 50,278 | $ 182,525 | $ 2,793,066 | $ 99,088 |
| - | - | (59,302) | (472,830) | $ (50,865) |
| - | (602) | (215,791) | (1,256,997) | $ (38,567) |
| (807,963) | (48,665) | (1,330) | (1,312,871) | - |
| (46,205) | 1,011 | (93,898) | (249,632) | 9,656 |
| - | 314,609 | 245,982 | 560,591 | - |
| - | (36,723) | (58,207) | (146,020) | - |
| - | (22,717) | (8,414) | (62,338) | - |
| - | 9,623 | 168,885 | 704,365 | - |
| (3,262) | - | (211,787) | (495,812) | - |
| - | (271,441) | (3,997) | (219,927) | - |
| (3,262) | (6,649) | 132,462 | 340,859 | - |
| - | - | (7,101) | (373,887) | (1,085) |
| - | - | - | 241,141 | - |
| - | - | - | (126,247) | - |
| - | - | (3,582) | (52,658) | - |
| - | - | 40,425 | 111,742 | - |
| - | 1,714 | 5,011 | 6,725 | - |
| - | - | - | 18,129 | - |
| - | - | (6,461) | 38,933 | - |
| - | 1,714 | 28,292 | (136,122) | (1,085) |
| - | - | - | 121,470 | - |
| - | - | (40,095) | (91,436) | - |
| 25,451 | 19,130 | 3,195 | 93,227 | 62 |
| - | - | 2,788 | 2,788 | - |
| 24,016 | (12,684) | (12,839) | (1,467) | - |
| 49,467 | 6,446 | (46,951) | 124,582 | 62 |
| - | 2,522 | 19,905 | 79,687 | 8,633 |
| - | 444 | 62,641 | 617,209 | 10,113 |
| $ - | $ 2,966 | $ 82,546 | $ 696,896 | $ 18,746 |
| $ (32,686) | $ 11,664 | $ (92,547) | $ (450,117) | $ (42,527) |
| - | - | 14,721 | 158,889 | 20,248 |
| - | - | (23,492) | 24,154 | - |
| (15,667) | (10,653) | (17,743) | (50,643) | 4,932 |
| 3,252 | - | - | 1,768 | (1,227) |
| - | - | 15,274 | 29,376 | 326 |
| - | - | 9,889 | 37,233 | 3,643 |
| (1,104) | - | - | (292) | 24,261 |
| (13,519) | (10,653) | (1,351) | 200,485 | 52,183 |
| $ (46,205) | $ 1,011 | $ (93,898) | $ (249,632) | $ 9,656 |

| | |
|---|---|
| Other | $ 73,768 |
| | - |
| | 8,778 |
| | $ 82,546 |

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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 of *the Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2004,* as issued by the State Comptroller:
Pension (and Other Employee Benefit) Trust Funds, page 120
Agency Funds, page 126

# Statement of Fiduciary Net Assets
# Fiduciary Funds

June 30, 2004

(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 | $ 6,088 | $ - | $ - | $ 160,629 | $ 166,717 |
| Receivables: | | | | | |
| Accounts, Net of Allowances | 12,475 | - | - | 2,477 | 14,952 |
| From Other Funds | 8,108 | - | - | 4,675 | 12,783 |
| Interest | 382 | 871 | - | 63 | 1,316 |
| Investments | 20,099,983 | 791,474 | - | - | 20,891,457 |
| Inventories | - | - | - | 440 | 440 |
| Securities Lending Collateral | 2,107,047 | - | - | - | 2,107,047 |
| Other Assets | 5,107 | 6 | 104,272 | 525,322 | 634,707 |
| Total Assets | 22,239,190 | 792,351 | 104,272 | $ 693,606 | 23,829,419 |
| **Liabilities** | | | | | |
| Accounts Payable and Accrued Liabilities | - | 758 | - | 1,523 | 2,281 |
| Securities Lending Obligation | 2,107,047 | - | - | - | 2,107,047 |
| Due to Other Funds | 48,704 | - | - | - | 48,704 |
| Other Liabilities | - | 90 | - | 2,751 | 2,751 |
| Funds Held for Others | - | - | - | 689,332 | 689,422 |
| Total Liabilities | 2,155,751 | 848 | - | $ 693,606 | 2,850,205 |
| **Net Assets** | | | | | |
| Held in Trust For: | | | | | |
| Employees' Pension Benefits (Note 13) | 20,049,761 | - | - | | 20,049,761 |
| Other Employee Benefits | 33,678 | - | - | | 33,678 |
| Individuals, Organizations, and Other Governments | - | 791,503 | 104,272 | | 895,775 |
| Total Net Assets | $ 20,083,439 | $ 791,503 | $ 104,272 | | $ 20,979,214 |

***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, 2004
(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 | $ 308,193 | $ - | $ - | $ 308,193 |
| State | 679,485 | - | - | 679,485 |
| Municipalities | 17,290 | - | - | 17,290 |
| Total Contributions | 1,004,968 | - | - | 1,004,968 |
| Investment Income | 2,777,351 | 14,854 | - | 2,792,205 |
| Less: Investment Expense | (65,717) | (368) | - | (66,085) |
| Net Investment Income | 2,711,634 | 14,486 | - | 2,726,120 |
| Escheat Securities Received | - | - | 69,718 | 69,718 |
| Transfers In | 1,705 | - | - | 1,705 |
| Other | 1,097 | - | 9,027 | 10,124 |
| Total Additions | 3,719,404 | 14,486 | 78,745 | 3,812,635 |
| **Deductions** | | | | |
| Administrative Expense | 1,947 | - | - | 1,947 |
| Benefit Payments and Refunds | 1,880,051 | - | - | 1,880,051 |
| Escheat Securities Returned or Sold | - | - | 9,041 | 9,041 |
| Pool's Share Transactions | - | 257,544 | - | 257,544 |
| Distributions to Pool Participants | - | 14,486 | - | 14,486 |
| Other | 2,057 | - | - | 2,057 |
| Total Deductions | 1,884,055 | 272,030 | 9,041 | 2,165,126 |
| Change in Net Assets Held In Trust For: | | | | |
| Pension and Other Employee Benefits | 1,835,349 | - | - | 1,835,349 |
| Individuals, Organizations, and Other Governments | - | (257,544) | 69,704 | (187,840) |
| Net Assets - Beginning | 18,248,090 | 1,049,047 | 34,568 | 19,331,705 |
| Net Assets - Ending | $ 20,083,439 | $ 791,503 | $ 104,272 | $ 20,979,214 |

***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 of *the Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2004*, as issued by the State Comptroller.

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# Statement of Net Assets
# Component Units

June 30, 2004

(Expressed in Thousands)

| Assets | Connecticut Housing Finance Authority (12-31-03) | Connecticut Health and Educational Facilities Authority | Other Component Units | Total |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ - | $ 20,045 | $ 119,493 | $ 139,538 |
| Investments | - | 159 | 233,148 | 233,307 |
| Receivables: | | | | |
| Accounts, Net of Allowances | - | 345 | 32,361 | 32,706 |
| Loans, Net of Allowances | - | - | 29,878 | 29,878 |
| Other | - | - | 1,042 | 1,042 |
| Due from Primary Government | - | - | 22,179 | 22,179 |
| Restricted Assets | 812,442 | 433,266 | 62,430 | 1,308,138 |
| Other Current Assets | - | 139 | 6,996 | 7,135 |
| Total Current Assets | 812,442 | 453,954 | 507,527 | 1,773,923 |
| Noncurrent Assets: | | | | |
| Investments | - | - | 68,794 | 68,794 |
| Loans, Net of Allowances | - | - | 137,447 | 137,447 |
| Restricted Assets | 3,222,000 | - | 96,946 | 3,318,946 |
| Capital Assets, Net of Accumulated Depreciation | 3,438 | 187 | 224,301 | 227,926 |
| Other Noncurrent Assets | - | - | 32,068 | 32,068 |
| Total Noncurrent Assets | 3,225,438 | 187 | 559,556 | 3,785,181 |
| Total Assets | 4,037,880 | 454,141 | 1,067,083 | 5,559,104 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Accrued Liabilities | 19,325 | 592 | 30,910 | 50,827 |
| Current Portion of Long-Term Obligations | 137,335 | - | 30,550 | 167,885 |
| Amount Held for Institutions | - | 431,010 | - | 431,010 |
| Due to Primary Government | - | - | 1,484 | 1,484 |
| Deferred Revenue | - | - | 36 | 36 |
| Other Liabilities | 16,417 | - | 7,739 | 24,156 |
| Total Current Liabilities | 173,077 | 431,602 | 70,719 | 675,398 |
| Noncurrent Liabilities: | | | | |
| Noncurrent Portion of Long-Term Obligations | 3,177,356 | 2,250 | 385,502 | 3,565,108 |
| Total Noncurrent Liabilities | 3,177,356 | 2,250 | 385,502 | 3,565,108 |
| Total Liabilities | 3,350,433 | 433,852 | 456,221 | 4,240,506 |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 3,438 | 187 | 39,242 | 42,867 |
| Restricted: | | | | |
| Bond Indentures | 684,009 | - | - | 684,009 |
| Expendable Endowments | - | - | 77,929 | 77,929 |
| Nonexpendable Endowments | - | - | 174,761 | 174,761 |
| Other Purposes | - | - | 95,016 | 95,016 |
| Unrestricted | - | 20,102 | 223,914 | 244,016 |
| Total Net Assets | $ 687,447 | $ 20,289 | $ 610,862 | $ 1,318,598 |

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

# Statement of Activities
# Component Units

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| Connecticut Housing Finance Authority (12/31/03) | $ 207,982 | $ 182,868 | $ - | $ - |
| Connecticut Health and Educational Facilities Authority | 4,184 | 4,253 | - | - |
| Other Component Units | 240,922 | 231,826 | 4,929 | 4,995 |
| Total Component Units | $ 453,088 | $ 418,947 | $ 4,929 | $ 4,995 |

General Revenues:
Investment Income (Loss)
Contributions to Endowments
Special Item:
Statutory Payment to State
Total General Revenues,
Contributions, and Special Item
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 (12-31-03)** | **Connecticut Health & Educational Facilities Authority** | **Other Component Units** | **Totals** |
| $ (25,114) | $ - | $ - | $ (25,114) |
| - | 69 | - | 69 |
| - | - | 828 | 828 |
| (25,114) | 69 | 828 | (24,217) |
| | | | |
| 25,342 | 245 | (450) | 25,137 |
| - | - | 41,339 | 41,339 |
| - | - | (15,000) | (15,000) |
| 25,342 | 245 | 25,889 | 51,476 |
| 228 | 314 | 26,717 | 27,259 |
| 687,219 | 19,975 | 584,145 | 1,291,339 |
| $ 687,447 | $ 20,289 | $ 610,862 | $ 1,318,598 |

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# Notes to the Financial Statements

**June 30, 2004**

## 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 nonprofit 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 funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). In addition, a nongovernmental nonprofit corporation is included as a discretely presented component unit because of the nature and significance of its relationship with the State are such that it would be misleading to exclude the corporation from the State's reporting entity. 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, 2003.

***Connecticut Resources Recovery Authority***

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

***Connecticut Higher Education Supplemental Loan Authority***

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

***Connecticut Health and Educational Facilities Authority***

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

***Connecticut Innovations, Incorporated***

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

***Capital City Economic Development Authority***

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

***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 major Enterprise fund.

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.

**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 is 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:

***University of Connecticut –*** This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

***State Universities –*** This fund is used to account for the operations of the State University System which consists of four universities: Central, Eastern, Southern, and Western.

***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, 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 2004 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 are 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) | $ 452,455 | $ (3,675) |
| Adjustments: | | |
| Increases (decreases) in revenue accruals: | | |
| Receivables and Other Assets | 116,791 | 9,350 |
| (Increases) decreases in expenditure accruals: | | |
| Accounts Payable and Other Liabilities | (165,655) | (7,634) |
| Salaries and Fringe Benefits Payable | (97,256) | (5,036) |
| Transfer of Restricted Resources | (304,358) | (10,026) |
| Proceeds of Economic Recovery Notes | 96,615 | - |
| Increase in Continuing Appropriations | 126,215 | 14,299 |
| Net Adjustments to Fund Balance | (17,909) | - |
| Fund Reclassification-Bus Operations | - | 869 |
| Net change in fund balances (GAAP basis) | $ 206,898 | $ (1,853) |

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 Nonmajor Fund Deficits

The following funds have deficit balances at June 30, 2004, none of which constitutes a violation of statutory provisions (amounts in thousands).

| | |
|---|---|
| **Special Revenue Fund** | |
| Consumer Counsel and Public Utility Control | $ 2,237 |
| **Enterprise** | |
| Second Injury & Compenstion Assurance | $ 11,896 |
| Bradley Parking Garage | $ 8,624 |
| Rate Reduction Bond Operations | $ 194,336 |

## 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, 2004, the reported amount of the State's deposits was $(43.6) for the Primary Government and Fiduciary Funds (pooled deposits) and $16.5 for the Component Units. The corresponding bank balance for such deposits was $176.1 for the Primary Government and Fiduciary Funds and $18.7 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $91.3 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $84.8 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $6.3 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $12.4 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, 2004, investments consisted of the following (amounts in thousands):

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Component Units | Fiduciary Funds |
| Equity in CIFS | $ 88,820 | $ 587 | $ - | $ 20,099,983 |
| Other Investments | 17,300 | 170,569 | 233,307 | 791,474 |
| Total Investments-Current | $ 106,120 | $ 171,156 | $ 233,307 | $ 20,891,457 |
| Other Investments-Noncurrent | $ - | $ 367,558 | $ 68,794 | $ - |
| Other Investments-Restricted | $ 509,641 | $ 325,561 | $ 1,131,807 | $ - |

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, 2004. 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 | $ 819,000 | $ 819,000 |
| Commercial Paper | 1,773,914 | 1,773,851 |
| Corporate Notes | 393,002 | 393,363 |
| Bankers' Acceptances | 24,899 | 24,863 |
| Money Market Funds | 117,506 | 117,506 |
| Federal Agency Securities | 10,000 | 9,994 |
| Extendable Commercial Notes | 490,792 | 490,811 |
| Repurchase Agreements | 200,000 | 200,000 |
| Total Investments | $ 3,829,113 | $ 3,829,388 |

**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 | $ - | $ 449,490 | $ 449,490 |
| Asset Backed Securities | 573,352 | - | 573,352 |
| U.S. Government and Agency Securities: | | | |
| Not on Securities Loan | 1,360,258 | - | 1,360,258 |
| On Securities Loan for Securities or Letter of Credit Collateral | - | 54,528 | 54,528 |
| Mortgage Backed Securities | 538,702 | - | 538,702 |
| Corporate Debt | 2,745,364 | 1,669,430 | 4,414,794 |
| Convertible Securities | 34,989 | - | 34,989 |
| U. S. Corporate Stock: | | | - |
| Not on Securities Loan | 7,336,000 | - | 7,336,000 |
| On Securities Loan for Securities or Letter of Credit Collateral | - | 12,501 | 12,501 |
| International Equity Securities: | | | |
| Not on Securities Loan | 3,150,791 | - | 3,150,791 |
| On Securities Loan for Securities or Letter of Credit Collateral | - | 1,476 | 1,476 |
| Preferred Stock | 75,269 | - | 75,269 |
| | $ 15,814,725 | $ 2,187,425 | 18,002,150 |
| Investments not categorized because they are not evidenced by securities that exist in physical or book entry form. | | | |
| Real Estate Investment Trusts | | | 76,727 |
| Mutual Funds | | | 179,393 |
| Limited Liability Corporations | | | 22,948 |
| Trusts | | | 46,404 |
| Limited Partnerships | | | 1,836,286 |
| Annuities | | | 1,314 |
| Securities Held by Brokers-Dealers under Security Loans for Cash Collateral: | | | |
| U.S. Government and Agency Securities | | | 916,311 |
| U. S. Corporate Stock | | | 436,761 |
| International Equity Securities | | | 533,527 |
| Domestic Fixed Securities | | | 178,874 |
| International Fixed Securities | | | 1,038 |
| | | | $ 22,231,733 |

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 (Fair Value) Category 1 | Category 3 | Total |
|---|---|---|---|
| Collateralized Investment Agreements | $ 271,378 | $ - | $ 271,378 |
| State/Municipal Bonds | 33,739 | - | 33,739 |
| U.S. Government & Agency Securities | 405,573 | 115,963 | 521,536 |
| Mortgage Backed Securities | - | 6,886 | 6,886 |
| Other | 9,452 | - | 9,452 |
| | $ 720,142 | $ 122,849 | 842,991 |
| Investments not categorized because they are not evidenced by securities that exist in physical or book entry form: | | | |
| Annuity Contracts | | | 382,288 |
| Guaranteed Investment Contracts | | | 158,640 |
| Tax Exempt Proceeds Fund | | | 46,294 |
| Other | | | 6,710 |
| Total Investments | | | $ 1,436,923 |

The Transportation fund owns approximately 53 percent and the State Universities own 100 percent of the investments in Category 1 and 3, respectively.

**Other Investments-Component Units**
**(amounts in thousands)**

| Investment Type | Reported Amount (Fair Value) Category 1 | Category 2 | Category 3 | Total |
|---|---|---|---|---|
| U.S. Government & Agency Securities | $ 733 | $ - | $ 1,788 | $ 2,521 |
| Common Stock | 69,956 | 1,034 | - | 70,990 |
| Repurchase Agreements | 65,091 | - | - | 65,091 |
| Collateralized Investment Agreements | 1,953 | - | 1,636 | 3,589 |
| Mortgage Backed Securities and Obligations | 602,438 | - | - | 602,438 |
| Corporate Debt | 45,551 | 44,561 | - | 90,112 |
| Other | 21,775 | - | - | 21,775 |
| | $ 807,497 | $ 45,595 | $ 3,424 | 856,516 |
| Investments not categorized because they are not evidenced by securities that exist in physical or book entry form: | | | | |
| Guaranteed Investment Contracts | | | | 88,447 |
| Fidelity Funds | | | | 306,079 |
| Investment Agreements | | | | 17,713 |
| Mutual Funds | | | | 71,816 |
| Limted Partnerships | | | | 6,688 |
| Other | | | | 86,649 |
| Total Investments | | | | $ 1,433,908 |

CHFA owns approximately 92 percent and 48 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, 2004, receivables consisted of the following (amounts in thousands):

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Component Units |
| Taxes | $ 933,848 | $ - | $ - |
| Accounts | 1,198,844 | 467,546 | 32,854 |
| Loans-Current Portion | - | 144,354 | 32,478 |
| Other Governments | 784,467 | 10,323 | - |
| Interest | 4,657 | 21,404 | 1,042 |
| Other | 40,676 | - | - |
| Total Receivables | 2,962,492 | 643,627 | 66,374 |
| Allowance for Uncollectibles | (992,814) | (83,843) | (2,748) |
| Receivables, net | $ 1,969,678 | $ 559,784 | $ 63,626 |

**Note 6 Taxes Receivable**

Taxes receivable consisted of the following as of June 30, 2004 (amounts in thousands):

| | Governmental Activities | | |
|---|---|---|---|
| | General Fund | Transportation Fund | Total |
| Sales and Use | $ 431,331 | $ - | $ 431,331 |
| Income Taxes | 188,837 | - | 188,837 |
| Corporations | 87,590 | - | 87,590 |
| Gasoline and Special Fuel | - | 45,636 | 45,636 |
| Various Other | 180,454 | - | 180,454 |
| Total Taxes Receivable | 888,212 | 45,636 | 933,848 |
| Allowance for Uncollectibles | (57,829) | (193) | (58,022) |
| Taxes Receivable, net | $ 830,383 | $ 45,443 | $ 875,826 |

**Note 7 Loans Receivable**

Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2004, consisted of the following (amounts in thousands):

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Component Units |
| Industrial | $ - | $ - | $ 76,792 |
| Housing | 2,555 | - | - |
| Clean Water | 42,912 | 479,120 | - |
| Education | - | 28,509 | 71,502 |
| Other | 164,985 | 49,222 | - |
| Total Loans | 210,452 | 556,851 | 148,294 |
| Allowance for Uncollectibles | (1,577) | (7,471) | (10,847) |
| Loans Receivable, Net | $ 208,875 | $ 549,380 | $ 137,447 |

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 1.39 percent to 11.15 percent. As of June 30, 2004, loans in the amount of $12.0 million (including loans of $6.4 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 $6.4 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, 2004, 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 | $ 124,955 | $ 509,641 | $ - | $ - | $ 634,596 |
| Total-Governmental Activities | $ 124,955 | $ 509,641 | $ - | $ - | $ 634,596 |
| **Business-Type Activities:** | | | | | |
| Bradley International Airport | $ 123,609 | $ 15,136 | $ - | $ 2,537 | $ 141,282 |
| Uconn | 25,428 | 654 | - | - | 26,082 |
| Clean Water | 50,852 | 256,463 | - | - | 307,315 |
| Other Properitary | 25,251 | 53,308 | - | - | 78,559 |
| Total-Business-Type Activities | $ 225,140 | $ 325,561 | $ - | $ 2,537 | $ 553,238 |
| **Component Units:** | | | | | |
| CHFA | $ 682,518 | $ 710,628 | $ 2,543,494 | $ 97,802 | $ 4,034,442 |
| CHEFA | 38,675 | 394,393 | - | 198 | 433,266 |
| Other Component Units | 132,443 | 26,786 | - | 147 | 159,376 |
| Total-Component Units | $ 853,636 | $ 1,131,807 | $ 2,543,494 | $ 98,147 | $ 4,627,084 |

## Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2004, accounts payable and accrued liabilities consisted of the following:

| | Vendors | Salaries and Benefits | Interest | Other | Total Payables & Accrued Liabilities |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| General | $ 133,029 | $ 144,502 | $ - | $ - | $ 277,531 |
| Transportation | 14,524 | 7,960 | - | - | 22,484 |
| Other Governemental | 172,676 | 15,100 | 258 | - | 188,034 |
| Internal Service | 4,195 | 2,270 | - | 6,475 | 12,940 |
| Reconciling amount from fund financial statements to government-wide financial statements | - | - | 83,778 | 4,683 | 88,461 |
| Total-Governmental Activities | $ 324,424 | $ 169,832 | $ 84,036 | $ 11,158 | $ 589,450 |
| **Business-Type Activities:** | | | | | |
| University of Connecticut | $ 49,185 | $ 46,468 | $ - | $ - | $ 95,653 |
| State Universities | 6,471 | 25,135 | 2,240 | - | 33,846 |
| Other Proprietary | 39,944 | 13,004 | 10,060 | - | 63,008 |
| Total-Business-Type Activities | $ 95,600 | $ 84,607 | $ 12,300 | $ - | $ 192,507 |

## 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 | $ 911,754 | $ 28,160 | | $ 4,955 | $ 934,959 |
| Construction in Progress-Infrastructure | 1,276,607 | 383,532 | | 324,706 | 1,335,433 |
| Construction in Progress | 530,693 | 107,895 | | 302,086 | 336,502 |
| Total Capital Assets not being Depreciated | 2,719,054 | 519,587 | | 631,747 | 2,606,894 |
| Other Capital Assets: | | | | | |
| Buildings | 2,539,216 | 225,317 | | 7,483 | 2,757,050 |
| Improvements Other than Buildings | 311,390 | 90,954 | | 275 | 402,069 |
| Equipment | 1,353,217 | 162,541 | | 211,481 | 1,304,277 |
| Infrastructure | 9,217,408 | 324,706 | | - | 9,542,114 |
| Total Other Capital Assets at Historical Cost | 13,421,231 | 803,518 | | 219,239 | 14,005,510 |
| Less: Accumulated Depreciation For: | | | | | |
| Buildings | 1,659,297 | 68,926 | | 7,483 | 1,720,740 |
| Improvements Other than Buildings | 248,218 | 20,283 | | 275 | 268,226 |
| Equipment | 894,755 | 175,185 | | 211,481 | 858,459 |
| Infrastructure | 3,735,656 | 410,456 | | - | 4,146,112 |
| Total Accumulated Depreciation | 6,537,926 | 674,850 | * | 219,239 | 6,993,537 |
| Other Capital Assets, Net | 6,883,305 | 128,668 | | - | 7,011,973 |
| Governmental Activities, Captial Assets, Net | $ 9,602,359 | $ 648,255 | | $ 631,747 | $ 9,618,867 |

* Depreciation expense was charged to functions as follows:

| | |
|---|---|
| **Governmental Activities:** | |
| Legislative | $ 4,902 |
| General Government | 32,166 |
| Regulation and Protection | 30,426 |
| Conservation and Development | 10,504 |
| Health and Hospitals | 12,079 |
| Transportation | 481,186 |
| Human Services | 3,009 |
| Education, Libraries and Museums | 32,739 |
| Corrections | 33,175 |
| Judicial | 14,417 |
| Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets | 20,247 |
| **Total Depreciation Expense** | $ 674,850 |

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| **Business-Type Activities** | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land | $ 44,774 | $ 7,345 | $ 210 | $ 51,909 |
| Construction in Progress | 285,139 | 185,980 | 177,695 | 293,424 |
| Total Capital Assets not being Depreciated | 329,913 | 193,325 | 177,905 | 345,333 |
| Capital Assets being Depreciated: | | | | |
| Buildings | 2,400,582 | 293,755 | 9,323 | 2,685,014 |
| Improvements Other Than Buildings | 361,994 | 32,362 | 1,156 | 393,200 |
| Equipment | 718,721 | 68,905 | 37,851 | 749,775 |
| Total Other Capital Assets at Historical Cost | 3,481,297 | 395,022 | 48,330 | 3,827,989 |
| Less: Accumulated Depreciation For: | | | | |
| Buildings | 694,516 | 79,484 | 5,278 | 768,722 |
| Improvements Other Than Buildings | 131,946 | 15,809 | 100 | 147,655 |
| Equipment | 363,210 | 56,275 | 19,497 | 399,988 |
| Total Accumulated Depreciation | 1,189,672 | 151,568 | 24,875 | 1,316,365 |
| Other Capital Assets, Net | 2,291,625 | 243,454 | 23,455 | 2,511,624 |
| Business-Type Activities, Capital Assets, Net | $ 2,621,538 | $ 436,779 | $ 201,360 | $ 2,856,957 |

**b. Component Units**

Capital assets of the component units consisted of the following as of June 30, 2004:

| | |
|---|---|
| Land | $ 27,774 |
| Buildings | 197,211 |
| Improvements other than Buildings | 1,591 |
| Machinery and Equipment | 237,181 |
| Construction in Progress | 501 |
| Total Capital Assets | 464,258 |
| Accumulated Depreciation | (236,332) |
| Capital Assets, net | $ 227,926 |

**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 6/30/2004 | TRS 6/30/2004 | JRS 6/30/2004 |
|---|---|---|---|
| Retirees and beneficiaries receiving benefits | 36,749 | 24,297 | 217 |
| Terminated plan members entitled to but not yet receiving benefits | 1,744 | 1,250 | 3 |
| Active plan members | 47,926 | 49,946 | 220 |
| Total | 86,419 | 75,493 | 440 |

**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 2004, the annual required contribution (ARC) was $270.5 million; however, the State contributed $185.3 million to the plan, reflecting a reduction of $85.2 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

**Judicial Retirement System**

***Plan Description***

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

***Funding Policy***

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

***Annual Pension Cost, Net Pension Obligation, and Related Information***

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

| | SERS | TRS | JRS |
|---|---|---|---|
| Annual required contribution | $ 470,333 | $ 270,544 | $ 11,598 |
| Interest on net pension obligation | 176,941 | 99,866 | 4 |
| Adjustment to annual required contribution | (113,083) | (65,167) | (2) |
| Annual pension cost | 534,191 | 305,243 | 11,600 |
| Contributions made | 470,333 | 185,348 | 11,598 |
| Increase (decrease) in net pension obligation | 63,858 | 119,895 | 2 |
| Net pension obligation beginning of year | 2,081,663 | 1,174,895 | 41 |
| Net pension obligation end of year | $ 2,145,521 | $ 1,294,790 | $ 43 |

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

| | Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| SERS | 2002 | $ 479,501 | 86.7% | $ 2,017,588 |
| | 2003 | 485,527 | 86.8% | 2,081,663 |
| | 2004 | 534,191 | 88.0% | 2,145,521 |
| TRS | 2002 | $ 246,404 | 83.0% | $ 1,099,721 |
| | 2003 | 254,996 | 70.6% | 1,174,893 |
| | 2004 | 305,243 | 60.7% | 1,294,790 |
| JRS | 2002 | $ 9,599 | 100% | $ 40 |
| | 2003 | 10,127 | 100% | 41 |
| | 2004 | 11,600 | 100% | 43 |

**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 $24.0 million and $37.9 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 6/30/2003 | CPJERS 12/31/2002 |
|---|---|---|
| Retirees and beneficiaries receiving benefits | 4,743 | 226 |
| Terminated plan members entitled to but not receiving benefits | 419 | 34 |
| Active plan members | 8,420 | 371 |
| Total | 13,582 | 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 | $ - | $ - | $ 106 | $ 250 | $ - | $ 80 | $ 436 |
| Receivables: | | | | | | | |
| Accounts, Net of Allowances | 2,380 | 7,286 | 8 | 2,796 | 5 | - | 12,475 |
| From Other Funds | - | 1,641 | - | - | - | - | 1,641 |
| Interest | 138 | 209 | 4 | 25 | 4 | - | 380 |
| Investments | 7,709,616 | 10,860,276 | 140,387 | 1,303,833 | 67,072 | 716 | 20,081,900 |
| Securities Lending Collateral | 813,091 | 1,127,976 | 15,704 | 141,090 | 7,145 | 94 | 2,105,100 |
| Total Assets | 8,525,225 | 11,997,388 | 156,209 | 1,447,994 | 74,226 | 890 | 22,201,932 |
| **Liabilities** | | | | | | | |
| Securities Lending Obligation | 813,091 | 1,127,976 | 15,704 | 141,090 | 7,145 | 94 | 2,105,100 |
| Due to Other Funds | 29,681 | 17,365 | - | - | 25 | - | 47,071 |
| Total Liabilities | 842,772 | 1,145,341 | 15,704 | 141,090 | 7,170 | 94 | 2,152,171 |
| **Net Assets** | | | | | | | |
| Held in Trust For Employee Pension Benefits | 7,682,453 | 10,852,047 | 140,505 | 1,306,904 | 67,056 | 796 | 20,049,761 |
| Total Net Assets | $ 7,682,453 | $ 10,852,047 | $ 140,505 | $ 1,306,904 | $ 67,056 | $ 796 | $ 20,049,761 |

**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 | $ 47,632 | $ 210,227 | $ 1,367 | $ 12,009 | $ 269 | $ 26 | $ 271,530 |
| State | 470,333 | 185,348 | 11,598 | - | - | - | 667,279 |
| Municipalities | - | 1,019 | - | 16,271 | - | - | 17,290 |
| Total Contributions | 517,965 | 396,594 | 12,965 | 28,280 | 269 | 26 | 956,099 |
| Investment Income | 1,060,852 | 1,518,735 | 17,055 | 170,045 | 9,002 | 81 | 2,775,770 |
| Less: Investment Expenses | (25,103) | (35,937) | (403) | (4,024) | (213) | (2) | (65,682) |
| Net Investment Income | 1,035,749 | 1,482,798 | 16,652 | 166,021 | 8,789 | 79 | 2,710,088 |
| Transfers In | - | - | - | - | 1,705 | - | 1,705 |
| Other | 800 | 295 | - | - | 2 | - | 1,097 |
| Total Additions | 1,554,514 | 1,879,687 | 29,617 | 194,301 | 10,765 | 105 | 3,668,989 |
| **Deductions** | | | | | | | |
| Administrative Expense | 339 | - | 7 | 9 | - | - | 355 |
| Benefit Payments and Refunds | 868,165 | 879,797 | 14,346 | 64,709 | 2,241 | 3 | 1,829,261 |
| Other | - | - | - | - | 1,967 | 13 | 1,980 |
| Total Deductions | 868,504 | 879,797 | 14,353 | 64,718 | 4,208 | 16 | 1,831,596 |
| Changes in Net Assets | 686,010 | 999,890 | 15,264 | 129,583 | 6,557 | 89 | 1,837,393 |
| **Net Assets Held in Trust For Employee Pension Benefits:** | | | | | | | |
| Beginning of Year | 6,996,443 | 9,852,157 | 125,241 | 1,177,321 | 60,499 | 707 | 18,212,368 |
| End of Year | $ 7,682,453 | $ 10,852,047 | $ 140,505 | $ 1,306,904 | $ 67,056 | $ 796 | $ 20,049,761 |

**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, 2004, 38,078 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, 2004, $320.8 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):

| | | |
|---|---|---|
| 2005 | $ | 30,126 |
| 2006 | | 25,261 |
| 2007 | | 27,101 |
| 2008 | | 27,616 |
| 2009 | | 27,909 |
| Thereafter | | 22,345 |
| Total | $ | 160,358 |

Contingent revenues for the year ended June 30, 2004, were $2.4 million.

### State as Lessee

Obligations under capital and operating leases as of June 30, 2004, were as follows (amounts in thousands):

| | Noncancelable Operating Leases | Capital Leases |
|---|---|---|
| 2005 | $ 26,583 | $ 7,076 |
| 2006 | 17,903 | 6,336 |
| 2007 | 12,638 | 6,037 |
| 2008 | 9,287 | 5,652 |
| 2009 | 915 | 5,248 |
| 2010-2014 | 19,073 | 27,110 |
| 2015-2019 | - | 6,156 |
| 2020-2024 | - | 6,142 |
| 2025-2029 | - | 6,110 |
| 2030-2034 | - | 2,432 |
| Total minimum lease payments | $ 86,399 | 78,299 |
| Less: Amount representing interest costs | | 24,538 |
| Present value of minimum lease payments | | $ 53,761 |

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, 2004, totaled $11.1 million.

### Lease/Lease Back Transaction (amounts in thousands)

On September 30, 2003 the State executed a U.S. Lease-to-Service Contract of Rolling Stock Agreement (Agreement) whereby the state entered into a head lease of certain rolling stock consisting of rail coaches and locomotives to statutory trusts established for the benefit of three equity investors. Simultaneously, the State executed sublease agreements to lease back the rolling stock in order to allow the State to have continued use of the property. The terms of the head leases are for periods ranging from 40 years to 67 years, expiring through March 2071, while the subleases have terms ranging from 18 years to 28 years, expiring through January 2032. At the end of the respective sublease terms, the State will have the option to purchase the statutory trusts' interest in the rolling stock for an aggregate fixed price.

In connection with the transaction, the State received net proceeds for $29,357 representing the consideration paid for the tax benefits received by the equity investors. The net proceeds received were calculated as follows:

| | | |
|---|---|---|
| Prepayment of head lease rent | $ | 366,405 |
| Less: deposit to irrevocable trust | | 334,590 |
| Less: lease executory costs | | 2,458 |
| Net proceeds received | $ | 29,357 |

Proceeds from the prepayment of the head lease rents were paid to debt payment undertakers and custodians in amounts sufficient, together with investment earning thereon, to provide for all future obligations of the State under the sublease agreements and the end of lease term purchase options. With respect to payments made to custodians, the State pledged assets as collateral to the custodians for the benefit of the lessors, and granted a first security interest is such assets. The pledged assets will primarily be used to pay the end of lease term purchase options. Payments made by the State to the debt payment undertakers are irrevocable once made and will not be subject to avoidance or recapture by the State or any creditors of the State. Further, the State has no right, title, or interest in or to the amounts paid to the debt payment undertakers upon the payment thereof and accordingly, the amounts so paid cease to be assets of the State, but are assets solely of the debt payment undertakers. In addition, per the terms of Debt Payment Undertaking Agreement Guarantees, the debt payment undertaker guarantors have unconditionally guaranteed the full and prompt payment of any and all obligations of the debt payment undertakers. The assets held by the debt payment undertakers and the custodians, as well as any related lease obligation liability, are not reflected as assets or liabilities in the accompanying financial statements. Although it is remote that the State will be required to make any additional payments under the sublease, the State is and shall remain liable for all of its obligations under the subleases. The aggregate remaining commitment under the subleases totaled approximately $343 million at June 30, 2004.

The State is obligated to insure and maintain the rolling stock. In addition, if an equity investor suffers a loss of tax deductions or incurs additional taxable income as a result of certain circumstances, as defined in the Agreement, then the State must indemnify the equity investor for the additional tax incurred, including interest and penalties thereon. The State has the right to terminate the sublease early under certain circumstances and upon payment of a termination value to the equity investors. If the State chooses early termination, then the termination value would be paid from funds available from the debt payment undertakers and the custodians, and if such amounts are insufficient, then the State would be required to pay the difference.

## Note 16 Long-Term Debt

a) The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2004, (amounts in thousands):

| Governmental Activities | Balance July 1, 2003 | Additions | Reductions | Balance June 30, 2004 | Amounts due within one year |
|---|---|---|---|---|---|
| **Bonds:** | | | | | |
| General Obligation | $ 9,216,354 | $ 2,720,294 | $ 2,330,037 | $ 9,606,611 | $ 743,236 |
| Transportation | 3,205,815 | 539,534 | 591,400 | 3,153,949 | 240,065 |
| | 12,422,169 | 3,259,828 | 2,921,437 | 12,760,560 | 983,301 |
| Plus/(Less) premiums and deferred amounts | 105,119 | 104,044 | 27,796 | 181,367 | - |
| **Total Bonds** | 12,527,288 | 3,363,872 | 2,949,233 | 12,941,927 | 983,301 |
| Economic Recovery Notes | 219,235 | 97,700 | 43,720 | 273,215 | 240,065 |
| **Other Liabilities:** | | | | | |
| Net Pension Obligation | 3,256,597 | 851,036 | 667,279 | 3,440,354 | - |
| Compensated Absences | 347,933 | 28,447 | 5,464 | 370,916 | 14,682 |
| Workers' Compensation | 265,645 | 86,184 | 75,148 | 276,681 | 74,926 |
| Capital Leases | 67,988 | - | 14,227 | 53,761 | 9,768 |
| Claims and Judgements | 7,612 | 8,818 | 3,247 | 13,183 | 5,962 |
| Contracts Payable and Other | 7,186 | 4,335 | 5,960 | 5,561 | - |
| **Total Other Liabilities** | 3,952,961 | 978,820 | 771,325 | 4,160,456 | 105,338 |
| **Governmental Activities Long-Term Liabilites** | $ 16,699,484 | $ 4,440,392 | $ 3,764,278 | $ 17,375,598 | $ 1,328,704 |
| **In prior years, the General and Transportation funds have been used to liquidate other liabilities.** | | | | | |
| **Business-Type Activities** | | | | | |
| Revenue Bonds | $ 1,547,526 | $ 610,904 | $ 444,625 | $ 1,713,805 | $ 76,321 |
| Plus/(Less) premiums, discounts and deferred amounts | 5,717 | 30,663 | 31 | 36,349 | - |
| **Total Revenue Bonds** | 1,553,243 | 641,567 | 444,656 | 1,750,154 | 76,321 |
| Lottery Prizes | 435,185 | - | 49,956 | 385,229 | 50,661 |
| Compensated Absences | 87,456 | 18,515 | 1,742 | 104,229 | 25,246 |
| Other | 48,565 | 55,798 | 7,259 | 97,104 | 18,884 |
| **Total Other Liabilities** | 571,206 | 74,313 | 58,957 | 586,562 | 94,791 |
| **Business-Type Long-Term Liabilities** | $ 2,124,449 | $ 715,880 | $ 503,613 | $ 2,336,716 | $ 171,112 |

b) As of June 30, 2004, long-term debt of component units consisted of the following (amounts in thousands):

| Long-Term Debt | Balance June 30, 2004 | Amounts due within year |
|---|---|---|
| Bonds Payable | $ 3,567,717 | $ 146,263 |
| Escrow Deposits | 115,071 | 19,325 |
| Closure of Landfills | 27,149 | 1,433 |
| State Loan | 12,090 | 1,484 |
| Deferred Revenue | 6,524 | 834 |
| Other | 5,926 | 30 |
| Total | $ 3,734,477 | $ 169,369 |

## Note 17 Long-Term Notes and Bonded Debt

### a. 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. As of June 30 2004, the amount of Economic Recovery Notes outstanding was $273.2 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, 2004, were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 63,655 | $ 8,929 | $ 72,584 |
| 2006 | 63,470 | 6,548 | 70,018 |
| 2007 | 63,270 | 4,247 | 67,517 |
| 2008 | 63,270 | 2,017 | 65,287 |
| 2009 | 19,550 | 664 | 20,214 |
| Total | $ 273,215 | $ 22,405 | $ 295,620 |

### b. 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, 2004, were as follows (amounts in thousands):

| Purpose of Bonds | Final Maturity Dates | Original Interest Rates | Amount Outstanding | Authorized But Unissued |
|---|---|---|---|---|
| Capital Improvements | 2004-2023 | 2-8% | $ 2,183,763 | $ 220,557 |
| School Construction | 2004-2022 | 2-7.441% | 1,559,412 | 75,951 |
| Municipal & Other Grants & Loans | 2004-2022 | 2-8.4% | 1,580,427 | 582,200 |
| Elderly Housing | 2005-2018 | 4.25-7.026% | 9,605 | - |
| Elimination of Water Pollution | 2004-2023 | 3-7.525% | 267,667 | 252,010 |
| General Obligation Refunding | 2004-2020 | 2-6.14% | 3,346,721 | - |
| Miscellaneous | 2004-2031 | 2.5-6.75% | 140,125 | 7,737 |
| | | | 9,087,720 | $ 1,138,455 |
| Accretion-Various Capital Appreciation Bonds | | | 518,891 | |
| | | Total | $ 9,606,611 | |

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2004, were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 743,236 | $ 489,901 | $ 1,233,137 |
| 2006 | 705,308 | 462,784 | 1,168,092 |
| 2007 | 694,952 | 439,494 | 1,134,446 |
| 2008 | 699,003 | 415,578 | 1,114,581 |
| 2009 | 663,763 | 425,085 | 1,088,848 |
| 2010-2014 | 2,844,095 | 1,293,580 | 4,137,675 |
| 2015-2019 | 1,851,761 | 454,597 | 2,306,358 |
| 2020-2024 | 872,082 | 99,193 | 971,275 |
| 2025-2029 | 11,325 | 2,172 | 13,497 |
| 2030-2034 | 2,195 | 109 | 2,304 |
| Total | $ 9,087,720 | $ 4,082,493 | $ 13,170,213 |

### 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, 2004, were as follows (amounts in thousands):

| Purpose of Bonds | Final Maturity Dates | Original Interest Rates | Amount Outstanding | Authorized But Unissued |
|---|---|---|---|---|
| Specific Highways | 2017 | 4.25-5.50% | $ 2,653 | $ 4,066 |
| Infrastructure | | | | |
| Improvements | 2004-2024 | 2.5-8.0% | 3,142,057 | 432,863 |
| General Obligation | | | | |
| Other | 2008 | 7.513-7.525% | 344 | - |
| | | | 3,145,054 | $ 436,929 |
| Accretion-Various Capital Appreciation Bonds | | | 8,895 | |
| | | Total | $ 3,153,949 | |

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2004, were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 240,065 | $ 145,706 | $ 385,771 |
| 2006 | 265,635 | 133,849 | 399,484 |
| 2007 | 253,218 | 127,854 | 381,072 |
| 2008 | 261,693 | 115,882 | 377,575 |
| 2009 | 259,643 | 97,836 | 357,479 |
| 2010-2014 | 1,093,255 | 299,826 | 1,393,081 |
| 2015-2019 | 546,145 | 104,179 | 650,324 |
| 2020-2024 | 225,400 | 22,195 | 247,595 |
| Total | $ 3,145,054 | $ 1,047,327 | $ 4,192,381 |

### Variable-Rate Demand Bonds

As of June 30, 2004, 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 | $ 128,900 | 1990 | 2010 |
| General Obligation | 99,235 | 1997 | 2014 |
| Special Tax Obligation | 100,000 | 2000 | 2020 |
| General Obligation | 100,000 | 2001 | 2021 |
| Special Tax Obligation | 419,060 | 2003 | 2022 |
| Total | $ 847,195 | | |

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, 2004, are as follows. The notional amount of the swaps matches 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 | $ 77,400 | 12/19/1990 | 5.746% | 65% of LIBOR (1) | $ (8,159) | 12/1/2010 | Aaa/AAA/AAA |
| 1990 STO | 51,500 | 12/19/1990 | 5.709% | 65% of LIBOR (1) | (5,346) | 12/1/2010 | A3/BBB |
| 2001 GO | 20,000 | 6/28/2001 | 4.330% | CPI (3) plus 1.43% | (483) | 6/15/2012 | Aa3/A+/AA- |
| 2003 STO | 119,530 | 1/23/2003 | 3.293% | BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter | 429 | 2/1/2022 | Aa1/AA-/AA |
| 2003 STO | 99,315 | 1/23/2003 | 3.288% | BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter | 397 | 2/1/2022 | Aa1/AA/AA+ |
| 2003 STO | 200,215 | 1/23/2003 | 3.284% | BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter | 914 | 2/1/2022 | Aa2/AA+/AA+ |
| Total | $ 567,960 | | | | $ (12,248) | | |

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

*Fair value*
As of June 30, 2004, the 2003 swaps had a positive fair value because interest rates have increased since January 2003; the 1990 swaps had a negative fair value because interest rates have declined since 1990. 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, 2004, the State had a minor exposure to credit risk on the 2003 swaps, but it had no credit risk exposure on the other 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 2004 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, 2004, the BMA rate was 1.06 percent, whereas 65 percent of LIBOR was 0.72 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2004, 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 swap 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, 2004, 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 |
|---|---|---|---|---|
| 2005 | $ 18,025 | $ 6,628 | $ 15,759 | $ 40,412 |
| 2006 | 19,135 | 6,429 | 14,907 | 40,471 |
| 2007 | 20,350 | 6,219 | 13,747 | 40,316 |
| 2008 | 21,665 | 5,994 | 12,427 | 40,086 |
| 2009 | 22,985 | 5,756 | 11,401 | 40,142 |
| 2010-2014 | 176,295 | 23,311 | 43,135 | 242,741 |
| 2015-2019 | 258,185 | 8,040 | 16,211 | 282,436 |
| 2020-2022 | 31,320 | 363 | 732 | 32,415 |
| Total | $ 567,960 | $ 62,740 | $ 128,319 | $ 759,019 |

**c. 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, 2004, were as follows (amounts in thousands):

| Funds | Final Maturity Dates | Original Interest Rates | Amount Outstanding (000's) |
|---|---|---|---|
| Higher Education | 2009-2030 | 2.1-7% | $ 537,126 |
| Bradley International Airport | 2012-2031 | 3.25-7.65% | 252,020 |
| Second Injury | 2011 | 4.5-5.25% | 54,255 |
| Clean Water | 2006-2025 | 2-10% | 560,176 |
| Other: | | | |
| Bradley Parking Garage | 2006-2024 | 6.125-8% | 53,800 |
| Drinking Water | 2022 | 4-5.5% | 51,083 |
| Rate Reduction Bonds | 2004-2011 | 2.5-5% | 205,345 |
| Total Revenue Bonds | | | 1,713,805 |
| Plus/(Less) premiums, discounts and deferred amounts: | | | |
| Bradley International Airport | | | (726) |
| Clean Water | | | 21,371 |
| Other | | | 15,704 |
| Revenue Bonds, net | | | $ 1,750,154 |

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2004, the following bonds were outstanding:

a) Airport Revenue Refunding Bonds in the amount of $42.1 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 $191.2 million and Bradley International Airport Refunding Bonds in the amount of $18.7 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.

In 2004, the State of Connecticut issued $205.3 million of Special Obligation Rate Reduction Bonds. These bonds were issued to sustain for two years the funding of energy conservation and load management and renewable energy investment programs by providing money to the State's General Fund.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 118,043 | $ 89,385 | $ 207,428 |
| 2006 | 108,827 | 74,346 | 183,173 |
| 2007 | 102,776 | 67,657 | 170,433 |
| 2008 | 118,851 | 63,852 | 182,703 |
| 2009 | 173,863 | 95,024 | 268,887 |
| 2010-2014 | 402,595 | 205,784 | 608,379 |
| 2015-2019 | 270,088 | 134,546 | 404,634 |
| 2020-2024 | 226,750 | 74,118 | 300,868 |
| 2025-2029 | 149,654 | 29,315 | 178,969 |
| 2030-2034 | 42,358 | 2,856 | 45,214 |
| Total | $ 1,713,805 | $ 836,883 | $ 2,550,688 |

**d. Component Units**

Component units' revenue bonds outstanding at June 30, 2004, were as follows:

| Component Unit | Final Maturity Date | Interest Rates | Amount Outstanding (000's) |
|---|---|---|---|
| CT Development Authority | 2004-2019 | 4.75-8.75% | $ 42,820 |
| CT Housing Finance Authority | 2003-2045 | 1.37-9.36% | 3,199,620 |
| CT Resources Recovery Authority | 2004-2016 | 3.9-7.7% | 205,409 |
| Other: | | | |
| CT Higher Education | | | |
| Supplemental Loan Authority | 2004-2021 | 4-7.5% | 115,115 |
| UConn Foundation | 2029 | 3.6-5.375% | 7,495 |
| Total Revenue Bonds | | | 3,570,459 |
| Plus/(Less) premiums, discounts, and deferred amounts: | | | |
| CDA | | | (50) |
| CRRA | | | (2,797) |
| CHESLA | | | 105 |
| Revenue Bonds, net | | | $ 3,567,717 |

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, 2004 were $4.8 million. Assets totaling $3.4 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 $38.0 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2003, bonds outstanding under the bond resolution and the indenture were $3,154.0 million and $45.6 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 ($261.5 million at 12/31/03) on all outstanding bonds. As of December 31, 2003, the Authority has entered into interest rate swap agreements for $730.6 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.

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 $178.7 million.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 260,926 | $ 259,257 | $ 520,183 |
| 2006 | 137,874 | 131,749 | 269,623 |
| 2007 | 132,622 | 126,007 | 258,629 |
| 2008 | 140,220 | 120,658 | 260,878 |
| 2009 | 32,353 | 12,648 | 45,001 |
| 2010-2014 | 698,959 | 508,555 | 1,207,514 |
| 2015-2019 | 647,372 | 370,498 | 1,017,870 |
| 2020-2024 | 568,016 | 247,041 | 815,057 |
| 2025-2029 | 534,767 | 135,863 | 670,630 |
| 2030-2034 | 360,290 | 53,728 | 414,018 |
| 2035-2039 | 40,470 | 7,548 | 48,018 |
| 2040-2044 | 15,335 | 2,474 | 17,809 |
| 2045-2049 | 1,255 | 63 | 1,318 |
| Total | $ 3,570,459 | $ 1,976,089 | $ 5,546,548 |

**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, 2004 were $993.2 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, 2004 were $203.9 million. Of this amount, $61.5 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, 2004, were $4,666.7 million, of which $374.4 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.

**e. Debt Refundings**

During the year, the State issued $1,967.5 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.35% to advance refund $1,996.8 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.15%. 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 $165 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 $115.7 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $93.9 million. As of June 30, 2004, $3,660.8 million of outstanding general obligation, special tax obligation, and revenue bonds 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 in the University of Connecticut 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 6-30-02 | $ 245,183 | $ 9,355 |
| Incurred claims | 95,707 | 351 |
| Paid claims | (75,245) | (1,206) |
| Balance 6-30-03 | 265,645 | 8,500 |
| Incurred claims | 86,184 | 6,227 |
| Paid claims | (75,148) | (4,387) |
| Balance 6-30-04 | $ 276,681 | $ 10,340 |

## Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2004, were as follows (amounts in thousands):

| | Balance due to fund(s) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance due from fund(s)** | General | Transportation | Other Governmental | Uconn | State Universities | Other Proprietary | Employment Security | Internal Services | Fiduciary | Component Units | Total |
| General | $ - | $ - | $ 174,327 | $ 40,039 | $ 14,663 | $ 10,115 | $ 1,474 | $ 5,474 | $ 4,683 | $ - | $ 250,775 |
| Transportation | - | - | - | - | - | - | - | 534 | - | - | 534 |
| Other Governmental | 8,879 | 5,964 | 3,896 | 10,165 | 22,020 | 53,242 | - | - | - | 22,179 | 126,345 |
| Uconn | 8,908 | - | - | - | - | - | - | - | - | - | 8,908 |
| State Universities | 1,636 | - | - | - | - | - | - | - | - | - | 1,636 |
| Employment Security | - | - | 4,687 | - | - | - | - | - | - | - | 4,687 |
| Other Proprietary | 317 | - | 1,754 | - | - | - | - | - | - | - | 2,071 |
| Internal Services | 4,700 | - | 63,387 | - | - | - | - | - | - | - | 68,087 |
| Fiduciary | - | - | 40,604 | - | - | - | - | - | 8,100 | - | 48,704 |
| Component Units | 12,090 | - | - | - | - | - | - | - | - | - | 12,090 |
| Total | $ 36,530 | $ 5,964 | $ 288,655 | $ 50,204 | $ 36,683 | $ 63,357 | $ 1,474 | $ 6,008 | $ 12,783 | $ 22,179 | $ 523,837 |

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end. $174 million owed to other governmental funds by the General fund resulted from a loan made by governmental funds to eliminate a cash overdraft in the General fund.

## Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2004, consisted of the following (amounts in thousands):

| | Amount transferred to fund(s) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Amount transferred from fund(s)** | General | Debt Service | Transportation | Other Governmental | Uconn | State Universities | Other Proprietary | Fiduciary | Total |
| General | $ - | $ 13,665 | $ - | $ 495,792 | $ 375,535 | $ 190,450 | $ 167,039 | $ - | $ 1,242,481 |
| Debt Service | - | - | 25,430 | 1,175 | - | - | - | - | 26,605 |
| Transportation | - | 399,413 | - | 41,376 | - | - | - | - | 440,789 |
| Other Governmental | 132,693 | 15,250 | 1,476 | 71,006 | 103,932 | 16,255 | 46,433 | 1,705 | 388,750 |
| Connecticut Lottery | 280,763 | - | - | - | - | - | - | - | 280,763 |
| Other Proprietary | 194,000 | - | - | 7,819 | - | - | 13,889 | - | 215,708 |
| Total | $ 607,456 | $ 428,328 | $ 26,906 | $ 617,168 | $ 479,467 | $ 206,705 | $ 227,361 | $ 1,705 | $ 2,595,096 |

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.

## Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2004, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

| | Balance 6-30-03 Previously Reported | Fund Reclass | Correction of Reported Assets/ Liabilities | Balance 6-30-03 as Restated |
|---|---|---|---|---|
| **Governmental Funds and Activities** | | | | |
| Major Funds: | | | | |
| General | $ (401,499) | $ - | $ 19,656 | $ (381,843) |
| Transportation | 158,277 | - | 10,026 | 168,303 |
| Nonmajor Funds: | | | | |
| Environmental Programs | 119,603 | 26,934 | - | 146,537 |
| **Total Governmental Funds** | $ (123,619) | $ 26,934 | $ 29,682 | $ (67,003) |
| Governmental Activities | | | | |
| Capitalization of Software Costs | - | - | 70,422 | 70,422 |
| Net Assets of Governmental Activities | $ (5,346,984) | $ 26,934 | $ 100,104 | $ (5,219,946) |
| **Proprietary Funds and Business-Type Activities** | | | | |
| Major Funds: | | | | |
| Higher Education | $ 2,535,973 | $ (2,535,973) | $ - | $ - |
| University of Connecticut | - | 1,525,227 | - | 1,525,227 |
| State Universities | - | 464,000 | (9,750) | 454,250 |
| Non-Major Funds: | | | | |
| Community Technical Colleges | - | 304,775 | - | 304,775 |
| **Total Proprietary Funds** | $ 2,535,973 | $ (241,971) | $ (9,750) | $ 2,284,252 |
| Net Assets of Business-Type Activities | $ 3,875,072 | $ (241,971) | $ (9,750) | $ 3,623,351 |
| **Component Units** | | | | |
| Connecticut Health & Educational Facilities Authority | $ - | $ 19,975 | $ - | $ 19,975 |
| Connecticut Resources Recovery Authority | 117,489 | (117,489) | - | - |
| **Other Component Units** | | | | |
| Connecticut Resources Recovery Authority | - | 117,489 | - | 117,489 |
| Connecticut Health & Educational Facilities Authority | 19,975 | (19,975) | - | - |
| Connecticut Higher Education Supplemental Loan Authority | 6,438 | - | (1,220) | 5,218 |
| Connecticut Innovations, Incorporated | 136,683 | (31,900) | - | 104,783 |
| Uconn Foundation | - | 241,970 | (29,522) | 212,448 |
| **Total Component Units** | $ 280,585 | $ 210,070 | $ (30,742) | $ 459,913 |
| Net Assets of Component Units | $ 1,112,011 | $ 210,070 | $ (30,742) | $ 1,291,339 |

In July 2003 the State implemented a new Internet-based financial management and human resources system. As of 6-30-04, the State had spent $101.9 million in implementation costs. Of this amount, $85.9 million represents costs incurred in developing the software for its intended use. For example, software and license fees, equipment, consulting fees, etc. These costs, of which $70.4 million were incurred prior to fiscal year 2004, are being capitalized and amortized over their estimated useful life in the government-wide financial statements, governmental activities. Other implementation costs, such as planning and training and support, were expensed when incurred.

During the year, the State implemented GASB Statement No.39, "Determining Whether Certain Organizations Are Component Units." This Statement requires the State to report certain organizations (mainly fund-raising foundations) as component units (discrete presentation). Thus, the State reclassified this year the University of Connecticut Foundation, Inc. as a discretely-presented component unit. In prior years, the Foundation was reported as a component unit of the Higher Education fund, an enterprise fund.

Also, the following reclassifications were made this year to improve financial reporting of enterprise funds and component units:

1) The University of Connecticut, the State Universities, and the Community/Technical colleges were reclassified as separate enterprise funds. In prior years, these funds were reported as part of the Higher Education fund, an enterprise fund.

2) The Clean Energy fund was reclassified as a special revenue fund. In prior years, this fund was reported as part of the Connecticut Innovations, Inc. fund, a component unit.

The beginning fund balance of the General fund was adjusted to correct understatements of cash ($2.8 million) and taxes receivable ($16.9 million). For the Transportation fund, the adjustment reflects a reduction of $10 million to deferred revenue because revenue recognition requirements on related resources had been met in the prior year. For the University of Connecticut Foundation, Inc., the adjustment reflects a reduction of $29.5 million to pledges receivable because such pledges should not be recognized as an asset until the resources are received by the Foundation.

**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, 2004, 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 $1,962.8 million of which $1,447.7 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $2,900 million and interest costs of $190 million for a total of $3,090 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $553.4 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, 2004, the Authority had drawn $12.8 million on these funds.

**B. Contingent Liabilities**

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

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.

As a result of a recent federal audit of the Medicaid program, the federal government is claiming that it had over paid the State $32.8 million for its share of Medicaid costs paid by State. The State paid back $7.5 million of the amount in question and is contending that no additional funds should be paid back to the federal government. As of June 30, 2004, the State now believes that there is a reasonable possibility that it will be required to pay back an additional $7.6 million to the federal government as a result of the audit.

**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 unusual in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Transfers to the General fund from the State's component units were as follows (amounts in million):

| | |
|---|---|
| Connecticut Innovations, Incorporated | $ 5.0 |
| Connecticut Development Authority | $10.0 |
| Connecticut Housing Finance Authority | $ 2.5 |

The State, also, transferred mortgage loans with a carrying amount of $204 million from the Housing Programs fund, a special revenue fund, to the Connecticut Housing Finance Authority, a component unit. The loans were recorded by the Authority at a net realizable value of $65 million. In exchange, the State received $85 million in cash in the prior year.

As explained in Note 15, the State entered into a lease/lease-back transaction for some of its rail cars and locomotives. As a result of this transaction, the State received a payment of $29.3 million, which was deposited in the Infrastructure fund (a capital projects fund).

**Note 25 Subsequent Events**

In July, the State issued $72.5 million of parking and energy fee revenue bonds. The bonds are special obligations of the Capital City Economic Development Authority, a component unit. However, the State is contractually obligated to pay annual debt service requirements on the bonds, such payment not to exceed $6.7 million.

In November, $200 million of special tax obligation bonds for transportation infrastructure programs and $89.7 million special tax obligation refunding bonds were issued. These bonds will mature through July, 2024 and July, 2019 respectively and bear interest rates ranging from 2.125% to 5% and 3% to 5.25% respectively.

In December, $300 million of general obligation bonds were issued. The bonds will mature in years 2005 through 2024 and bear interest rates ranging from 2.15% to 5%.

In March 2005, $300 million of variable rate general obligation bonds were issued. The bonds will mature in years 2006 through 2023.

In March 2005, $98 million of general obligation bonds were issued. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 3% to 5%.

In March 2005, $335.5 million of general obligation refunding bonds were issued. The bonds will mature in years 2005 through 2021 and bear interest rates ranging from 3% to 5.25%.

In June 2005, $315 million of general obligation bonds were issued. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 3% to 5%.

In November 2005, $300 million of general obligation bonds were issued. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 4% to 5%.

In December 2005, $250 million of special tax obligation bonds for transportation infrastructure programs were issued. These bonds will mature in years 2006 through 2015 and bear interest rates ranging from 4% 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 | $8,058.6 | $14,223.8 | $6,165.2 | 56.7% | $2,654.3 | 232.3% |
| 6/30/2004 | $8,238.3 | $15,128.5 | $6,890.2 | 54.5% | $2,816.7 | 244.6% |

*No actuarial valuations were performed as of June 30, 1999.

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b-a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | ((b-a)/c) UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| **TRS** | | | | | | |
| 6/30/1998 | $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 * | - | - | - | - | - | - |
| 6/30/2004 | $9,846.7 | $15,070.5 | $5,223.8 | 65.3% | $2,930.8 | 178.2% |

*No actuarial valuations were performed as of June 30, 1999, 2001 and 2003

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b-a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | ((b-a)/c) UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| **JRS** | | | | | | |
| 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 | $142.8 | $211.1 | $68.3 | 67.6% | 27.84 | 245.3% |
| 6/30/2004 | $150.9 | $219.8 | $69.0 | 68.7% | 28.90 | 238.8% |
| **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)% |
| 7/1/2003 | $1,417.7 | $1,378.2 | $(39.5) | 102.9% | $326.4 | (12.1)% |

**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% | $- | - |
| 2004 | $470.3 | 100.0% | $270.5 | 68.5% | $11.6 | 100.0% | $16.3 | 100.0% | $- | - |

**Note:** During the years 2000 thru 2004 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 | 6/30/2004 | 6/30/2004 | 6/30/2004 | 7/1/2003 | 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 | 28 Years | 8-27 Years | 26 Years | 3-21 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 Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
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ROBERT G. JAEKLE

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

Governor M. Jodi Rell
Members of the General Assembly

We have audited the financial statements of the State of Connecticut, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 30, 2005. As stated in our report on the financial statements, we did not audit the financial statements of certain agencies, funds and component units. Those financial statements were audited by other auditors whose reports, including their reports on internal control over financial reporting and on compliance have been furnished to us, and our report on the financial statements and this report, insofar as it relates to the amounts included for those agencies, funds, and component units and their internal control over financial reporting and compliance, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements, were not conducted in accordance with *Government Auditing Standards*.

**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 an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the State of Connecticut’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying “Schedule of Findings and Questioned Costs” as the items listed below:

- II.A.1. As a result of problems in the implementation of the new Core-CT accounting system, the Office of State Comptroller could not prepare financial statements within statutory and regulatory deadlines, and within the reporting requirements for Federal financial assistance.
- II.A.2. The Office of State Comptroller did not adequately administer the State’s accounting and financial reporting functions to ensure that departments and agencies correctly enter transactions onto the new Core-CT accounting system.
- II.A.3 The new Core-CT accounting system was not designed to provide an efficient means of producing needed financial reports to system users.
- II.A.4 The new Core-CT accounting system did not have adequate internal controls to ensure that interagency transfers are properly recorded.
- II.A.5 The new Core-CT accounting system did not have adequate internal controls to ensure that transaction dates and account codes are properly recorded.
- II.A.6 The internal controls in the new Core-CT accounting system failed to ensure that transactions were correctly posted to both the commitment control and general ledgers.

A material weakness is a reportable condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. 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 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 II.A.2, II.A.4, II.A.5 and II.A.6 to be material weaknesses.

We also 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, 2004.

**Compliance and Other Matters:**

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 or other matters 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, 2004.

This report is intended solely for the information and use 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 and is not intended to be or should be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 30, 2005
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

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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 M. Jodi Rell
Members of the General Assembly

**Compliance**

We have audited the compliance of the State of Connecticut with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2004. 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.

The State of Connecticut's basic financial statements include the operations of the Connecticut Housing Finance Authority, the Clean Water Fund, and the Drinking Water Fund, which received $72,127,049 in Federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2004. Our audit, described below, did not include the operations of the Connecticut Finance Housing Authority, the Clean Water Fund, and the Drinking Water Fund because other auditors were engaged to audit the Connecticut Housing Finance Authority, the Clean Water Fund, and the Drinking Water Fund in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 items III.E.3. and III.E.4. in the accompanying Schedule of Findings and Questioned Costs, the State of Connecticut did not comply with the requirements regarding *Allowable Costs/Cost Principles* that are applicable to its *Foster Care-Title IV-E* (CFDA #93.658) and *Adoption Assistance* (CFDA #93.659) programs, respectively. Compliance with such requirements is necessary, in our opinion, for the State of Connecticut to comply with requirements applicable to that 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, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items III.A.1., III.A.7., III.A.11., III.A.13., III.A.16., III.A.17., III.A.18., III.A.19., III.A.20., III.A.25., III.A.27., III.A.28., III.A.29., III.A.30., III.A.32., III.D.1., III.D.2., III.E.1., III.E.6., III.E.7., III.E.8., III.F.1., III.F.2., III.F.5., III.G.1., III.G.2., and III.H.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.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.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.B.1., III.C.1., III.D.1., III.D.2., III.D.3., III.D.4., III.D.5., III.D.6., III.E.1., III.E.2., III.E.3., III.E.4., III.E.5., III.E.6., III.E.7., III.E.8., III.F.1., III.F.2., III.F.3., IIIF.4., III.F.5., III.G.1., III.G.2., III.H.1., III.H.2., III.H.3., III.H.4., III.H.5., III.H.6., III.H.7., III.H.8., III.H.9., and III.I.1..

A material weakness is a reportable 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 caused by error or fraud 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.7., III.A.11., III.A.20., III.D.1., III.E.3., III.E.4., III.F.1., III.F.2., III.G.1., III.H.1., and III.I.1. to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2004, and have issued our report thereon dated December 30, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the State of Connecticut's basic financial statements. 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 basic financial statements. Such information 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.

This report is intended for the information and use 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, State agencies, and Federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Kevin P. Johnston
Auditor of Public Accounts

R. G. J.
Robert G. Jaekle
Auditor of Public Accounts

December 30, 2005
State Capitol
Hartford, Connecticut

# Schedule of Expenditures of Federal Awards

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| | | $ |
| **Department of Agriculture** | | |
| **Food Stamp Cluster:** | | |
| Food Stamps (See Note 3) | 10.551 | 190,253,154 |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 19,907,830 |
| **Total Food Stamp Cluster** | | 210,160,984 |
| | | |
| **Child Nutrition Cluster:** | | |
| School Breakfast Program | 10.553 | 11,540,892 |
| National School Lunch Program | 10.555 | 54,488,407 |
| Special Milk Program for Children | 10.556 | 377,321 |
| Summer Food Service Program for Children | 10.559 | 907,839 |
| **Total Child Nutrition Cluster** | | 67,314,459 |
| | | |
| Miscellaneous Programs (See Note 11) | 10.000 | 130,129 |
| Agricultural Research - Basic and Applied Research | 10.001 | 493,578 |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | 149,830 |
| Market Protection and Promotion | 10.163 | 5,235 |
| Grants for Agricultural Research, Special Research Grants | 10.200 | 44,713 |
| Cooperative Forestry Research | 10.202 | 142,833 |
| Payments to Agricultural Experiment Stations Under Hatch Act | 10.203 | 713,296 |
| Grants for Agricultural Research-Competitive Research Grants (See Note 11) | 10.206 | 201,356 |
| Biotechnology Risk Assessment Research | 10.219 | 97,189 |
| Higher Education Multicultural Scholars Program | 10.220 | 16,810 |
| Initiative for Future Agriculture and Food Systems | 10.302 | 23,398 |
| Integrated Programs (See Note 11) | 10.303 | 6,828 |
| Crop Insurance | 10.450 | 104,686 |
| Cooperative Extension Service (See Note 11) | 10.500 | 2,715,988 |
| Food Donation (See Note 3) | 10.550 | 14,214,767 |
| Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7) | 10.557 | 42,640,335 |
| Child and Adult Care Food Program | 10.558 | 9,849,389 |
| State Administrative Expenses for Child Nutrition | 10.560 | 1,005,020 |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | 322,317 |
| Team Nutrition Grants | 10.574 | 166,412 |
| Forestry Research | 10.652 | 117,200 |
| Cooperative Forestry Assistance | 10.664 | 4,797,541 |
| | | |
| **Total Department of Agriculture** | | 355,434,293 |
| | | |
| **Department of Commerce** | | |
| Economic Development-Support for Planning Organizations | 11.302 | 84 |
| Economic Adjustment Assistance (See Note 8) | 11.307 | 113,096 |
| Anadromous Fish Conservation Act Program | 11.405 | 51,650 |
| Interjurisdictional Fisheries Act of 1986 | 11.407 | 9,465 |
| Sea Grant Support | 11.417 | 40,437 |
| Coastal Zone Management Administration Awards | 11.419 | 1,882,058 |
| Habitat Conservation | 11.463 | 3,912 |
| Atlantic Coastal Fisheries Cooperative Management Act | 11.474 | 139,897 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Fisheries Disaster Relief | 11.477 | 845,769 |
| **Total Department of Commerce** | | 3,086,368 |
| **Department of Defense** | | |
| Miscellaneous Programs | 12.000 | 256 |
| Procurement Technical Assistance For Business Firms (See Note 11) | 12.002 | 62,662 |
| State Memorandum of Agreement Program for the Reimbursement of Technical Services | 12.113 | 60,119 |
| Basic and Applied Scientific Research | 12.300 | 24,583 |
| Military Construction, National Guard | 12.400 | 174,512 |
| National Guard Military Operations and Maintenance (O&M) Projects | 12.401 | 8,146,179 |
| National Guard Civilian Youth Opportunities | 12.404 | 120,378 |
| Research and Technology Development | 12.910 | 218,444 |
| **Total Department of Defense** | | 8,807,133 |
| **Department of Housing and Urban Development** | | |
| **Section 8 Project-Based Cluster:** | | |
| Lower Income Housing Assistance Program - Section 8 New Const / Substantial Rehab. | 14.182 | 11,186,952 |
| Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation | 14.856 | 259,915 |
| **Total Section 8 Project-Based Cluster** | | 11,446,867 |
| Congregate Housing Services Program | 14.170 | 257,713 |
| Community Development Block Grants/State's Program | 14.228 | 16,710,718 |
| Emergency Shelter Grants Program | 14.231 | 1,025,000 |
| Supportive Housing Program | 14.235 | 1,116,368 |
| Shelter Plus Care | 14.238 | 5,352,299 |
| HOME Investment Partnerships Program | 14.239 | 9,689,897 |
| Housing Opportunities for Persons with AIDS | 14.241 | 1,365,253 |
| Empowerment Zones Program | 14.244 | 440,969 |
| Community Development Block Grants/Brownfields Economic Development Initiative (See Note 11) | 14.246 | 12,797 |
| Fair Housing Assistance Program-State and Local | 14.401 | 66,331 |
| Community Outreach Partnership Center Program | 14.511 | 152,057 |
| Section 8 Housing Choice Vouchers | 14.871 | 46,118,568 |
| **Total Department of Housing and Urban Development** | | 93,754,837 |
| **Department of the Interior** | | |
| **Fish and Wildlife Cluster:** | | |
| Sport Fish Restoration | 15.605 | 3,732,213 |
| Wildlife Restoration | 15.611 | 1,322,128 |
| **Total Fish and Wildlife Cluster** | | 5,054,341 |
| Miscellaneous Programs | 15.000 | 68,463 |
| Cooperative Endangered Species Conservation Fund | 15.615 | 11,985 |
| Clean Vessel Act | 15.616 | 556,029 |
| Wildlife Conservation and Appreciation | 15.617 | 428 |
| Sportfishing and Boating Safety Act | 15.622 | 86 |

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Wildlife Conservation and Restoration | 15.625 | 74,715 |
| Landowner Incentive | 15.633 | 7,681 |
| State Wildlife Grants | 15.634 | 39,785 |
| U.S. Geological Survey-Research and Data Acquisition | 15.808 | 110,604 |
| National Cooperative Geologic Mapping Program | 15.810 | 25,205 |
| Historic Preservation Fund Grants-In-Aid | 15.904 | 324,861 |
| Outdoor Recreation-Acquisition, Development and Planning | 15.916 | 103,981 |
| **Total Department of the Interior** | | 6,378,164 |
| **Department of Justice** | | |
| Miscellaneous Programs | 16.000 | 89,748 |
| Law Enforcement Assistance-Narcotics/Dangerous Drugs-State Legislation | 16.002 | 13,800 |
| Offender Reentry Program | 16.202 | 74,504 |
| Juvenile Accountability Incentive Block Grants | 16.523 | 1,421,037 |
| Juvenile Justice and Delinquency Prevention-Allocation to States | 16.540 | 552,144 |
| Developing, Testing, Demonstrating Promising New Programs | 16.541 | 58,713 |
| Part D- Research., Evaluation, Technical, Assistance and Training | 16.542 | 123,326 |
| Title V-Delinquency Prevention Program | 16.548 | 142,786 |
| Part E-State Challenge Activities | 16.549 | 297,020 |
| State Justice Statistics Programs for Statistical Analysis Centers | 16.550 | (1,183) |
| National Criminal History Improvement Program | 16.554 | 436,980 |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | 339,099 |
| Crime Victim Assistance | 16.575 | 4,263,877 |
| Crime Victim Compensation | 16.576 | 954,898 |
| Byrne Formula Grant Program | 16.579 | 4,956,572 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | 26,443 |
| Violent Offender Incarceration and Truth in Sentencing Incentive Grants | 16.586 | 1,854,971 |
| Violence Against Women Formula Grants | 16.588 | 1,072,486 |
| Rural Domestic Violence and Child Victimization Enforcement Grant Program | 16.589 | 133,241 |
| Grants to Encourage Arrest Policies and Enforcement of Protection Orders | 16.590 | 407,002 |
| Managing Sex Offenders | 16.591 | 72,207 |
| Local Law Enforcement Block Grants Program | 16.592 | 380,116 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | 541,752 |
| State Criminal Alien Assistance Program | 16.606 | 802,045 |
| Community Prosecution and Project Safe Neighborhoods | 16.609 | 75,988 |
| Public Safety Partnership and Community Policing Grants | 16.710 | 3,948,473 |
| Police Corps | 16.712 | 320,706 |
| Enforcing Underage Drinking Laws Program | 16.727 | 704,299 |
| **Total Department of Justice** | | 24,063,050 |
| **Department of Labor** | | |
| **Employment Services Cluster:** | | |
| Employment Service | 17.207 | 9,558,633 |
| Disabled Veterans' Outreach Program | 17.801 | 1,139,996 |
| Local Veterans' Employment Representative Program | 17.804 | 1,217,602 |
| **Total Employment Services Cluster** | | 11,916,231 |

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| **WIA Cluster:** | | |
| WIA Adult Program | 17.258 | 4,436,316 |
| WIA Youth Activities | 17.259 | 7,531,464 |
| WIA Dislocated Workers | 17.260 | 6,218,754 |
| **Total WIA Cluster** | | 18,186,534 |
| Labor Force Statistics | 17.002 | 1,759,153 |
| Unemployment Insurance (See Note 1 and Note 9) | 17.225 | 884,754,170 |
| Senior Community Service Employment Program | 17.235 | 958,525 |
| Trade Adjustment Assistance-Workers | 17.245 | 2,314,300 |
| Employment Services and Job Training Pilots - Demonstrations and Research | 17.249 | 53,961 |
| Welfare-to-Work Grants to States and Localities | 17.253 | 326,252 |
| Workforce Investment Act | 17.255 | 64,188 |
| One-Stop Career Center Initiative | 17.257 | 507,161 |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | 17.261 | 487,279 |
| Youth Opportunity Grants (See Note 11) | 17.263 | 26,397 |
| WIA Incentive Grants_Section 503 Grants to States | 17.267 | 758,221 |
| Occupational Safety and Health | 17.500 | 134,480 |
| Occupational Safety and Health-State Program | 17.503 | 496,235 |
| Consultation Agreements | 17.504 | 919,215 |
| Mine Health and Safety Grants | 17.600 | 55,744 |
| Employment Programs for People with Disabilities | 17.720 | 68,114 |
| **Total Department of Labor** | | 923,786,160 |
| **Department of State** | | |
| Miscellaneous Programs | 19.000 | 82,743 |
| Educational Exchange-Fulbright American Studies Institutes | 19.418 | (1,751) |
| Educational Partnerships Program | 19.424 | 71,521 |
| **Total Department of State** | | 152,513 |
| **Department of Transportation** | | |
| **Federal Transit Cluster:** | | |
| Federal Transit-Capital Investment Grants | 20.500 | 41,047,520 |
| Federal Transit-Formula Grants | 20.507 | 59,556,109 |
| **Total Federal Transit Cluster** | | 100,603,629 |
| Miscellaneous Programs | 20.000 | 280,469 |
| Airport Improvement Program | 20.106 | 3,003,604 |
| Highway Planning and Construction | 20.205 | 423,144,441 |
| Highway Training and Education | 20.215 | 108,044 |
| National Motor Carrier Safety | 20.218 | 3,369,540 |
| Recreational Trails Program | 20.219 | 296,060 |
| Federal Transit-Metropolitan Planning Grants | 20.505 | 405,284 |
| Formula Grants for Other Than Urbanized Areas | 20.509 | 1,304,501 |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | 936,639 |

## STATE OF CONNECTICUT
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Transit Planning and Research | 20.514 | 126 |
| Job Access-Reverse Commute | 20.516 | 2,925,148 |
| State and Community Highway Safety | 20.600 | 9,772,809 |
| Pipeline Safety | 20.700 | 50,000 |
| University Transportation Centers Program (See Note 11) | 20.701 | 36,000 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 38,107 |
| **Total Department of Transportation** | | **546,274,401.00** |
| **Department of the Treasury** | | |
| Low-Income Taxpayer Clinics | 21.008 | 72,572 |
| Job's & Growth Tax Relief Reconciliation Act of 2003 | 21.999 | 115,806,960 |
| **Total Department of the Treasury** | | 115,879,532 |
| **Equal Employment Opportunity Commission** | | |
| Employment Discrimination-State and Local Fair Employment Practices Agency Contracts | 30.002 | 509 |
| **General Services Administration** | | |
| Donation of Federal Surplus Personal Property (See Note 3) | 39.003 | 13,787 |
| **National Aeronautics and Space Administration** | | |
| Miscellaneous Programs | 43.000 | 71,592 |
| Aerospace Education Services Program (See Note 11) | 43.001 | 20,808 |
| **Total National Aeronautics and Space Administration** | | 92,400 |
| **National Endowment for the Arts** | | |
| Promotion of the Arts-Partnership Agreements | 45.025 | 466,737 |
| Promotion of the Arts-Leadership Initiatives | 45.026 | 75,000 |
| **Total National Endowment for the Arts** | | 541,737 |
| **National Endowment for the Humanities** | | |
| Promotion of the Humanities-Federal/State Partnership (See Note 11) | 45.129 | 16,626 |
| Promotion of the Humanities-Fellowships and Stipends (See Note 11) | 45.160 | 23,460 |
| State Library Program | 45.310 | 1,688,794 |
| **Total National Endowment for the Humanities** | | 1,728,880 |
| **National Science Foundation** | | |
| Miscellaneous Programs | 47.000 | 41 |
| Engineering Grants | 47.041 | 111,757 |
| Mathematical and Physical Sciences | 47.049 | 24,230 |
| Geosciences (See Note 11) | 47.050 | 3,517 |
| Biological Sciences (See Note 11) | 47.074 | 53,737 |
| Education and Human Resources (See Note 11) | 47.076 | 847,791 |
| Polar Programs | 47.078 | 5,321 |

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| **Total National Science Foundation** | | 1,046,394 |
| **Small Business Administration** | | |
| Small Business Development Center | 59.037 | 990,630 |
| **Department Of Veterans Affairs** | | |
| Veterans State Domiciliary Care | 64.014 | 3,015,118 |
| Veterans State Hospital Care | 64.016 | 3,377,274 |
| Burial Expenses Allowance for Veterans | 64.101 | 68,070 |
| All-Volunteer Force Educational Assistance | 64.124 | 196,735 |
| **Total Department Of Veterans Affairs** | | 6,657,197 |
| **Environmental Protection Agency** | | |
| Miscellaneous Programs | 66.000 | 37,500 |
| Air Pollution Control Program Support | 66.001 | 3,916 |
| State Indoor Radon Grants | 66.032 | 140,706 |
| Ozone Transport | 66.033 | 14,906 |
| Surveys Studies, Investigations Demonstrations and Special Purpose Activities-Clean Air Act | 66.034 | 9,709 |
| State Public Water System Supervision | 66.432 | 1,545,203 |
| Water Quality Management Planning | 66.454 | 66,177 |
| Nonpoint Source Implementation Grants | 66.460 | 1,135,989 |
| Water Quality Cooperative Agreements | 66.463 | 149,046 |
| Wastewater Operator Training Grant Program (Technical Assistance) | 66.467 | 45,163 |
| State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs | 66.471 | 223,975 |
| Beach Monitoring and Notification Program Implementation Grants | 66.472 | 67,161 |
| Water Protection Grants to the States | 66.474 | 66,767 |
| Environmental Protection-Consolidated Research | 66.500 | 193,985 |
| Performance Partnership Grants | 66.605 | 9,871,976 |
| Surveys, Studies, Investigations and Special Purpose Grants | 66.606 | 1,919,785 |
| Training and Fellowships for the Environmental Protection Agency | 66.607 | 24,428 |
| Consolidated Pesticide Enforcement Cooperative Agreements | 66.700 | 725 |
| Toxic Substances Compliance Monitoring Cooperative Agreements | 66.701 | 95,099 |
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | 66.707 | 184,640 |
| Pollution Prevention Grants Program | 66.708 | 147,433 |
| Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | 66.802 | 236,216 |
| State and Tribal Underground Storage Tanks Program | 66.804 | 41,211 |
| Leaking Underground Storage Tank Trust Fund Program | 66.805 | 421,421 |
| Superfund State and Indian Tribe Core Program Cooperative Agreements | 66.809 | 652,630 |
| Brownfield Pilots Cooperative Agreements | 66.811 | 29,042 |
| State and Tribal Response Program Grants | 66.817 | 87,719 |
| **Total Environmental Protection Agency** | | 17,412,528 |
| **Nuclear Regulatory Commission** | | |
| Radiation Control-Training Assistance and Advisory Counseling | 77.001 | 13,163 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| **Department of Energy** | | |
| Petroleum Escrow Funds | 81.000 | 1,269,631 |
| National Energy Information Center | 81.039 | 11,746 |
| State Energy Program | 81.041 | 670,360 |
| Weatherization Assistance for Low-Income Persons | 81.042 | 1,853,631 |
| Office of Science Financial Assistance Program | 81.049 | 7,785 |
| Regional Biomass Energy Programs | 81.079 | 648 |
| Conservation Research and Development | 81.086 | 348,151 |
| National Industrial Competitiveness through Energy, Environment, and Economics | 81.105 | 31,795 |
| Energy Efficiency and Renewable Energy Info. Dissem., Outreach, Training and Tech. Analysis/Assistance | 81.117 | 34,558 |
| State Energy Program Special Projects | 81.119 | 502,993 |
| **Total Department of Energy** | | 4,731,298 |
| **Department of Education** | | |
| **Special Education Cluster:** | | |
| Special Education-Grants to States | 84.027 | 91,830,161 |
| Special Education-Preschool Grants | 84.173 | 4,377,057 |
| **Total Special Education Cluster** | | 96,207,218 |
| **TRIO Cluster:** | | |
| TRIO-Student Support Services | 84.042 | 792,193 |
| TRIO-Talent Search | 84.044 | 254,274 |
| TRIO-Upward Bound | 84.047 | 724,622 |
| **Total TRIO Cluster** | | 1,771,089 |
| Miscellaneous Programs | 84.000 | 239,685 |
| Adult Education-State Grant Program | 84.002 | 5,726,383 |
| Title 1 Grants to Local Educational Agencies | 84.010 | 98,441,009 |
| Migrant Education-State Grant Program | 84.011 | 2,556,141 |
| Title 1 Program for Neglected and Delinquent Children | 84.013 | 730,988 |
| Overseas-Faculty Research Abroad | 84.019 | 100 |
| Overseas-Group Projects Abroad | 84.021 | 104,273 |
| Higher Education-Institutional Aid | 84.031 | 380,953 |
| Public Library Services | 84.034 | 5,199 |
| Vocational Education-Basic Grants to States | 84.048 | 10,004,480 |
| Leveraging Educational Assistance Partnership | 84.069 | 2,292 |
| Fund for Improvement of Postsecondary Education | 84.116 | 1,763,561 |
| Rehabilitation Services-Vocational Rehabilitation Grants to States | 84.126 | 17,129,605 |
| Rehabilitation Services-Service Projects | 84.128 | 104,961 |
| Immigrant Education | 84.162 | (17,727) |
| Eisenhower Professional Development-Federal Activities | 84.168 | 19,650 |
| Independent Living-State Grants | 84.169 | 223,394 |
| Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind | 84.177 | 304,689 |
| Special Education-Grants for Infants and Families with Disabilities | 84.181 | 4,218,255 |
| Safe and Drug-Free Schools and Communities -National Programs | 84.184 | 505,766 |
| Byrd Honors Scholarships | 84.185 | 447,000 |
| Safe and Drug-Free Schools and Communities-State Grants | 84.186 | 4,256,542 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Supported Employment Services for Individuals with Severe Disabilities | 84.187 | 225,310 |
| Bilingual Education Support Services | 84.194 | 21 |
| Bilingual Education-Professional Development (See Note 11) | 84.195 | 493,278 |
| Education for Homeless Children and Youth | 84.196 | 487,855 |
| Graduate Assistance in Areas of National Need | 84.200 | 132,584 |
| Javits Gifted and Talented Students Education Grant Program | 84.206 | 259,177 |
| Even Start-State Educational Agencies | 84.213 | 2,001,836 |
| Fund for the Improvement of Education | 84.215 | 156,744 |
| Assistive Technology | 84.224 | 165,188 |
| Program of Protection and Advocacy of Individual Rights | 84.240 | 205,785 |
| Tech-Prep Education | 84.243 | 974,641 |
| Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training | 84.265 | 29,191 |
| Eisenhower Professional Development State Grants | 84.281 | 86,644 |
| Charter Schools | 84.282 | 224,949 |
| Twenty-First Century Community Learning Centers (See Note 11) | 84.287 | 5,346,049 |
| State Grants for Programs | 84.298 | 3,986,329 |
| Education Technology State Grants (See Note 11) | 84.318 | 4,872,636 |
| Special Education-State Program Improvement Grants for Children with Disabilities | 84.323 | 939,807 |
| Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities | 84.325 | 365,977 |
| Special Education-Tech Assist/Dissemination to Impr Srvc/Results for Child w/ Disabilities (See Note 11) | 84.326 | 173,173 |
| Advanced Placement Program | 84.330 | 103,619 |
| Grants to States for Incarcerated Youth Offenders | 84.331 | 547,436 |
| Comprehensive School Reform Demonstration | 84.332 | 2,511,744 |
| Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education | 84.333 | 3,647 |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | 1,596,000 |
| Teacher Quality Enhancement Grants | 84.336 | 427,238 |
| Reading Excellence | 84.338 | 7,315,299 |
| Class Size Reduction | 84.340 | (77,583) |
| Preparing Tomorrow's Teachers to Use Technology (See Note 11) | 84.342 | 459,511 |
| Vocational Education-Occupational and Employment Information State Grants | 84.346 | 128,852 |
| Title I Accountability Grants | 84.348 | (89,319) |
| Early Childhood Educator Professional Development | 84.349 | 1,044,156 |
| Transition to Teaching | 84.350 | 175,089 |
| School Renovation Grants | 84.352 | 2,346,626 |
| Tech-Prep Demonstration Grants | 84.353 | 55,332 |
| Reading First State Grants | 84.357 | 1,767,721 |
| Rural Education | 84.358 | 7,577 |
| English Language Acquisition Grants | 84.365 | 3,299,763 |
| Mathematics and Science Partnerships | 84.366 | 53,111 |
| Improving Teacher Quality State Grants | 84.367 | 24,227,775 |
| Grants for State Assessments and Related Activities | 84.369 | 2,998,097 |
| **Total Department of Education (See Also Student Financial Assistance Cluster)** | | 315,154,371 |
| **National Archives and Records Administration** | | |
| National Historical Publications and Records Grants | 89.003 | 47,162 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| **Department of Health and Human Services** | | |
| **Medicaid Cluster:** | | |
| Medical Assistance Program | 93.778 | 2,068,256,104 |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 | 3,680,646 |
| State Medicaid Fraud Control Units | 93.775 | 668,831 |
| **Total Medicaid Cluster** | | 2,072,605,581 |
| **Child Care Cluster:** | | |
| Child Care and Development Block Grant | 93.575 | 13,775,315 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 36,479,516 |
| **Total Child Care Cluster** | | 50,254,831 |
| **Aging Cluster:** | | |
| Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers | 93.044 | 4,271,919 |
| Special Programs for the Aging-Title III, Part C-Nutrition Services | 93.045 | 7,278,972 |
| Nutrition Services Incentive Program | 93.053 | 1,546,016 |
| **Total Aging Cluster** | | 13,096,907 |
| Miscellaneous Programs | 93.000 | 2,844,566 |
| Public Health and Social Services Emergency Fund | 93.003 | 796,858 |
| Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit. | 93.041 | 64,951 |
| Special Programs for the Aging-Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Ind. | 93.042 | 145,538 |
| Special Programs for the Aging-Title III Part D-Disease Prevention and Health Promotion Services | 93.043 | 308,021 |
| Special Programs for the Aging-Title IV-and Title II-Discretionary Projects | 93.048 | 198,074 |
| Alzheimer's Disease Demonstration Grants to States | 93.051 | 42,293 |
| National Family Caregiver Support | 93.052 | 2,147,035 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | 266,935 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | 727,917 |
| Grants for Technical Assistance Activities | 93.119 | (1,067) |
| Nurse Anesthetist Traineeships | 93.124 | 5,672 |
| Emergency Medical Services for Children | 93.127 | 63,862 |
| Primary Care Services-Resource Coordination and Development | 93.130 | 94,625 |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | 19,213 |
| Cooperative Agreements for Collaborative Demonstration Program for Homeless Indiv. | 93.148 | 50,339 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 545,170 |
| Health Program for Toxic Substances and Disease Registry | 93.161 | 499,759 |
| Grants for State Loan Repayment | 93.165 | 203,447 |
| Research Related to Deafness and Communication Disorders | 93.173 | 5,813 |
| Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children | 93.197 | 616,403 |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | 74,966 |
| Consolidated Knowledge Development and Application (KD&A) Program | 93.230 | 4,251,892 |
| Traumatic Brain Injury-State Demonstration Grant Program | 93.234 | 70,000 |
| Abstinence Education | 93.235 | 162,087 |
| Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement | 93.238 | 55,342 |
| State Rural Hospital Flexibility Program | 93.241 | 57,876 |
| Mental Health Research Grants | 93.242 | 259,618 |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 93.243 | 690,941 |
| Innovative Food Safety Projects | 93.245 | 29,012 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Universal Newborn Hearing Screening | 93.251 | 181,896 |
| State Planning Grant-Health Care Access for the Uninsured | 93.256 | 163,098 |
| Rural Access to Emergency Devices Grant | 93.259 | 165,367 |
| Occupational Safety and Health Research Projects | 93.262 | 3,999 |
| Occupational Safety and Health-Training Grants | 93.263 | 27,363 |
| Immunization Grants (See Note 3) | 93.268 | 10,827,489 |
| Drug Abuse National Research Service Awards for Research Training | 93.278 | 446,394 |
| Drug Abuse Research Programs | 93.279 | 3,093 |
| Mental Health National Research Service Awards for Research Training | 93.282 | 79,711 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3) | 93.283 | 18,509,606 |
| Comparative Medicine (See Note 11) | 93.306 | 50,389 |
| Advanced Education Nursing Traineeships | 93.358 | 42,881 |
| Nursing Research (See Note 11) | 93.361 | 19,402 |
| Academic Research Enhancement Award | 93.390 | 64,025 |
| Abandoned Infants | 93.551 | 488,943 |
| Promoting Safe and Stable Families | 93.556 | 3,422,539 |
| Temporary Assistance for Needy Families | 93.558 | 251,854,329 |
| Child Support Enforcement (See Note 10) | 93.563 | 47,829,689 |
| Refugee and Entrant Assistance-State Administered Programs | 93.566 | 1,020,778 |
| Low-Income Home Energy Assistance | 93.568 | 37,736,944 |
| Community Services Block Grant | 93.569 | 6,665,921 |
| Community Services Block Grant-Discretionary Awards | 93.570 | 11,750 |
| Refugee and Entrant Assistance-Discretionary Grants | 93.576 | 482,281 |
| Empowerment Zones Program | 93.585 | 140,733 |
| State Court Improvement Program | 93.586 | 112,766 |
| Community-Based Family Resource and Support Grants | 93.590 | 333,757 |
| Grants to States for Access and Visitation Programs | 93.597 | 92,825 |
| Chafee Education and Training Vouchers Program (ETV) | 93.599 | 251,607 |
| Head Start | 93.600 | 225,724 |
| Adoption Incentive Payments | 93.603 | 206,682 |
| Voting Access for Individuals with Disabilities-Grants for Protect and Advocacy Systems (See Note 11) | 93.618 | 12,000 |
| Basic Center Grant | 93.623 | 34,000 |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 1,010,005 |
| Developmental Disabilities Projects of National Significance | 93.631 | 2,740 |
| Children's Justice Grants to States | 93.643 | 187,431 |
| Child Welfare Services-State Grants | 93.645 | 1,622,439 |
| Social Services Research and Demonstration | 93.647 | 250,000 |
| Adoption Opportunities | 93.652 | 600 |
| Foster Care-Title IV-E | 93.658 | 76,142,130 |
| Adoption Assistance | 93.659 | 20,113,427 |
| Social Services Block Grant | 93.667 | 46,817,618 |
| Child Abuse and Neglect State Grants | 93.669 | 193,885 |
| Family Violence Prevention and Services/Grants for Battered Woman's Shelters Grants States, Ind. Tribes | 93.671 | 1,623,563 |
| Chafee Foster Care Independent Living | 93.674 | 1,948,809 |
| State Children's Insurance Program | 93.767 | 16,951,990 |
| Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities | 93.768 | 412,883 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | 613,513 |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | 41,709 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Diabetes, Endocrinology and Metabolism Research | 93.847 | 1,731 |
| Microbiology and Infections Diseases Research | 93.856 | 2,004 |
| Child Health and Human Development Extramural Research | 93.865 | 85,290 |
| Health Care and Other Facilities | 93.887 | 51,021 |
| Alcohol Research Center Grants | 93.891 | 23,986 |
| Resource and Manpower Development in the Environmental Health Sciences | 93.894 | (4,928) |
| Grants to States for Operation of Offices of Rural Health | 93.913 | 122,848 |
| HIV Emergency Relief Project Grants | 93.914 | (153,339) |
| HIV Care Formula Grants | 93.917 | 13,982,308 |
| Cooperative Agreements for State-Based Comp. Breast and Cervical Cancer Early Detection | 93.919 | 6,870 |
| Health Start Initiative | 93.926 | 107,289 |
| Cooperative Agreements to Support School Health Educ. to Prevent AIDS | 93.938 | 214,307 |
| HIV Prevention Activities-Health Department Based | 93.940 | 5,665,054 |
| Research, Treatment and Education Programs on Lyme Disease in the United States | 93.942 | 284,812 |
| Human Immunodeficiency Virus /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 93.944 | 460,585 |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945 | 376,275 |
| Improving EMS/Trauma Care in Rural Areas | 93.952 | 3,913 |
| Block Grants for Community Mental Health Services | 93.958 | 4,593,531 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 18,220,210 |
| Special Minority Initiatives | 93.960 | 221 |
| Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3) | 93.977 | 1,047,979 |
| Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3) | 93.988 | 359,544 |
| Preventive Health and Health Services Block Grant | 93.991 | 1,530,860 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 3,688,109 |
| **Total Department of Health and Human Services (See Student Financial Assistance Cluster)** | | 2,751,365,680 |
| **Corporation for National and Community Service** | | |
| State Commissions | 94.003 | 126,149 |
| Learn and Serve America-School and Community Based Programs | 94.004 | 210,066 |
| AmeriCorps | 94.006 | 1,049,979 |
| Training and Technical Assistance | 94.009 | 67,468 |
| **Total Corporation for National and Community Service** | | 1,453,662 |
| **Social Security Administration** | | |
| Miscellaneous Programs | 96.000 | 1,005 |
| Social Security-Disability Insurance | 96.001 | 15,679,725 |
| Social Security-Benefits Planning, Assistance, and Outreach Program | 96.008 | 283,432 |
| **Total Social Security Administration** | | 15,964,162 |
| **Department of Homeland Security** | | |
| Miscellaneous Programs | 97.000 | 68,555 |
| State Domestic Preparedness Equipment Support Program | 97.004 | 8,613,025 |
| Boating Safety Financial Assistance | 97.012 | 501,874 |
| Community Assistance Program-State Support Services Element (CAP-SSSE) | 97.023 | 95,574 |
| Flood Mitigation Assistance | 97.029 | 198,603 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Public Assistance Grants | 97.036 | 9,376,000 |
| Hazard Mitigation Grant | 97.039 | 32,179 |
| National Dam Safety Program | 97.041 | 22,077 |
| Emergency Management Performance Grants | 97.042 | 2,193,617 |
| Pre-Disaster Mitigation | 97.047 | 114,371 |
| State and Local All Hazards Emergency Operations Planning | 97.051 | 311,040 |
| Emergency Operations Centers | 97.052 | 133,276 |
| Citizen Corps | 97.053 | 62,890 |
| **Total Department of Homeland Security** | | 21,723,081 |
| **Miscellaneous Programs** | | |
| Other Federal Assistance (See Note 11) | 99.125 | 959,106 |
| **STUDENT FINANCIAL ASSISTANCE CLUSTER:** | | |
| **Department of Education** | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | 2,504,799 |
| Federal Family Education Loans (See Note 6) | 84.032 | 142,870,793 |
| Federal Work-Study Program | 84.033 | 3,494,208 |
| Federal Perkins Loan Program-Federal Capital Contributions (See Note 4) | 84.038 | 26,982,647 |
| Federal Pell Grant Program | 84.063 | 40,770,902 |
| Federal Direct Student Loans | 84.268 | 22,794,910 |
| **Total Department of Education** | | 239,418,259 |
| **Department of Health and Human Services** | | |
| Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 5) | 93.342 | 1,605,721 |
| **TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER** | | 241,023,980 |
| **RESEARCH AND DEVELOPMENT CLUSTER:** | | |
| **UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 and NOTE 11)** | | |
| **Department of Agriculture** | | |
| Agricultural Research Service | 10.RD | 1,553,090 |
| Animal and Plant Health Inspection Service | 10.RD | 128,797 |
| Cooperative State Research, Education, and Extension Service | 10.RD | 4,334,642 |
| Food and Nutrition Service | 10.RD | 983,330 |
| Foreign Agricultural Service | 10.RD | 3,568 |
| Forest Service | 10.RD | 44,631 |
| Natural Resource Conservation Service | 10.RD | (2,592) |
| Miscellaneous Programs | 10.RD | 15,293 |
| **Total Department of Agriculture** | | 7,060,759 |
| **Department of Commerce** | | |
| National Oceanic and Atmospheric Administration | 11.RD | 3,618,743 |
| National Institute for Standards and Technology | 11.RD | 72,312 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| Miscellaneous Programs | 11.RD | 76,331 |
| **Total Department of Commerce** | | 3,767,386 |
| | | |
| **Department of Defense** | | |
| Department of the Navy, Office of the Chief of Naval Research | 12.RD | 1,814,994 |
| U.S. Army Medical Command | 12.RD | 259,856 |
| U.S. Army Materiel Command | 12.RD | 252,306 |
| Department of the Air Force, Materiel Command | 12.RD | 794,746 |
| National Security Agency | 12.RD | 34,221 |
| Advanced Research Projects Agency | 12.RD | 165,665 |
| Miscellaneous Programs | 12.RD | 301,681 |
| **Total Department of Defense** | | 3,623,469 |
| | | |
| **Department of Housing and Urban Development** | | |
| Office of Community Planning and Development | 14.RD | 5,398 |
| Office of Fair Housing and Equal Opportunity | 14.RD | 12,260 |
| Office of Policy Development and Research | 14.RD | 11,154 |
| **Total Department of Housing and Urban Development** | | 28,812 |
| | | |
| **Department of the Interior** | | |
| Geological Survey | 15.RD | 110,013 |
| National Park Service | 15.RD | 3,696 |
| Miscellaneous Programs | 15.RD | 18,416 |
| **Total Department of the Interior** | | 132,125 |
| | | |
| **Department of Justice** | | |
| National Institute of Justice | 16.RD | 769,861 |
| Violence Against Women Office | 16.RD | 110,304 |
| Miscellaneous Programs | 16.RD | (36,779) |
| **Total Department of Justice** | | 843,386 |
| | | |
| **Department of Labor** | | |
| Employment and Training Administration | 17.RD | 4,473 |
| Miscellaneous Programs | 17.RD | 221,617 |
| **Total Department of Labor** | | 226,090 |
| | | |
| **Department of State** | | |
| Miscellaneous Programs | 19.RD | 48,163 |
| | | |
| **Department of Transportation** | | |
| Federal Highway Administration | 20.RD | 44,628 |
| Research and Special Programs Administration | 20.RD | 1,495 |
| **Total Department of Transportation** | | 46,123 |
| | | |
| **National Aeronautics and Space Administration** | 43.RD | 819,720 |
| | | |
| **National Endowment for the Humanities** | 45.RD | 84,366 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| **Institute of Museum and Library Services** | 45.RD | 257,092 |
| **National Science Foundation** | 47.RD | 12,904,591 |
| **Environmental Protection Agency** | | |
| Office of Water | 66.RD | 219,105 |
| Office of Administration | 66.RD | 266,874 |
| Office of Enforcement and Compliance Assurance | 66.RD | 10,542 |
| Office of Prevention, Pesticides and Toxic Substance | 66.RD | 18,741 |
| Office of Research and Development | 66.RD | 1,699,611 |
| **Total Environmental Protection Agency** | | 2,214,873 |
| **Department of Energy** | 81.RD | 1,504,951 |
| **Department of Education** | | |
| Office of Special Education and Rehabilitative Services | 84.RD | 50,716 |
| Office of Student Financial Assistance Programs | 84.RD | 33,903 |
| Office of Elementary and Secondary Education | 84.RD | 37,103 |
| Office of Educational Research and Improvement | 84.RD | 3,262,372 |
| Office of Postsecondary Education | 84.RD | 1,089,271 |
| Miscellaneous Programs | 84.RD | 85,575 |
| **Total Department of Education** | | 4,558,940 |
| **United States Institute of Peace** | 91.RD | 50,053 |
| **Department of Health and Human Services** | | |
| Agency for Health Care Policy and Research | 93.RD | 3,661 |
| Substance Abuse and Mental Health Services Administration | 93.RD | 125,207 |
| National Institutes of Health | 93.RD | 12,065,740 |
| Administration for Children and Families | 93.RD | 14,357 |
| Centers for Disease Control | 93.RD | 175,116 |
| Health Resources and Services Administration | 93.RD | 225,412 |
| Miscellaneous Programs | 93.RD | 1,910,361 |
| **Total Department of Health and Human Services** | | 14,519,854 |
| **Miscellaneous Programs** | 99.RD | 5,609,587 |
| **TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT** | | 58,300,340 |
| **UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2 and NOTE 11)** | | |
| **Department of Agriculture** | | |
| Cooperative State Research, Education, and Extension Service | 10.RD | 90,916 |
| Food and Nutrition Service | 10.RD | 200,550 |
| **Total Department of Agriculture** | | 291,466 |
| **Department of Defense** | | |
| U.S. Army Medical Command | 12.RD | 1,207,002 |

## STATE OF CONNECTICUT
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | EXPENDITURES |
|---|---|---|
| U.S. Army Materiel Command | 12.RD | 129,154 |
| Air Force Defense Research Science Program | 12.RD | (354) |
| Miscellaneous Programs | 12.RD | 62,502 |
| **Total Department of Defense** | | 1,398,304 |
| | | |
| **Department of Justice** | | |
| Miscellaneous Programs | 16.RD | 121,073 |
| National Institute of Justice | 16.RD | 820,946 |
| **Total Department of Justice** | | 942,019 |
| | | |
| **Office of Personnel Management** | 27.RD | 17,423 |
| | | |
| **National Aeronautics and Space Administration** | 43.RD | 655,335 |
| | | |
| **National Science Foundation** | 47.RD | 687,654 |
| | | |
| **Department of Veterans Affairs** | | |
| Miscellaneous Programs | 64.RD | 4,971 |
| | | |
| **Environmental Protection Agency** | | |
| Office of Air and Radiation | 66.RD | 32,546 |
| | | |
| **Department of Energy** | 81.RD | 42,608 |
| | | |
| **Department of Education** | | |
| Office of Educational Research and Improvement | 84.RD | 187,437 |
| Office of Special Education and Rehabilitative Services | 84.RD | 1,580,942 |
| Miscellaneous Programs | 84.RD | (53,730) |
| **Total Department of Education** | | 1,714,649 |
| | | |
| **Department of Health and Human Services** | | |
| Substance Abuse and Mental Health Services Administration | 93.RD | 856,566 |
| National Institutes of Health | 93.RD | 50,426,007 |
| Health Resources and Services Administration | 93.RD | 2,590,047 |
| Office of Population Affairs | 93.RD | 41,469 |
| Centers for Disease Control | 93.RD | 1,380,070 |
| Centers for Medicare & Medicaid Services | 93.RD | 477,272 |
| Office of the Secretary | 93.RD | 15,130 |
| Agency for Health Care Policy and Research | 93.RD | 1,333,038 |
| Administration for Children and Families | 93.RD | 749,741 |
| Miscellaneous Programs | 93.RD | 9,391,252 |
| **Total Department of Health and Human Services** | | 67,260,592 |
| | | |
| **TOTAL HEALTH CENTER RESEARCH GRANTS** | | 73,047,567 |
| | | |
| **TOTAL RESEARCH AND DEVELOPMENT CLUSTER** | | 131,347,907 |
| | | $ 5,589,884,085 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Note 1 – Summary of Significant Accounting Policies

Reporting Entity:
The accompanying Schedule of Expenditures of Federal Awards includes all Federal programs administered by the State of Connecticut except for the four Federal programs that are subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those four programs, which are included in the State of Connecticut's basic financial statements, are: the United States Department of Housing and Urban Development's (HUD) *Mortgage Insurance – Homes* (CFDA #14.117); HUD's *Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families* (CFDA #14.103); and the United States Environmental Protection Agency's *Capitalization Grants for Clean Water State Revolving Funds* (CFDA #66.458) and *Capitalization Grants for Drinking Water State Revolving Funds* (CFDA #66.468) programs. During the fiscal year ended December 31, 2003, the Connecticut Housing Finance Authority expended $60,281,868 and $1,739,054 in Federal awards under CFDA #14.117 and CFDA #14.103, respectively. During the fiscal year ended June 30, 2004, the State of Connecticut expended $2,589,856 and $7,516,271 in Federal awards under CFDA #66.458 and CFDA #66.468, respectively.

Basis of Accounting:
The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting, except for the *Unemployment Insurance* (CFDA #17.225) program, which is 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) | $190,253,154 |
| Food Distribution (10.550) | 14,103,494 |
| Department of Health and Human Services: | |
| Childhood Immunization Grants (93.268) | 7,270,401 |
| Preventive Health Services - Sexually Transmitted Diseases Control (93.977) | 134,451 |
| Diabetes Reduction (93.988) | 116,592 |
| Bioterrorism (93.283) | 252,502 |
| General Services Administration: | |
| Donation of Federal Surplus Personal Property (39.003) | 13,787.35 |

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

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, 2004, were $26,883,979

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, 2004, were $1,605,721.

Note 6 – Federal Family Education Loan Program

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, 2004, totaled $142,212,597.

Note 7 – WIC Program Rebates

The total amount presented for the WIC Program includes cash rebates received from milk, infant formula and cereal manufacturers in the amount of $11,071,363 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 – Economic Adjustment Assistance Program

Total loans outstanding for the Economic Adjustment Assistance Program (11.307) at June 30, 2004, were $113,096 and there were no new loans made under the program during the 2003-2004 fiscal year.

Note 9 – 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 $677,061,890.71. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $147,934,176.14. The $59,758,103.48 in Unemployment Insurance program administrative expenditures was financed by the U.S. Department of Labor.

Note 10 – Child Support Enforcement Program

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

During the fiscal year ended June 30, 2004, the Department of Social Services expended a total of $47,829,689 (Federal share) to accomplish the goals of the Child Support Enforcement Program (93.563). However, the State received $15,960,863 of the $47,829,689 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $31,868,826 of the Federal share of expenditures is reimbursed to the State directly from the Federal government.

Note 11 – 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, 2004

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| **NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS** | | | | |
| **Department of Agriculture** | | | | |
| Cooperative State Research, Ed. & Ext. Service | | | | |
| 10.303 | *UOC* | University of Mass. | 04-002440 A 00 | 2,364 |
| 10.206 | *ECSU* | Pennsylvania State University | SUB-2373-ECSU-USDA-2255 | 4,555 |
| 10.500 | *UOC* | University of Vermont | LTR 9-23-02 | 8,742 |
| 10.500 | *UOC* | Cornell University | 02-41520-01498 | 7,195 |
| Total Cooperative State Research, Ed. & Ext. Service | | | | 22,856 |
| Miscellaneous | | | | |
| 10.000 | *UOC* | Colorado State University | PO # 315349 | 29,606 |
| **Total Department of Agriculture** | | | | 52,462 |
| **Department of Defense** | | | | |
| 12.002 | *CCSU* | South Eastern CT Enterprise Region | SP4800-01-2-0109 | 62,662 |
| **Department of Labor** | | | | |
| 17.263 | *SDE* | Capitol Region Workforce Dev. Board | Contract #010181 | 26,397 |
| **Department of Housing and Urban Development** | | | | |
| 14.246 | *UOC* | Hud/Town of Vernon | AGR DTD 5/14/2004 | 4,970 |
| **Department of Transportation** | | | | |
| 20.701 | *UOC* | MIT | N/A | 36,000 |
| **Total Department of Transportation** | | | | 36,000 |
| **National Endowment for the Humanities** | | | | |
| 45.129 | *UOC* | NEH/CHC | P-0503 G-0503 | 16,626 |
| 45.160 | *UOC* | Brown University | Howard Found Fellow | 80 |
| **Total National Endowment for the Humanities** | | | | 16,706 |
| **National Aeronautics and Space Admintration** | | | | |
| 43.001 | ***ECSU*** | University of Alabama | NAG-9388 | 20,808 |
| **National Science Foundation** | | | | |
| 47.050 | ***ECSU*** | University of Texas | N/A | 3,517 |
| 47.076 | *UOC* | NSF/University of Mass. | 02-522689 D 00 | 80,893 |
| 47.074 | *CCSU* | Wood Hole Oceanographic Institution | A100179 | 33,193 |
| **Total National Science Foundation** | | | | 117,603 |
| **Department of Education** | | | | |
| 84.195 | *CCSU* | City of Waterbury | N/A | 52,099 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 84.287 | *UOC* | Danbury School | AGR 07-20-01 | 6,098 |
| 84.318 | *UOC* | Derby | OSP 04/51 | 993 |
| 84.318 | *UOC* | US ED/MMS | OSP 04/50 | 435 |
| 84.318 | *UOC* | Lebanon School | Chk #4809 | 2,654 |
| 84.326 | *UOC* | University of Oregon | AGR 10-01-02 | 29,452 |
| 84.342 | *CSU* | Thinkquest | N/A | 1,500 |
| **Total Department of Education** | | | | 93,231 |
| **Department of Health and Human Services** | | | | |
| National Institutes of Health | | | | |
| 93.361 | *UOC* | Case Western | 7RO1NR-04926-03 | 19,402 |
| Administration for Children and Families | | | | |
| 93.618 | *UOC* | Hava/CT-SEC | OSP 04/11 | 12,000 |
| Miscellaneous Programs | | | | |
| 93.306 | *UOC* | SW Texas | B223.2 | 50,389 |
| **Total Department of Health and Human Services** | | | | 81,791 |
| **Miscellaneous Programs** | | | | |
| 99.125 | *UOC* | US AID/AED | PTP# 111-IC02-303 | 50,643 |
| 99.125 | *CCSU* | The Eurasia Foundation | W01-0062 | 77,796 |
| 99.125 | *UOC* | University of Hartford | CHK #27930 | 10,000 |
| **Total Miscellaneous Programs** | | | | 138,439 |
| **TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS** | | | | 651,069 |
| **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 | *UOC* | USDA APHIS | 0382100347CA | 38,991 |
| 10.RD | *UOC* | USDA/CAES | OSP04/21 | 1,282 |
| | | | | 40,273 |
| Cooperative State Research, Education, and Extension Service | | | | |
| 10.RD | *UOC* | Univeristy of Vermont | LNE01-144 | 12,653 |
| 10.RD | *UOC* | Univeristy of Vermont | LNE01-143 | 36,927 |
| 10.RD | *UOC* | USDA/CSREES | Cornell 39846-6996 | 3,000 |
| 10.RD | *UOC* | Univeristy of Vermont | LNE03-177 | 22,184 |
| 10.RD | *UOC* | Cornell | OSP#44132-7129 | 51,146 |
| 10.RD | *UOC* | Yale University | USDA#00-35200-95793 | 12,497 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 10.RD | *UOC* | USDA | 426283/Z2527 | 25,302 |
| 10.RD | *UOC* | Univeristy of Rhode Island | AGMT#022603/535969 | 20,267 |
| 10.RD | *UOC* | Univeristy of Delaware | 1336 | 384 |
| 10.RD | *UOC* | USDA/RUTGERS | 1750 | 404 |
| 10.RD | *UOC* | USDA NC STAT | 00-1320-3YRP-15 | 902 |
| 10.RD | *UOC* | USDA HARTFORD | OSP 04/57 | 5,083 |
| 10.RD | *UOC* | NE SMALL FAR | AGREEMENT No. 17A | 7,428 |
| 10.RD | *UOC* | UMASS | UM#02-529029C00 | 67,575 |
| 10.RD | *UOC* | Univeristy of Rhode Island | 102600/535958 | 106,259 |
| 10.RD | *UOC* | Univeristy of Rhode Island | 110700/535957 | 16,972 |
| 10.RD | *UOC* | Univeristy of Maine | PO#U189000 | 458 |
| 10.RD | *UOC* | Cornell | 42681-7236 | 23,068 |
| 10.RD | *UOC* | Univeristy of Vermont | ONE 03-011 | 10,478 |
| 10.RD | *UOC* | UMASS | 04-002357 B 00 | 236 |
| 10.RD | *UOC* | Univeristy of Delaware | NE-127 Trust | 627 |
| Total Cooperative State Research, Education, and Extension Service | | | | 423,850 |
| Food and Nutrition | | | | |
| 10.RD | *UOC* | USDA/UCHC | AGMT NO. 6-36508 | 16,707 |
| 10.RD | *UOC* | Univeristy of Rhode Island | 020203/0000151 | 46,427 |
| 10.RD | *UOC* | USDA | 04DSS4702AZ | 920,196 |
| Total Food and Nutrition | | | | 983,330 |
| Miscellaneous Programs | | | | |
| 10.RD | *UOC* | University of Vermont | ENE99-48 | 15,067 |
| Total Miscellaneous Programs | | | | 15,067 |
| **Total Department of Agriculture** | | | | 1,462,520 |
| **Department of Commerce** | | | | |
| National Oceanic and Atmospheric Administration | | | | |
| 11.RD | *UOC* | NOAA/UMAINE | UM-S550 | 10,252 |
| 11.RD | *UOC* | SUNY | PO3R41308#431-1244B | (961) |
| 11.RD | *UOC* | Univeristy of Rhode Island | AGMT#11502/531516 | 27,669 |
| Total National Oceanic and Atmospheric Administration | | | | 36,960 |
| **Total Department of Commerce** | | | | 36,960 |
| **Department of Defense** | | | | |
| Department of the Navy, Office of the Chief of Naval Research | | | | |
| 12.RD | *UOC* | New York University | F0140-03 | (1,161) |
| 12.RD | *UOC* | Honeywell | PO 48095 | 12,418 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 12.RD | *UOC* | MIT | 5710001453 | 36,597 |
| Total Department of the Navy, Office of the Chief of Naval Research | | | | 47,854 |
| U.S Army Materiel Command | | | | |
| 12.RD | *UOC* | Purdue University | 530-1617-04 | 192,702 |
| 12.RD | *UOC* | Yardney Tech | AGR 8-24-01 | (4,732) |
| Total U.S Army Materiel Command | | | | 187,970 |
| Department of the Air Force, Materiel Command | | | | |
| 12.RD | *UOC* | University of S. California | PO#014373 | 225 |
| 12.RD | *UOC* | UTC P&W | PO#F820048 | 49,752 |
| 12.RD | *UOC* | DOD-AF | 531-0275-01 | 6,648 |
| Total Department of the Air Force, Materiel Command | | | | 56,625 |
| Advanced Research Projects Agency | | | | |
| 12.RD | *UOC* | University of Houston | UNIV HOUSTON | (1,006) |
| 12.RD | *UOC* | Raytheon | PO#S7-6AP004X | 33 |
| Total Miscellaneous Programs | | | | (973) |
| Miscellaneous Programs | | | | |
| 12.RD | *UOC* | DOD/UTC P&W | 21153-TASK 16 | 1,960 |
| 12.RD | *UOC* | BOEING CO | PO#Z10661 | 141,985 |
| 12.RD | *UOC* | DOD-APSI | AGR.12-05-02 | 23,262 |
| 12.RD | *UOC* | DOD/OPEL | 8/23/2003 | 95,689 |
| Total Advanced Research Projects Agency | | | | 262,896 |
| **Total Department of Defense** | | | | 554,372 |
| **Department of Housing and Urban Development** | | | | |
| Office of Community Planning and Development | | | | |
| 14.RD | *UOC* | HUD/VERNON | 11/25/2003 | 5,454 |
| Total Office of Community Planning and Development | | | | 5,454 |
| Office of Fair Housing and Equal Opportunity | | | | |
| 14.RD | *UOC* | Urban Institute | UI#06977-000-00 | 12,260 |
| Total Office of Fair Housing and Equal Opportunity | | | | 12,260 |
| **Total Department of Housing and Urban Development** | | | | 17,714 |
| **Department of Labor** | | | | |
| Employment and Training Administration | | | | |
| 17.RD | *UOC* | Hill COOP | LOA-2/4/03 | 4,473 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| Total Employment and Training Administration | | | | 4,473 |
| Miscellaneous Programs | | | | |
| 17.RD | *UOC* | Washington | 020 PXG (033) | 221,617 |
| Total Miscellaneous Programs | | | | 221,617 |
| **Total Department of Labor** | | | | 226,090 |
| **Department of Transportation** | | | | |
| Federal Highway Administration | | | | |
| 20.RD | *UOC* | DOT/University of Vermont | UVM ID #FJ64 | 15,917 |
| 20.RD | *UOC* | DOT/MIT | 5710001690 | 28,711 |
| Total Federal Highway Administration | | | | 44,628 |
| Research and Special Programs Administration | | | | |
| 20.RD | *UOC* | MIT | 5710001324 | 1,495 |
| Total Research and Special Programs Administration | | | | 1,495 |
| **Total Department of Transportation** | | | | 46,123 |
| **National Aeronautics and Space Administration** | | | | |
| 43.RD | *UOC* | Arizona State University | 99-122SC | 29,856 |
| 43.RD | *UOC* | University of Hartford | 303110-SUB-UCONN FR | (300) |
| 43.RD | *UOC* | NASA/University of Hartford | NASA EPSCOR 01-02 | 186,506 |
| 43.RD | *UOC* | University of Hartford | YEAR 3, TA #1 | - |
| 43.RD | *UOC* | University of Hartford | SUB CONT #314803 | 9,965 |
| 43.RD | *UOC* | University of Hartford | SUB CONT #314803 | 7,870 |
| 43.RD | *UOC* | University of Hartford | SUB CONT #314803 | 9,697 |
| 43.RD | *UOC* | University of Hartford Space | 303112-SUB-UCONN | 3,095 |
| **Total National Aeronautics and Space Administration** | | | | 246,689 |
| **National Science Foundation** | | | | |
| 47.RD | *UOC* | Ciencia Inc. | AGR DATED 7/1/02 | 17,324 |
| 47.RD | *UOC* | Ciencia Inc. | AGR DATED 7/1/03 | 1,401 |
| 47.RD | *UOC* | NSF-CTS | 501-0593-01 | 19,871 |
| 47.RD | *UOC* | University of CAL | 8-Apr | 11,127 |
| 47.RD | *UOC* | NSF/Phy Science | SC1239-2804 | 14,202 |
| 47.RD | *UOC* | University of Maryland | #CG-0302 | 2,330 |
| 47.RD | *UOC* | University of Miami | PO#P736886 | 53,020 |
| 47.RD | *UOC* | NSF/CUAHSI | AGR DATED 8/1/03 | 14,761 |
| 47.RD | *UOC* | MIT | 5710001373 | 97,133 |
| 47.RD | *UOC* | NSF/Syracuse | AGR # 353-5847 | 133,344 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 47.RD | *UOC* | University of Florida | UF-EIES-0314001-UC | 68,763 |
| 47.RD | *UOC* | Duke University | 01-SC-NSF-1008 | 4,419 |
| 47.RD | *UOC* | Univ CAL-DAV | 00RA2548 | 11,863 |
| 47.RD | *UOC* | NSF/University P.R. | #534024/NSF#MCB01373 | 31,236 |
| 47.RD | *UOC* | Purdue University | 501-0825-1 | 90,488 |
| 47.RD | *UOC* | Institute of ECOS | AGR# 745/4016 | (9,198) |
| 47.RD | *UOC* | University of Minnesota | T66166245101 | (470) |
| 47.RD | *UOC* | University of Arizona | PO Y702124 | - |
| 47.RD | *UOC* | University of Georgia | RR229-208/2000817 | 266,059 |
| 47.RD | *UOC* | NSF/CORD | AGR DATED 07/01/02 | 54,660 |
| 47.RD | *UOC* | NSF/NEBHE | LTR DATED 2/20/03 | 4,718 |
| 47.RD | *UOC* | NSF/NEBHE | LTR 9/24/03 | 7,286 |
| 47.RD | *UOC* | NSF/University of Mass. | 04-002354 A 00 | 25,299 |
| **Total National Science Foundation** | | | | 919,636 |
| **Department of Environmental Protection** | | | | |
| Office of Water | | | | |
| 66.RD | *UOC* | Cornell University | AGMT#33346-6472 | (1,681) |
| 66.RD | *UOC* | EPA | LI-98185301 | 110,560 |
| Total Office of Water | | | | 108,879 |
| Office of Research and Development | | | | |
| 66.RD | *UOC* | John Hopkins University | 8201-48276 | 15,911 |
| 66.RD | *UOC* | John Hopkins University | 8112-48274 | 123,046 |
| 66.RD | *UOC* | John Hopkins University | 8112-48273 | 34,595 |
| 66.RD | *UOC* | John Hopkins University | AGR #8210-17883 | 6,259 |
| Total Office of Research and Development | | | | 179,811 |
| **Total Department of Environmental Protection** | | | | 288,690 |
| **Department of Energy** | | | | |
| 81.RD | *UOC* | University of California | PO#25686-001-012T | (770) |
| 81.RD | *UOC* | DOE | PO 2417 | 61,777 |
| 81.RD | *UOC* | DOE/University of Utah | 2212032 | 488 |
| 81.RD | *UOC* | Solar Turb | PO#HD0002206 | 6,849 |
| 81.RD | *UOC* | DOE/Worchester Technology | S/C 02-218190-1 | 128,413 |
| 81.RD | *UOC* | Plant Biotec | AGR #OR22072-109 | 24,402 |
| 81.RD | *UOC* | IONOMEM Corp. | AGR 3/1/02 | 233,837 |
| 81.RD | *UOC* | Plant Biotec | GO12026-155 | 3,169 |
| 81.RD | *UOC* | DOE/Unit Tec | 4997 | 734 |
| 81.RD | *UOC* | Clemson University | NO. 00-01-SR081 | (85) |
| 81.RD | *UOC* | Clemson University | 01-01-SR091 | (45,992) |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 81.RD | *UOC* | Clemson University | 02-01-SR097 | 109,798 |
| 81.RD | *UOC* | Clemson University | 02-01-SR091 | 73,787 |
| 81.RD | *UOC* | Clemson University | 03-01-SR107 | 156,889 |
| 81.RD | *UOC* | Fluent Inc. | FY00012UCT | 30,975 |
| 81.RD | *UOC* | DOE/SURA JNL | SURA-02-C0006 | 77,773 |
| **Total Department of Energy** | | | | 862,044 |
| **Department of Education** | | | | |
| Office of Special Education and Rehabilitation Services | | | | |
| 84.RD | *UOC* | Marquette University | H133E020729 | 50,716 |
| Office of Elementary and Secondary Education | | | | |
| 84.RD | *UOC* | US ED | 3/15/2003 | 34,999 |
| 84.RD | *UOC* | USED/Groton | AGR 4/1/03 | 2,104 |
| Total Elementary and Secondary Education | | | | 37,103 |
| Office of Student Financial Assistance Programs | | | | |
| 84.RD | *UOC* | University of Rhode Island | 103102/539655 | 33,903 |
| Office of Educational Research and Improvement | | | | |
| 84.RD | *UOC* | Danbury School | AGR 10-21-98 | 4,608 |
| **Total Department of Education** | | | | 126,330 |
| **Department of Health and Human Services** | | | | |
| Agency for Health Care Policy and Research | | | | |
| 93.RD | *UOC* | University of Washington | AGR 624056 | 463 |
| Total Agency for Health Care Policy and Research | | | | 463 |
| Administration for Children and Families | | | | |
| 93.RD | *UOC* | Catholic Families | AGR 10/1/02 | 14,163 |
| 93.RD | *UOC* | Catholic Families | Agreement D. 10/01/00 | 194 |
| Total Administration for Children and Families | | | | 14,357 |
| Centers for Disease Control | | | | |
| 93.RD | *UOC* | ATPM | TS-0658 | 6,826 |
| 93.RD | *UOC* | ATPM | TS-0784 | 42,012 |
| 93.RD | *UOC* | PHS-CDC/DPH | DPH LOG 2003-504 | 22,075 |
| Total Centers for Disease Control | | | | 70,913 |
| Health Resources and Service Administration | | | | |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 93.RD | *UOC* | Health Resources Inc. | 2124-01 | 72,712 |
| TotalHealth Resources and Service Administration | | | | 72,712 |
| Substance Abuse and Mental Health Services Administration | | | | |
| 93.RD | *UOC* | City of New Haven | A01-0793 | 33,626 |
| 93.RD | *UOC* | Danbury | AGR 11/20/02 | 7,831 |
| 93.RD | *UOC* | City of Stamford | AGR 11/4/02 | 3,213 |
| 93.RD | *UOC* | Catholic Charities of Fairfield County | AGR 4/29/03 | 61,751 |
| 93.RD | *UOC* | PHS/Mount Sinai | PO# SM9142855 | 11,542 |
| 93.RD | *UOC* | NY/Mount Sinai | PO# SM9142855 | 7,244 |
| Total Substance Abuse and Mental Health Services Administration | | | | 125,207 |
| National Institutes of Health | | | | |
| 93.RD | *UOC* | Applied Biop | 10/11/2001 | 84,809 |
| 93.RD | *UOC* | University of Pennsylvania | 536642 7R01DE115407 | 26,598 |
| 93.RD | *UOC* | Yale University | 2 R01 DC00283-18 | 33,316 |
| 93.RD | *UOC* | Mount Sinai | PO3 SM 9142855 | 7,244 |
| 93.RD | *UOC* | University CAL-IRV | F00-DA12413-UC | 25,382 |
| 93.RD | *UOC* | University of Arizona | Y404824 | 407 |
| 93.RD | *UOC* | PHS-NIH | UCHC 522787 | 32,890 |
| 93.RD | *UOC* | University of North Carolina | 5R01CA74015-07 | 36,009 |
| 93.RD | *UOC* | NIH-MUSC | 9/30/2002 | 40,687 |
| 93.RD | *UOC* | PHS-NIH/MGS | 12/1/2003 | 54,665 |
| 93.RD | *UOC* | NIH/Child Res In | PO#290699 | 111,462 |
| 93.RD | *UOC* | University CAL | 0845 GDC 664 | 6,352 |
| 93.RD | *UOC* | NIH/ Texas A&M | 60851 | 50,437 |
| 93.RD | *UOC* | L2DIAGN | AGMT DTD 8/20/03 | 21,923 |
| 93.RD | *UOC* | University CAL-IRV | E01-HD-26939 | 6,669 |
| 93.RD | *UOC* | Haskins Lab | AGR 3-4-03 | 36,379 |
| 93.RD | *UOC* | Iowa | PROJ.#430-24-29 | 41,137 |
| 93.RD | *UOC* | Penn. State | 2629-UC-DHHS-8982 | 883 |
| 93.RD | *UOC* | Beth Israel Hospital | 11/22/2002 | 183,005 |
| 93.RD | *UOC* | Beth Israel Hospital | AGR 11/22/02 | 129,621 |
| 93.RD | *UOC* | Beth Israel Hospital | 11/22/2002 | 155,419 |
| 93.RD | *UOC* | Beth Israel Hospital | AGR 11/22/02 | 39,561 |
| 93.RD | *UOC* | Beth Israel Hospital | AGR 11/22/03 | 85,667 |
| 93.RD | *UOC* | Beth Israel Hospital | AGR 11/22/04 | 8,098 |
| Total National Institutes of Health | | | | 1,218,620 |
| Miscellaneous Programs | | | | |
| 93.RD | *UOC* | Beth Israel | PO#SH31209 | - |
| 93.RD | *UOC* | NIH/Ciencia | 752202 | 3,684 |
| 93.RD | *UOC* | University of North Carolina | UNC-CH#5-31861 | 38,242 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 93.RD | *UOC* | Cortex Pharmacy | AGR 1-2-01 | (1,488) |
| Total Miscellaneous Programs | | | | 40,438 |
| **Total Department of Health and Human Services** | | | | 1,542,710 |
| **Miscellaneous Programs** | | | | |
| 99.RD | *UOC* | Battelle Lab | P.O.#172791 | 134,371 |
| 99.RD | *UOC* | Aptima,Inc. | 0173-1128 | 165,263 |
| 99.RD | *UOC* | DOD-AF | 21153 TASK #07 | 1,522 |
| 99.RD | *UOC* | Navy-GA Tech | A-6489-S3 | 58,901 |
| 99.RD | *UOC* | Timet | AGR 7/1/03 | 14,099 |
| 99.RD | *UOC* | DOD-AF/SONAL | 10/8/2003 | 7,255 |
| 99.RD | *UOC* | University of California | 69797-001-03 3D | 70,294 |
| 99.RD | *UOC* | University of California | B531086 | 52,719 |
| 99.RD | *UOC* | IAGT | OSP 04/28 | 14 |
| 99.RD | *UOC* | NIH-NIMH/MED | OSP 04/27 | 27,559 |
| 99.RD | *UOC* | QS Heritage | AGR. 1-11-01 | 115,234 |
| 99.RD | *UOC* | University of Georgia | RC710-013/4092044 | 82,300 |
| 99.RD | *UOC* | CHC | LTR. 3-6-00 | (8,515) |
| 99.RD | *UOC* | Lucent Tech | PO# FSG332075 | 23,118 |
| 99.RD | *UOC* | Laser Fare | PO#22603 | 7,073 |
| 99.RD | *UOC* | AM Egg Board | MOA D 1/11/02 | 7,079 |
| 99.RD | *UOC* | Ciencia | 1/1/2002 | 68,538 |
| 99.RD | *UOC* | Genentech | 52002 | (141) |
| 99.RD | *UOC* | RJM Semicond | PO #1066UCONN | 7,722 |
| 99.RD | *UOC* | NASA/Qualtec | QSI-DSC-02-005 | 141,428 |
| 99.RD | *UOC* | AM Egg Board | MOA 7/16/02 | 27,123 |
| 99.RD | *UOC* | University of Florida | NCC9-110 | 81,228 |
| 99.RD | *UOC* | NATL ALL | LTR. 6/25/02 | 25,738 |
| 99.RD | *UOC* | Microsystem Inc. | AGR Dated 8/2/02 | 92,189 |
| 99.RD | *UOC* | United Tec | 21153 Task #05 | 14,352 |
| 99.RD | *UOC* | Yardney Tech | P.O.#0284042 | 15,383 |
| 99.RD | *UOC* | US Aid/Secid | AGR 12/24/02 | 22 |
| 99.RD | *UOC* | Ciencia | AGR 1/14/03 | (983) |
| 99.RD | *UOC* | Battelle Lab | 5535 | (1,140) |
| 99.RD | *UOC* | University of Hartford | 314803 | 6,804 |
| 99.RD | *UOC* | NSA/Global | SC-2003*H265000*000- | 140,616 |
| 99.RD | *UOC* | US Aid/Secid | AGR 5/22/03 | 14,072 |
| 99.RD | *UOC* | US State/JHO | MOU 5-22-03 | 9,923 |
| 99.RD | *UOC* | Nasa/N.East | P411063 | 45,233 |
| 99.RD | *UOC* | University of Hartford | SUB AGR 303112 | 3,333 |
| 99.RD | *UOC* | Fuel Cell | 21366 | 24,498 |
| 99.RD | *UOC* | DOD Army/Mes | 2003-06 | 1,860 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 99.RD | *UOC* | DOD Army | 9517 OP | 15,616 |
| 99.RD | *UOC* | University of Hartford | 314804 | 2,283 |
| 99.RD | *UOC* | University of Hartford | 314804 | 1,082 |
| 99.RD | *UOC* | University of Hartford | 314804 | 2,624 |
| 99.RD | *UOC* | Secorboratn | OSP 04/56 | 10,183 |
| 99.RD | *UOC* | Triton Systems, Inc. | TSI-2205-04-70711 | 8,514 |
| 99.RD | *UOC* | DARPA/P&W | 21153 TASK 15 | 14,900 |
| 99.RD | *UOC* | Ciencia | 141205 | 257 |
| 99.RD | *UOC* | Love Makes | CK DTD 7/5/02 | 4,550 |
| 99.RD | *UOC* | Korean Minis | AGR 01-23-03 | 94,293 |
| **Total Miscellaneous Programs** | | | | 1,630,386 |
| **TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS** | | | | 7,960,264 |
| **UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2)** | | | | |
| **Department of Agriculture** | | | | |
| Cooperative State Research, Education and Extension Services | | | | |
| 10.RD | *UHC* | University of Deleware | 2003-35201-13553 | 5,100 |
| **Department of Defense** | | | | |
| Miscellaneous Programs | | | | |
| 12.RD | *UHC* | Science Applications International Corp. | DAAD 19-03-C-0051 | 62,502 |
| **Department of Energy** | | | | |
| 81.RD | *UHC* | Brookhaven National Laboratory | 53419 | 42,608 |
| **Department of Education** | | | | |
| Office of Special Education and Rehabilitative Services | | | | |
| 84.RD | *UHC* | SRI International | H324L030002 | 3,752 |
| Miscellaneous Programs | | | | |
| 84.RD | *UHC* | Orelena Hawks Puckett Institute | HO24560008 | (53,730) |
| **Total Department of Education** | | | | (49,978) |
| **Department of Health and Human Services** | | | | |
| Agency for Health Care Policy and Research | | | | |
| 93.RD | *UHC* | Mass General Hospital | 1 R01 AI42402-03 | 8,505 |
| Total Agency Health Care Policy and Research | | | | 8,505 |
| Office of Population Affairs | | | | |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 93.RD | *UHC* | Planned Parenthood League of CT | 01-H-000038-31-0 | 30,390 |
| 93.RD | *UHC* | Hill Health Corp | 01-2002-53 | 19 |
| 93.RD | *UHC* | Hill Health Corp | HHCC 2003-0100 | 11,060 |
| Total Office of Population Affairs | | | | 41,469 |
| Administration for Children and Families | | | | |
| 93.RD | *UHC* | University of Illinois | 02-208 | 104,525 |
| 93.RD | *UHC* | Conn Development Disabilities Council | 900-4100-05340-027 | 39,211 |
| Total Administration for Children and Families | | | | 143,736 |
| Centers for Disease Control | | | | |
| 93.RD | *UHC* | Northeast Center for Agriculture Health | 1 U50 OHO7542-01 | 9,512 |
| 93.RD | *UHC* | Yale University | 5 RO1 OH004182-03 | 44,478 |
| 93.RD | *UHC* | Assoc of Teachers Preventive Medicine | 431-16/16 | 92,687 |
| 93.RD | *UHC* | Yale University | DKP1075317 | 26,367 |
| 93.RD | *UHC* | Assoc of American Medical Colleges | U36/CCU319276 | 9,539 |
| 93.RD | *UHC* | Worcester Memorial Hospital | U27/CCU116648-06 | 29,660 |
| 93.RD | *UHC* | Assoc of American Medical Colleges | U36/CCU319276 | 42,542 |
| Total Centers for Disease Control | | | | 254,785 |
| Health Resources and Services Administration | | | | |
| 93.RD | *UHC* | Worcester Memorial Hospital | 6H30 MC00037-03 | (2,138) |
| 93.RD | *UHC* | Worcester Memorial Hospital | U27 CCUI 16648-05 | 11,803 |
| 93.RD | *UHC* | Worcester Memorial Hospital | 6H30 MC00037-04 | 38,542 |
| 93.RD | *UHC* | Worcester Memorial Hospital | H30/MC00037-07-01 | 1,732 |
| 93.RD | *UHC* | UMASS | 5 H4A HA 00050-02-0 | 63,780 |
| 93.RD | *UHC* | UMASS | 6006467 | (457) |
| 93.RD | *UHC* | CT Primary Care Assoc | UCONN96-300 | 2,034 |
| 93.RD | *UHC* | CT Primary Care Assoc | UCONNOOF2-300/RWIV | (22) |
| 93.RD | *UHC* | CT Primary Care Assoc | UCONN02/RWIV | (800) |
| 93.RD | *UHC* | CT Primary Care Assoc | 03/RWIV | 38,999 |
| 93.RD | *UHC* | CT Primary Care Assoc | UCONN04/RWIV | 182,488 |
| 93.RD | *UHC* | Yale University | T01HP01399-01-00 | 18,787 |
| 93.RD | *UHC* | Childrens Hospital Medical Center | F421326 | 2,781 |
| 93.RD | *UHC* | Childrens Hospital Boston | 1 H4BMC00934-01-00 | 3,384 |
| 93.RD | *UHC* | Yale University | 1 D57 HP10171-01 | 198 |
| 93.RD | *UHC* | City of Hartford | 6058b | (1,135) |
| 93.RD | *UHC* | City of Hartford | 1608K | 113 |
| 93.RD | *UHC* | CT Primary Care Assoc | 03/RWII | 1,535 |
| Total Health Resources and Services Administration | | | | 361,624 |
| Substance Abuse and Mental Health Services Administration | | | | |
| 93.RD | *UHC* | City of Stamford | 1 H79 TI12358-01 | 11,381 |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 93.RD | *UHC* | CT Childrens Medical Center | 1 U79 SM553663-01 | 19,281 |
| 93.RD | *UHC* | City of Stamford | 1 H79 TI12358-03 | (1,113) |
| Total Substance Abuse and Mental Health Services Administration | | | | 29,549 |
| National Institutes of Health | | | | |
| 93.RD | *UHC* | Uconn Foundation | 5RO1 ES03154-18 | 7,107 |
| 93.RD | *UHC* | Suny-Buffalo | 5 RO1 DEO9838-07 | (780) |
| 93.RD | *UHC* | University of Rochester | 411283-003G | 11,153 |
| 93.RD | *UHC* | Suny-Buffalo | 150-4689B | 1,411 |
| 93.RD | *UHC* | University of Rochester | 411581-003-G | 21,505 |
| 93.RD | *UHC* | University of Rochester | 411649-G | 16,043 |
| 93.RD | *UHC* | Tufts University | 1RO1 DE13405-01 | 67,875 |
| 93.RD | *UHC* | University of California-Berkeley | SA2918PG | 33,954 |
| 93.RD | *UHC* | University of Cincinnati Med Center | 5 RO1 DE13823-02 | 9,360 |
| 93.RD | *UHC* | University of Washington | 634570 | 9,716 |
| 93.RD | *UHC* | Univ Med/Dent of New Jersey | 1 RO1 DE14897-01 | 9,524 |
| 93.RD | *UHC* | University of Rochester | RO1 DE014730-02 | 8,721 |
| 93.RD | *UHC* | University of Miami | M636161 | (904) |
| 93.RD | *UHC* | American Medical Student Association | 1 R25 ATO 0529-01A1 | 8,906 |
| 93.RD | *UHC* | UMASS | B1-6-32122-5800 | 5,345 |
| 93.RD | *UHC* | UMASS | R01 MH55626 | 82,242 |
| 93.RD | *UHC* | Child Hlth & Dvlpmnt Inst.of CT | R01-DA15844 | 228,100 |
| 93.RD | *UHC* | Medical University of South Carolina | R01 DA15844 | 14,236 |
| 93.RD | *UHC* | Yale University | 2 R01 AA11330-04A2 | 188,214 |
| 93.RD | *UHC* | Yale University | 2 R01 AA11197-05 | 84,964 |
| 93.RD | *UHC* | Inverness Medical | 5R01 DA05592-08 | (440) |
| 93.RD | *UHC* | Yale University | DA09241-06 | (66) |
| 93.RD | *UHC* | Yale University | 1 P50 DA13334-01 | (12,950) |
| 93.RD | *UHC* | Yale University | DA09241 | (4,569) |
| 93.RD | *UHC* | Yale University | DA12849-03 | 202,612 |
| 93.RD | *UHC* | Yale University | DA12690 | 196,032 |
| 93.RD | *UHC* | Yale University | DA12422 | 77,363 |
| 93.RD | *UHC* | Yale University | DA13334 | (222) |
| 93.RD | *UHC* | Yale University | 5-R01 DA15215-01-02 | 44,697 |
| 93.RD | *UHC* | Yale University | 5 P50 DA092410-09 | 30,319 |
| 93.RD | *UHC* | Yale University | 5 P50 DA13334-04 | 4,069 |
| 93.RD | *UHC* | Yale University | 3 R01 DA12849-04S1 | 57,663 |
| 93.RD | *UHC* | Yale University | 5 P50 DA09241-10 | 61,012 |
| 93.RD | *UHC* | University of Pennsylvania | 5-34709-A | 4,769 |
| 93.RD | *UHC* | University of Utah | P01 CA073992 | 37,666 |
| 93.RD | *UHC* | Northshore University Hospital | 5U10-CA35279-14 | 9,094 |
| 93.RD | *UHC* | Northshore University Hospital | 5U10-CA35279-15 | (110) |
| 93.RD | *UHC* | City of Hope-NMC | 5 P01 CA30206-18 | (1) |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 93.RD | *UHC* | University of Wisconsin | 8103-45777 | - |
| 93.RD | *UHC* | Northshore University Hospital | 5 U10-CA30206-18 | 82 |
| 93.RD | *UHC* | Nanoprobes Inc. | 1 R43 CA94495-01 | 34,796 |
| 93.RD | *UHC* | Uconn Foundation | 1 R01 CA94044-01A1 | 45,815 |
| 93.RD | *UHC* | Tufts University | CA39088 | 13,722 |
| 93.RD | *UHC* | University of Pittsburgh | P5400-5425 | 33,526 |
| 93.RD | *UHC* | University of Pittsburgh | BC0107-185 | 32,758 |
| 93.RD | *UHC* | CTRC Research Foundation | S0000 | 26,176 |
| 93.RD | *UHC* | Duke University | 780 | 2,765 |
| 93.RD | *UHC* | Duke University | 780 | 22,207 |
| 93.RD | *UHC* | Duke University | 5 RO1 CA89053-03 | 2,770 |
| 93.RD | *UHC* | Temple University | HL45700 | 3,234 |
| 93.RD | *UHC* | American Red Cross | 5-P01-HL54710-03 | 356 |
| 93.RD | *UHC* | Reliable Biopharmaceuticals Corp | 1 R41 HL067498-01A1 | 74,922 |
| 93.RD | *UHC* | Suny-Syracuse | SUNY1031799/28503 | 123,080 |
| 93.RD | *UHC* | Nanoprobes Inc. | 4 R44 HL076046-02 | 968 |
| 93.RD | *UHC* | Interhealth Nutraceuticals Inc | 1 R43 HL 75665-01 | 4,976 |
| 93.RD | *UHC* | UCLA-Univ Cal.at Los Angeles | 1562-G-DC223 | 50,640 |
| 93.RD | *UHC* | Univ of Colorado Hlth Sciences Center | 5 U01 HL064857-04 | 245 |
| 93.RD | *UHC* | CT Childrens Medical Center | 03-179046-01 | 15,610 |
| 93.RD | *UHC* | CT Childrens Medical Center | DPH 2002-270-2 | 28,284 |
| 93.RD | *UHC* | Arizona University | 01-086 | 3,644 |
| 93.RD | *UHC* | Childrens Hospital Medical Center | R01 AR48347-01A1 | 160,560 |
| 93.RD | *UHC* | Yale University | 1 RO1 AR049190-01A1 | 48,725 |
| 93.RD | *UHC* | Infratec Inc. | 1 R43 DK064494-01 | 21,996 |
| 93.RD | *UHC* | Onconova | 1 R43 NS45418-01 | 14,430 |
| 93.RD | *UHC* | UMASS | 2 U01 A132907-06 | 874 |
| 93.RD | *UHC* | Tulane University | 2 U19 AI28243-06A1 | 174 |
| 93.RD | *UHC* | UMASS | 5 U01 AI032907-08 | 280 |
| 93.RD | *UHC* | UMASS | U10 AI32907-09 | 1,076 |
| 93.RD | *UHC* | UMASS | GC00424 | (4,328) |
| 93.RD | *UHC* | UMASS | SP10255 | 84 |
| 93.RD | *UHC* | Yale University | 5-U01-AI46347-02 | 1,751 |
| 93.RD | *UHC* | Cambria Biosciences LLC. | 1 R41 AI151791-01 | 8,018 |
| 93.RD | *UHC* | Oregon Health & Science University | GBIMO0069A | 75,783 |
| 93.RD | *UHC* | UMASS | 5 U01 AI132907-11 | 115,501 |
| 93.RD | *UHC* | Yale University | 5 UO1 AI46347-04 | 10,289 |
| 93.RD | *UHC* | Yale University | 5 P50 DA133334-05 | 17,248 |
| 93.RD | *UHC* | UMASS | 5 U01 AI32907-12 | 45,715 |
| 93.RD | *UHC* | Brookside R&D | 1 R43 AG21882-01 | 146 |
| 93.RD | *UHC* | Rsrch Foundation for Mental Hygiene | 002458 | 19,770 |
| 93.RD | *UHC* | UMASS | P.O. #0006006904 | 2,644 |
| 93.RD | *UHC* | SUNY-Brooklyn | 5U10 AA08403-10 | (2,418) |

# STATE OF CONNECTICUT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

| CFDA NO. | STATE AGENCY * | GRANTOR | GRANTOR ID # | AMOUNT EXPENDED |
|---|---|---|---|---|
| Note 11 - Pass-through Grants: | | | | $ |
| 93.RD | *UHC* | SUNY-Brooklyn | 1009189 | 19,348 |
| 93.RD | *UHC* | SUNY-Brooklyn | SUNY 1009189/30162 | 471,906 |
| Total National Institutes of Health | | | | 3,063,778 |
| Miscellaneous Programs | | | | |
| 93.RD | *UHC* | Yale University | NIAAA1U10AA10170-01 | - |
| 93.RD | *UHC* | University of Tennessee | N01-AR-9-2242 | 14,006 |
| 93.RD | *UHC* | UMASS | N01-DK-9-2326 | 311,919 |
| 93.RD | *UHC* | Uconn Foundation | 1 S07 RR18220-01 | 49,398 |
| 93.RD | *UHC* | Uconn Foundation | 1 P20 GM65764-01 | 243,034 |
| 93.RD | *UHC* | University of Virginia | 1R24 GM65764-01 | 60,022 |
| 93.RD | *UHC* | University of Virginia | GC10641 | 213,027 |
| 93.RD | *UHC* | Population Council | B02.110N | 13,614 |
| Total Miscellaneous Programs | | | | 905,020 |
| **Total Department of Health and Human Services** | | | | 4,808,466 |
| **TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS** | | | | 4,868,698 |
| **TOTAL PASS-THROUGH GRANTS** | | | | $ 13,480,031.00 |

| | |
|---|---|
| ***** | - **Identification of State Agencies:** |
| *SDE* | - Department of Education |
| *UOC* | - University of Connecticut |
| *UHC* | - University of Connecticut Health Center |
| *CCSU* | - Central Connecticut State University |
| *ECSU* | - Eastern Connecticut State University |

# Schedule of Findings and Questioned Costs

**STATE OF CONNECTICUT**
**STATEWIDE SINGLE AUDIT**
**FISCAL YEAR ENDED JUNE 30, 2004**
**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, 2004
# 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? | Yes |
| Reportable condition(s) identified that are not considered to be material weakness(es)? | Yes |
| Noncompliance material to financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | Yes |
| Reportable condition(s) identified that are not considered to be material weakness(es)? | Yes |
| Type of auditors' report issued on compliance for major programs: | Unqualified opinion on all major programs except for *Foster Care-Title IV-E* (CFDA #93.658) and *Adoption Assistance* (CFDA #93.659), which are 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 |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 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 |
| 17.225 | Unemployment Insurance |
| 20.205 | Highway Planning and Construction |
| 21.999 | Jobs and Growth Tax Relief Reconciliation Act of 2003 – PL 108-27 (Economic Assistance) |
| 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 |
| 84.126 | Rehabilitation Services – Vocational Rehabilitation Grants to States |
| 84.367 | Improving Teacher Quality State Grants |
| 93.283 | Centers for Disease Control and Prevention - Investigations and Technical Assistance |
| 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: $ 16,769,652

Auditee qualified as a low risk auditee? No

## SECTION II

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

### II.A.1. Office of the State Comptroller - Failure to Provide Timely CAFR Financial Statements:

*Criteria:* Section 2200.101 of the Government Accounting Standards Board - *Codification of Governmental Accounting and Financial Reporting Standards* states that "every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR) that encompasses all funds of the primary government." Section 2200.104 of those Standards adds "It should be prepared and published promptly after the close of the fiscal year…" and, "Timely and properly presented financial reports are essential to managers, legislative officials, creditors, financial analysts, the general public, and others having need for governmental financial information."

Governmental Accounting Standards Board - Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* - requires general purpose governments to present basic financial statements and required supplemental information in order to be in compliance with generally accepted accounting principles (GAAP). The basic financial statements must include a management discussion and analysis, government-wide financial statements, fund financial statements and notes to the financial statements.

In respect to its debt issuance, the State has a continuing disclosure obligation to provide audited financial statements in order to be in compliance with certain Securities and Exchange Commission regulations. In order to be in compliance with those requirements, the Office of the State Treasurer must receive audited CAFR financial statements by the end of February of each year.

In addition, Office of Management and Budget Circular A-133 states that recipients of Federal grant awards "…shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited." These statements are due to the Federal government by the end of March of each year.

The significant cost of the Core-CT system was partly justified by the planned improvements in financial reporting. Preparation of required financial reports was to be done using a much more automated methodology that would not require the extensive use of manual worksheets.

*Condition:* Our review found that the Core-CT system did not provide financial reports in a format that would facilitate the preparation of year end financial statements. Preparation of required reports was problematic and filled with delays.

The Core-CT system could not properly account for numerous Federal grant transfers. The preparation of the Schedule of Expenditures of Federal Awards required significant manual compilation and reconciliation. Its completion was delayed until just prior to the date it was due to the Federal government.

The Comptroller did not prepare and issue audited financial statements for its CAFR until December 30, 2005, some ten months after the date they were needed by the State Treasurer and some nine months after the date they were required by the Federal government.

*Effect:* The State was not in compliance with SEC continuing disclosure requirements, and was at risk of not complying with the reporting requirements for Federal financial assistance.

The State was not in compliance with the provisions of Office of Management and Budget Circular A-133. The financial statement audit required by the Federal government, including the Schedule of Expenditures of Federal Awards, could not be completed and reported on by the required date.

In March 2005, the Office of Policy and Management requested and received an extension from the U.S. Department of Health and Human Services, to extend the State's reporting deadline from March 31 to September 30, 2005. Subsequently, after the September 30th reporting deadline was missed, the Office of Policy and Management requested and received an additional extension to December 31, 2005.

*Cause:* As described above there were delays in issuing the *Annual Report of the State Comptroller - Budgetary Basis* upon which the CAFR is based. By necessity, the preparation of both the CAFR financial statements and the Schedule of Expenditures of Federal Awards was reliant upon the extensive manual compilation and adjustments necessary to produce the budgetary basis report, which was the result of problems in the Core-CT system as detailed below. In addition, reduced staffing levels in the Budget and Financial Analysis Division of the State Comptroller, as well as at State departments and agencies further served to delay the process.

*Recommendation:* The State Comptroller should take whatever measures necessary to ensure that its CAFR financial statements and Schedule of Expenditures of Federal Awards are prepared in an efficient and timely manner.

*Agency Response:* "Layoffs and early retirements that occurred just prior to Core-CT implementation had a significant impact on the production of timely financial reports. A considerable number of financial staff within State agencies that had been fully trained in Core-CT applications was suddenly gone due to layoffs and retirements. There was limited time before the July 1, 2003 Core-CT implementation date to fully train agency employees who had replaced staff lost to layoff or early retirement. This resulted in numerous accounting errors being entered into the system by staff that had not been adequately trained. At the same time, the Budget and Financial Analysis (BFA) Division lost ten of twenty-eight highly trained and experienced employees making it difficult to detect and correct system coding errors in a timely fashion.

The Comptroller requested additional resources for the BFA Division in her Fiscal Year 2004 budget request. Over $185,000 of the Comptroller's requested funding for BFA was cut from the Governor's budget and was not restored by the Legislature. Additional funding was again requested in Fiscal Year 2005 and was denied. The funding that was eliminated would have assisted the division in detecting accounting posting errors early thus expediting the production of the legal basis statements and Comprehensive Annual Financial Report (CAFR). It should also be noted that personnel actions were difficult to execute even where funding was available and approved for expenditure by the Comptroller.

Additionally, due to the large number of accounting errors entered by State agencies in Fiscal Year 2004, the State's books were left open for an extra six weeks to allow for agency corrections. Both the Department of Revenue Services and the Treasurer's Office were given more than six additional months to correct problems with their entries to Core-CT. The added time granted to agencies to fix accounting entries inevitably impacted the timeliness of financial reporting.

To correct these problems, Core-CT made training and retraining agency staff a priority. Training workshops were open to State agency personnel in most major Core-CT applications. In addition, a series of job aides were put online to assist agency users, and when continuing problems were detected agencies were either notified by phone or daily mail. This action has helped to reduce the volume of user errors. The BFA Division has added four employees (three through internal transfers) and has gained approval to hire an additional employee. While this has left the BFA Division five employees short of its staffing level prior to the layoffs and retirements, the additional staffing should help to expedite financial reporting. Finally, Core-CT has added reporting functionality that will allow data to roll-up to the proper reporting level."

### II.A.2. Office of the State Comptroller - Administration of Statewide Accounting and Financial Reporting Functions:

*Criteria:* Section 3-112 of the General Statutes provides that the Comptroller shall "establish and maintain the accounts of the State government…prescribe the mode of keeping and rendering all public accounts of departments or agencies of the State and of institutions supported by the State or receiving State aid by appropriation from the General Assembly… prepare and issue effective accounting and payroll manuals for use by the various agencies of the State."

The *State Accounting Manual*, issued by the State Comptroller, provides formal written accounting policies and procedures, and establishes the definitions of authority and responsibility between State departments and agencies, and the State Comptroller.

*Condition:* The scale and scope of the implementation of the Core-CT project required the resources of the Department of Information Technology, the Office of Policy and Management, the software vendor PeopleSoft, the Accenture consultants employed to install the system and numerous other participants. The Core-CT project evolved into almost a separate entity, which in many respects required the Office of State Comptroller to be subordinate to what the Core-CT organization, the software vendor and consultants needed or could provide.

The Core-CT system decentralized some of the accounting procedures that were formerly the responsibility of the State Comptroller. The design of the Core-CT system eliminated many of the controls the State Comptroller had previously established over those transactions State agencies entered onto Statewide accounting records.

The State Comptroller has not updated its State Accounting Manual to reflect the changes brought by the Core-CT system. System users do not have an authoritative source of information that ensure accounting transactions are processed in compliance with government accounting principles and consistently throughout the State.

The State Comptroller has not provided its Budget and Financial Analysis Division adequate resources to review agency-entered transactions and prepare monthly and annual financial reports in a timely manner.

*Effect:* The State Controller has relinquished a significant amount of the control it previously maintained over accounting of the State's financial transactions. It no longer has exclusive control over a responsibility it has been assigned by Statute. The Core-CT project has evolved into an entity separate from the State Comptroller, and not under its direct control. In operational and reporting needs, the personnel of the Budget and Financial Analysis Division are in the position of accepting what the Core-CT project can provide, rather than the system working to meet their needs.

State agencies can now enter data onto statewide accounting ledgers without the supervision of the Budget and Financial Analysis Division. As a result, accounting entries made by various State agencies did not conform to proper governmental accounting practices. This included numerous journal entry errors and numerous transactions posted to the wrong fund or account.

In addition, essential staff members of the State Comptroller ended up assigned to work on Core-CT problems, rather than being available to address the needs of statewide financial reporting.

*Cause:* We observed that the relationship between partners in the implementation of the Core-CT project did not clearly show the State Comptroller in the role of the primary participant. Core-CT system administrators, and the private consultants employed to implement the project, did not meet the needs of the State Comptroller and user agencies and departments of the State to provide for the efficient and accurate processing and recording of financial transactions.

In its implementation of a decentralized statewide accounting system, the State Comptroller did not mandate the establishment of internal controls to review and approve certain journal entries before they were posted to the general ledger. The establishment of certain "edit checks" and other controls that would have prevented erroneous transactions from being entered was not done. Procedures for regular analytical analysis to identify reported transactions that do not match historical norms were not established.

We observed that inadequate resources were applied to the task. During the entire audit period a significant amount of the resources of the Budget and

Financial Analysis Division were devoted to the Core-CT project or other duties. As a result, much of the work of compiling, reconciling and correcting data for Statewide financial reporting was assigned to a single individual, with no backup if that individual was made unavailable. In addition, the State Comptroller had inadequate resources available to update its *State Accounting Manual*.

This is related to a problem noted throughout the State, as the effects of layoffs, the early retirement incentive, and the training demands of the new Core-CT system have placed additional burdens on accounting staff, resulting in errors and weaknesses in internal controls. Staff assigned to the Budget and Financial Analysis Division were required to face increasing demands of State departments and agencies to resolve processing and posting problems and correct errors, and were unavailable for the financial reporting function.

In a related matter, the Budget and Financial Analysis Division encountered problems with adjustments resulting from the bank reconciliation process performed by the State Treasurer. In that process the State Treasurer provided accounting adjustments to the general ledger in a manner that did not recognize the need to account for the various fund designations established in the State's financial reporting.

In addition, the demands that the Core-CT system places on agency and department users to process routine transactions leaves them less time to work on resolving accounting problems.

*Recommendation:* The State Comptroller should reemphasize its role as the agency responsible for maintaining the accounts of the State, and apply adequate controls and resources to the task of Statewide financial accounting and reporting, which should include the revision of the *State Accounting Manual*.

*Agency Response:* "Core-CT was designed and implemented to subsume the functions of various costly and technologically disparate financial systems and subsystems that the State had been using. Therefore, Core-CT in design and nature went well beyond the demands of the Comptroller's Office as a central user by also incorporating agency based financial and human resources needs. To capture the full scope of both central and agency based needs, and to balance these -at times- competing requirements, an oversight organization was formed. Oversight of Core-CT implementation was provided by the Comptroller, the Department of Administrative Services, the Office of Policy and Management, and the Department of Information and Technology. It was essential to receive input and guidance from these other three agencies during the design and configuration phase of the Core-CT project. Throughout this period, the Comptroller continued to exercise her authority relative to the mode and method of statewide accounting and reporting. Staff working on the statewide accounting and payroll applications of Core-CT are Comptroller's employees.

As with any financial system that is incorporating both the needs of central reporting with the needs of user departments or divisions, a large degree of decentralization is required. Without that decentralization the system would not meet the needs of agency users. Inherent in decentralization is a certain loss of data entry control and, as noted in this report, the need to increase internal controls and monitoring of system entries. This is not a loss of control due to policy changes, but to the inherent nature of the design and system entry functionality.

To better monitor system entries, in November 2004, a monthly closing process was implemented for accounts receivable, billing, accounts payable and the general ledger. This process allows both agency users and the Comptroller's Office to more readily identify transaction errors. In addition, reporting functionality has been improved incrementally to provide added reconciliation tools.

Updates to the State Accounting Manual (SAM) are currently underway. A section of the Core-CT web site will be dedicated to an on-line SAM. The BFA Division is utilizing a reemployed retiree to assist in this effort and is actively seeking additional help within limited resources. It is anticipated that postings for the new SAM will begin to appear at the end of 2005 beginning with the Core-CT coding conventions. Additional information will be posted on an ongoing basis until the SAM is complete. The Accounts Payable Division, the Policy Services Division and BFA will work closely to complete the SAM. Existing on-line job aides and related information will be incorporated within the SAM.

Finally, it should be noted that two employees within the BFA Division have been reassigned on a part-time basis to budgetary reporting to provide back up and to facilitate the production of the budgetary report, which is essential to CAFR reporting. We are hoping to add staff due to the critical nature of this matter."

### II.A.3. Office of the State Comptroller - Failure to Provide Needed Reports to System Users:

*Criteria:* Section 1100.101 of Government Accounting Standards Board - *Codification of Governmental Accounting and Financial Reporting Standards* states that a governmental entity's accounting system should be designed to achieve the following: "Present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles" and, "Determine and demonstrate compliance with legal and contractual provisions."

An accounting system is designed to assemble, classify, record and report financial data. To be useful to end users, that system must be able to present data in reports that meet their needs and provide for the reconciliation of accounts.

Section 3-115a of the General Statutes provides that "The Comptroller, in carrying out accounting processes and financial reporting that meet constitutional needs, shall provide for the budgetary and financial reporting needs of the executive branch as may be necessary through the Core-CT system."

*Condition:* Financial reports that were readily available on the previous accounting system were not functional in Core-CT. For the two years the Core-CT system has been operational, reports detailing agency cash receipts and available cash, as well as the detail of Federal grant expenditures, were not available for use or provided erroneous information.

Expenditure detail reports from the Core-CT system could not summarize activity for a single agency on a complete basis, because reporting could only be made on account codes for subunits within the agency as they were entered onto the account chartfields. The available reports would only detail activity by all of the subagency accounts, which resulted in a lengthy and unusable presentation.

The EPM (Enterprise Performance Management) module, designed to allow custom designed queries by system users, did not meet its promise to be user friendly and reliable.

Account chartfields were set up to be unnecessarily complex and unmanageable, and frequently, the distribution of personal services costs among accounts by the Core-CT financials component would not match actual employee time distribution. For certain State agencies, the distribution of payroll costs required the use of worksheets and ledgers separately maintained, and not a part of the Core-CT system.

In addition, it was not possible for user departments and agencies to receive reports that identified personnel positions paid out of selected accounts off the chartfields, making it difficult for management to budget and account for what is generally the largest single expenditure of a department or agency.

The Core-CT system allowed the change or adjustment of past-posted transactions. Adjustments entered in the system to correct previously made errors would cause continual changes in reported data for past accounting periods.

The Core-CT system will not process online data on cleared and outstanding checks to allow for the prompt reconciliation of the State's checking accounts.

In addition, as described elsewhere in this report, the Core-CT system cannot provide reports that accurately account for interagency expenditure, revenue and grant transfers.

*Effect:* Agency personnel were not able to receive reports in formats and with information they were previously accustomed to. Requested reports required extensive manual "roll up" to summarize information at higher levels. In addition, reporting deficiencies prevented user agencies from reviewing the results of accounting entries, and identifying and reconciling differences that eventually would affect statewide reporting.

Extensive manual labor was required to maintain chartfield mapping as employee changes were made and to reconcile between separately maintained records and those on the Core-CT system, as well as between the financial and human resources modules of Core-CT.

Because of the inability to efficiently manage the distribution of payroll costs, State departments and agencies encountered considerable difficulty in calculating the Federal share of personal services costs. As one example, at the Department of Transportation over $100,000,000 in payroll charges that are eligible for Federal reimbursement remain unbilled and uncollected (as of September 2005). These charges have accumulated from the implementation of the Core-CT payroll system in October 2003.

Because of the continual changes in data from past accounting periods, the Office of the State Treasurer was unable to perform accurate forecasting of cash balances resulting in investment returns being managed less effectively.

Because information on cleared and outstanding checks was not presented on an automated basis, the State Treasurer was unable to reconcile its cash accounts at year end, which resulted in delays in preparation of the *Annual Report of the State Treasurer for the Fiscal Year Ended June 30, 2004* and the failure to meet the statutory requirement for submission of that report by October 15, 2004. The inability to reconcile cash accounts also delayed the preparation of the State Comptroller's Annual and CAFR financial reports as noted above. The reconciliation of the Treasurer's cash accounts for the fiscal year ended June 30, 2004, was not fully completed until August 2005.

*Cause:* The Core-CT system is based on PeopleSoft computer software that is an adaptation from the commercial accounting environment. That adaptation to the States' accounting needs did not address reporting at certain agency levels. The Core-CT system does not interface with certain department or agency specific systems used for Federal billing. We found certain financial reports that were custom designed for the State's needs did not function properly. In addition, the EPM module required significant training and skill for users to develop a query that will provide the needed financial information.

The addition of modified cash and estimated revenues ledgers also required adaptation of the PeopleSoft computer software. Core-CT project personnel have had significant difficulties in programming to make these features operational.

The Core-CT system will allow continual changes in transactions that were posted in previous months. Adjustments and corrections entered will affect totals for past periods, affect reconciled amounts and reported totals. To address these problems, in November 2004, the State Comptroller established monthly close outs of the accounts payable, accounts receivable and general ledgers. State departments and agencies are now required to review the month's activity, close out pending, open or unmatched items, reconcile data and correct errors on the various ledgers.

The Core-CT system, as implemented by the State did not include the "treasury module" that was part of the package offered by the software vendor. This module would help to automate the bank reconciliation process by providing information on cleared and outstanding checks using bank statement data that is directly transferred from the bank. The additional cost of this package would have been offset by a reduction in the personal services costs of the manual process currently used.

*Recommendation:* The State Comptroller should recognize its primary role in providing financial reporting for the State, and demand improved financial reporting from the Core-CT system.

*Agency Response:* "The Comptroller has been leading the effort to improve Core-CT financial reporting. The Comptroller's Office and the Core-CT project staff have worked closely with the Treasurer's Office to modify the Average Daily Balance Report. We have also worked closely with the Auditors of Public

Accounts to meet those reporting needs. Based on specific requests, we have modified several system-generated reports. The reports we have been enhancing include the Expenditure Detail Report, the Available Cash Trial Balance, the Detail and Summary Revenue Report, the Trial Balance of Appropriations, and the Grant Appropriation Trial Balance. In addition, several reports have been enhanced to allow them to be easily downloaded into Excel. These include the General Ledger (GL) Trial Balance, Encumbrance, Pre-Encumbrance, and Budget Transaction detail.

At the direction of the Comptroller, the Core-CT team began the Report Catalog initiative in November 2004 to develop and implement a catalog of reports to help central and line agency users extract and manage financial information. In order to meet the needs of all the Core-CT users, a focus group was formed representing a broad cross-section of State agencies by size and mission. Feedback from training sessions, user labs, and user group meetings was also reviewed. This effort helped us to identify reports that would be most helpful to users in various functional areas. Several of these reports were enhanced to meet requirements that were suggested by the focus group. Also, a new flexible analysis report has been added under the general ledger to allow users to review ledger balances by account code based on parameters they define. In September, the new report catalog website went online. This site includes 30 production reports covering six financial modules. Each report starts with an introduction to the report stating the purpose, type references the legacy CAS/SAAAS report it replaces, role(s) required for access, navigation path, and suggested run times. It also provides detailed instructions to initiate the report and a sample of the information generated by the report. This catalog has been well received by the entire user community. It should also be noted that prior to Core-CT, data processing employees were required to extract certain financial information that is now readily accessible to Core-CT users through basic reporting functionality.

With respect to the decision not to purchase the treasury module, the Treasurer's Office as an independent constitutional office made that choice. They opted to use an in-house subsystem.

Regarding the Department of Transportation's (DOT) failure to bill over $100,000,000 in payroll charges eligible for federal reimbursement, DOT has had the Core-CT source data that they requested in order to process these claims for over one year. It is now DOT's responsibility to cross-walk that data to their billing system. DOT has developed a plan to complete these billings by May 2006."

**II.A.4. Office of the State Comptroller - Failure to Consistently and Properly Record Interagency Transfers:**

*Criteria:* An accounting system is designed to assemble, classify, record and report financial data. To be effective, that system must have internal controls that provide assurance that the accounting system and its underlying data are reliable. An accounting system that utilizes computer processed data in a decentralized environment must have standardized procedures and training to ensure that transactions are processed in a consistent manner.

Section 3-115a of the General Statutes, as amended by Public Act 04-87, provides that "the Comptroller, in carrying out accounting processes and financial reporting that meet constitutional needs, shall provide for the budgetary and financial reporting needs of the executive branch as may be necessary through the Core-CT system."

*Condition:* The Core-CT system implemented a significant change in the manner that interagency transfers were processed in the State's accounting system. It decentralized the process of interagency transfers from the State Comptroller to individual State agencies. Formerly, the Comptroller processed such transfers by coordinating between agencies, reviewing the transfer for accuracy, and entering the transaction. The decentralized process allowed agency personnel to directly enter interagency transfers that were not subject to the internal controls previously employed, and the function of coordinating these transactions between agencies was lost.

Deficiencies in the system controls, and limited enforcement of compliance with standard policies and procedures allowed users to believe that if a transaction could be entered into the system, it was properly prepared.

*Effect:* This resulted in the State Comptroller losing control of transactions entered onto the State's general ledger. A State agency processing a transfer can and would post transfers coded to the incorrect accounts of the recipient agency.

Transfers of State and Federal funds were inaccurately recorded. State agencies could not provide an accurate accounting of grant receipts, grant expenditures, grants receivable and deferred grant revenue. Amounts reported on financial statements were compiled using manual analysis.

*Cause:* The State Comptroller did establish certain account codes to be used to identify grant transfers; however, there were no internal controls in the Core-CT system to enforce their use.

The State Comptroller did not effectively train system users to use a standard method of entry and establish a procedure to prevent miscommunication between agencies. It also failed to update its *State Accounting Manual* to address the new environment.

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With the implementation of the billing module in Phase II of Core-CT in February 2005, certain improvements were implemented; interagency transfers are now processed with standard billing types.

However, after this change was made to address problems with interagency transfers, we noted that State agencies still had the ability to enter erroneous transactions. The State Comptroller has continued to stress training of system users in an attempt to prevent these errors. At the time of our review (August 2005) no system controls have been implemented to ensure that system users do not make these types of errors.

*Recommendation:* The State Comptroller should correct deficiencies in the internal controls in the Core-CT system that governs the entry of interagency transfers.

*Agency Response:* "At the time of Core-CT implementation, the decentralized recording of interagency transfers was not expected to be problematic. Three account codes were developed to identify such transfers and the proper use of the codes was communicated to agency users in multiple forums. However, as noted in this report, numerous coding errors did arise.

In February 2005 with the implementation of the billing module, a billing type was created to capture such transactions with an established default account coding. Unfortunately, in some cases agencies have inaccurately changed the default coding.

These coding problems have made interagency transfer reporting a labor intensive activity. The Comptroller's Office is in the process of reevaluating the business procedures for such transfers and is evaluating the feasibility of recentralizing this function. Additional resources have been made available to address this issue."

## II.A.5. Office of the State Comptroller - Failure to Consistently and Properly Record Account Codes and Transaction Dates:

*Criteria:* An accounting system is designed to assemble, classify, record and report financial data. To be effective, that system must have internal controls that provide assurance that the accounting system and its underlying data are reliable. An accounting system that utilizes computer processed data in a decentralized environment must have standardized procedures and training to ensure that transactions are processed in a consistent manner.

Section 3-115a of the General Statutes as amended by Public Act 04-87 provides that "the Comptroller, in carrying out accounting processes and financial reporting that meet constitutional needs, shall provide for the budgetary and financial reporting needs of the executive branch as may be necessary through the Core-CT system."

*Condition:* During the audited period our review encountered problems with the manner that revenue and expenditure transactions were processed in the State's accounting system. Formerly, the Comptroller processed transactions by posting them from hard copy documents that were prepared by State agencies under long established procedures detailed in the *State Accounting Manual*.

The procedures adopted under the Core-CT system allowed agency personnel to directly enter transactions that included information such as account coding and transaction dates. These entries were not subject to the controls and procedures previously employed, and inconsistent information on account codes and transaction dates were recorded.

The Core-CT system is based on a multiple set of general ledgers to provide for the modified accrual and modified cash accounting basis used by the State. Errors in spreadsheet journals entered by user agencies and departments frequently cause differences between the two ledgers.

*Effect:* Transactions were posted to incorrect budgetary accounts, restricted accounts and State fund accounts. In order to close and report on the fiscal year, personnel of the Budget and Financial Analysis Division were required to review and correct numerous improperly coded transactions.

This condition also resulted in State agencies being unable to properly account for receivables and payables at fiscal year end. Receipts collected and payments made during the end periods of the fiscal year would be improperly recorded as applicable to the prior or following fiscal year. At the Department of Transportation, accounts payable for the beginning of the 2003-2004 fiscal year, as computed by the Core-CT system were understated by $10,920,628 (as of June 30, 2003), and by $4,394,954 at the close of the fiscal year (as of June 30, 2004).

The Budget and Financial Analysis Division is required to periodically identify and correct differences that result between the modified accrual and modified cash general ledgers.

*Cause:* The Core-CT system is decentralized and by necessity, the State Comptroller must rely on department and agency users to make the correct accounting entries onto the system. Deficiencies in the system design and failure to initially establish standardized procedures allowed users to enter erroneous transaction account and date information.

It was not until well into the 2003-2004 fiscal year, that Core-CT system administrators established a corrected and consistent procedure for recording receipt and payment dates. Further changes to procedures, and to the computer software, were implemented well into the 2004-2005 fiscal year.

We note that State agencies still have the ability to enter erroneously coded transactions. At the time of our review (August 2005) there were limited controls in place to ensure that department and agency users code transactions to the proper accounts. The identification and correction of these errors is continuing to place a significant burden on the resources of the Budget and Financial Analysis Division. The Comptroller has emphasized continued training of agency users in order to address the problems; however, it has still not updated its *State Accounting Manual* to address the new environment.

Related to this matter, we found some of the instructions provided to user agencies on how to properly code or create transactions on the Core-CT system did not conform to the procedures previously established by the State Comptroller, and instead created accounting errors. We noted that the Core-CT team, and not the accounting staff of the Budget and Financial Analysis Division of the State Comptroller, was preparing the materials for user group meetings and daily mail communications.

*Recommendation:* The State Comptroller should correct deficiencies in the internal controls in the Core-CT system over the entry of recording account codes and transaction dates.

*Agency Response:* "The Comptroller's Office did assist in the preparation and presentation of materials for user group meetings and daily mail communications. On several occasions the Accounts Payable Division created materials and gave presentations on subject matter relating to transaction processing, including the proper use of accounting date. In addition, the Comptroller's Office implemented a monthly closing process in November 2004 for accounts payable, accounts receivable, billing and the general ledger. This closing process is allowing the Comptroller's Office to more quickly identify and resolve posting errors. The Comptroller's Office continues to dedicate substantial resources to monitoring and correcting agency posting errors. As noted above, four of the ten BFA employees lost at the time of Core-CT implementation have been replaced and an additional hire has been approved. All of these employees are dedicated to monitoring Core-CT system entries and to correcting errant postings.

In addition, the BFA Division has recently implemented a process to reconcile the commitment control ledgers to the general ledger on a monthly basis. This reconciliation or "true-up" of the ledgers should also help to detect posting problems and system errors as well as keeping the multiple ledgers in balance."

**II.A.6. Office of the State Comptroller - Failure of System Controls Over Ledger Posting:**

*Criteria:* An accounting system is designed to assemble, classify, record and report financial data. To be effective, that system must have internal controls that provide assurance that the accounting system and its underlying data are reliable. An accounting system that utilizes computer processed data in a decentralized environment must have application controls that prevent the inaccurate entry of data.

*Condition:* We noted there was a deficiency in system controls that affected commitment and general ledger reporting. The Core-CT system is based on multiple ledgers to provide for budgetary accounting. In addition to general ledgers that are on the modified accrual and modified cash accounting basis, a commitment control ledger is also used, which was intended to provide for the budgetary control used by State government. We found that an internal control, established as budget check, which was designed to prevent the posting of transactions to the general ledger without first being posted to the commitment control (budget) ledger, and being subjected to its controls, was being bypassed.

State agencies and departments frequently miscoded expenditures to balance sheet accounts, which would cause budget check controls to be bypassed. There were no internal controls in the Core-CT system to prevent this type of error. In addition, when journal vouchers were entered, the Core-CT system did not automatically generate the proper entries to the cash accounts. Users were required to prepare them manually, which resulted in numerous errors and omissions.

In addition, when user departments and agencies issued a change order to an existing purchase order that has been already fully expended, as expenditures pertaining to the change order are processed, the Core-CT system duplicated the original encumbrance.

*Effect:* Accounting records were not accurate and were unreliable. Erroneous transactions were posted, which require extensive time and labor to identify and correct.

Transactions were posted to the general ledger, bypassing the commitment control ledger. As a result the commitment control ledger has to be manually adjusted to equal the balances in the general ledger.

State agencies and departments can miscode expenditures to a certain account on the Core-CT system and avoid having their appropriations encumbered, thereby being able to overspend their legal appropriations, which may not be promptly detected.

*Cause:* Deficiencies in the system design and failure to initially establish standardized procedures allowed users to enter erroneous transaction account and date information.

To partly solve this condition, in November 2004, the State Comptroller implemented a monthly closeout and reconciliation process for the accounts payable, accounts receivable and general ledgers. State departments and agencies are now required to review each month's activity and close out pending, open or unmatched accounts payable vouchers prior to the last business day of the month. Agencies must correct accounts payable and receivable errors prior to the close of the general ledger. Monthly reports are made available after the close of the general ledger.

We noted that in May 2004, a memorandum was issued that described the implementation of a software change to validate account codes; this would only allow purchase orders to be coded to expenditure accounts. However, our review found no documentation to establish that such a change was made. Despite repeated efforts to train department and agency personnel, purchase orders continue to be coded to nonoperating accounts, which result in problems that require correction.

In its response to the request to change system controls to prevent this type of occurrence, Core-CT project personnel responded that the most feasible solution to the problem was to establish queries to identify purchase orders coded in error, so that they can be manually corrected as part of the "month end clean up."

*Recommendation:* The State Comptroller should correct deficiencies in the internal controls of the Core-CT system to eliminate the bypassing of the commitment control ledger.

*Agency Response:* "An evaluation is currently underway to assess the feasibility of building hard edits into various module applications to minimize the ability of agencies to enter errant coding. However, at this time the Comptroller's Office must rely on the reconciliation and monitoring controls discussed above to validate system postings."

## SECTION III

## FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

# A. DEPARTMENT OF SOCIAL SERVICES

### III.A.1. Eligibility – Ineligible Client and 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 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

*Background:* Individuals are required to submit a written application for medical assistance as a condition of receiving Medicaid benefits. Eligible recipients are required to complete a redetermination form to redetermine the eligibility of Medicaid recipients. The application/redetermination form must be maintained in the recipient's case record along with any documentation in support of the Medicaid agency's decision on the eligibility determination.

*Criteria:* Title 42 Code of Federal Regulations (CFR) Part 435 Section 831 provides that the State must determine the income eligibility of the medically needy. The State must use budget periods of not more than six months to compute income. If countable income is equal to or less than the applicable income standard under the State's Plan, the individual or family is eligible for Medicaid. If countable income exceeds the income standard, the State must deduct from income medical expenses incurred by the individual or family or financially responsible relatives that are not subject to payment by a third party.

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.

Title 42 CFR Part 435 Section 913 requires that the State must maintain, as part of the recipient's case record, any documentation in support of the Medicaid agency's decision on eligibility determination.

*Condition:* Our sample consisted of 80 claims with a total dollar value of $262,568 selected from an audit universe of all medical assistance payments for the State fiscal year ended June 30, 2004, totaling $2,412,953,789. Our review of Medicaid eligibility disclosed the following three conditions:

Condition 1:
Case workers must manually change the Medicaid eligibility status to spenddown for those clients who have income in excess of the monthly income standard for the new six-month redetermination period. If this is not done, the system automatically carries over the eligibility status from the previous redetermination period.

Our review disclosed that a sampled payment of $653 was made to a provider on behalf of a client who was not eligible under Medicaid because the client's countable income was not equal to or less than the applicable income standard under the State Plan. In this case, the client had excess income in the amount of $1,116 for the six-month period December 2003 through May 2004. Therefore, during this six-month period the Department should have deducted from that income any medical expenses incurred by the client and only paid the client's medical expenses after the client paid the first $1,116 of medical expenses incurred by the client.

However, our review disclosed that the client had sufficient medical expenses prior to the payment sampled and would have met the income requirement if the case worker had processed the case correctly in EMS. If that had occurred, the sampled payment of $653 should have been paid under Medicaid. However, medical expenses totaling $1,116, which should have been deducted from countable income, were paid under Medicaid but should have been paid by the Medicaid client. Thus there was an error in that $1,116 was paid by Medicaid that should not have been paid by Medicaid, but the error was not part of our sample.

Condition 2:
In six cases out of the 80 sampled, eligibility redeterminations were not performed in a timely manner to cover the date of service that was selected for testing. 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. A change to the Department's Eligibility Management System (EMS) was completed in October 2003, to shorten the redetermination cycle, affecting any redetermination that was completed on or after that date. However, this change did not shorten redeterminations for clients that were established prior to October 2003 to have redeterminations completed on a two-year cycle.

Condition 3:
In four cases out of the 80 sampled, there was an indication in the Department's Eligibility Management System (EMS) that an application or redetermination document had been completed. However, these four documents were not in the clients' case files for review.

*Effect:* One client was incorrectly paid $1,116 under Medicaid because the client's first $1,116 in medical expenses for the redetermination period should have been excluded from Medicaid. As a result, we consider medical services in the amount of $591 (at the 52.95 percent Federal financial participation), which was not part of our sample, to be unallowable under the Medicaid program.

The Department is not fully complying with the annual requirement to redetermine the eligibility of Medicaid recipients. In addition, the above conditions lessen the Department's assurance that only eligible recipients are receiving Medicaid services.

*Cause:* Condition 1:
The worker did not manually change the client's eligibility status so that the spenddown would be met before benefits were payable. Effective July 28, 2004, a modification was made to EMS to eliminate the worker's need to manually change EMS.

Condition 2:
The Department has taken action to shorten redetermination cycles in EMS. As of October 2003, EMS has been modified to limit redetermination cycles to a maximum of twelve months in cases where redeterminations were completed on or after that date. However, our review revealed several instances where the cycle had not been manually shortened.

Condition 3:
The Department indicated that it is possible that the missing documents had been misfiled and/or are waiting to be filed.

*Recommendation:* The Department of Social Services should reiterate to its offices to manually shorten redetermination periods of recipients currently on two-year redetermination cycles and should maintain all original documentation in the case records in a readily reviewable form.

*Agency Response:* "The Department agrees with this finding. The Department will reiterate to the regional offices to shorten the redetermination cycles for those clients who are incorrectly on a 24-month cycle. This is a temporary solution; the long-term solution of modifying EMS to limit redetermination cycles was effective October 2003. As of October 2005, there will be no need to rely on manual intervention by the eligibility worker to shorten the cycle since all two-year certification periods will have expired.

The Department will also remind regional staff that case records must be maintained up to date containing all original documentation."

## III.A.2. Reporting – Federal Cash Transactions Report

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Year: Federal Fiscal Year 2003-2004**
**Federal Award Numbers: 05-0405CT5028 and 05-0405CT5048**

*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 for Medicare and Medicaid Services (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:* Title 45 Code of Federal Regulations Part 92 Section 41 provides that the Department submit the Standard Form 272, Federal Cash Transactions Report, and when necessary, its continuation sheet, Standard Form 272A, unless the terms of the award exempt the grantee from this requirement. These reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees.

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 benefit the program (i.e., checks, warrants, or cash payments).

*Condition:* Our review of the Department's PSC-272A Federal Cash Transactions Report filings for the quarters ended December 31, 2003, and June 30, 2004, disclosed that the Department was not properly reporting disbursements on these reports for the Medicaid program. The Department was improperly reporting estimated amounts as the net disbursements of the program instead of actual payments disbursed in support of the program.

The actual disbursement amounts are documented on the Department's CMS-64 Quarterly Expenditure Report, which is the Federally required instrument for documenting the Department's Medicaid expenditures (disbursements).

*Effect:* Disbursements reported to the Division of Payment Management are inaccurate.

*Cause:* Because the Department routinely submits the CMS-64 expenditure report after the deadline for filing the PSC-272A Report, the Department must use preliminary medical assistance payment expenditure information available on its CMS-64 reporting system. Relative to administrative expenditures, the Department's cost allocation system did not provide the Department with administrative expenditures on a timely basis.

*Recommendation:* The Department of Social Services should prepare the Federal Cash Transactions Reports (PSC 272A) using actual disbursement information.

*Agency Response:* "The Department agrees with this finding. The Department must submit a PSC 272 report generally by the 15th of the second month after the quarter end. Given the complexity of the Federal Medicaid reports, our reliance upon other agency reporting, and the difficulties faced in our transition to the new CORE accounting system, developing final actual reports by that deadline has been problematic.

The data used in the preparation of the PSC 272 incorporates 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, estimates have been used in the report.

The Department will continue to work on improving its reporting timeliness. To that end, the Department has established a goal of being able to meet the PSC reporting requirements in SFY [State fiscal year] 2006."

## III.A.3. Special Tests and Provisions – Utilization Control and Program Integrity

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**State Medicaid Fraud Control Units (CFDA #93.775)**

**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

*Criteria:* Title 42 Code of Federal Regulations Part 455 Section 14 requires that if the Medicaid agency receives a complaint of Medicaid fraud or abuse from any source or identifies any questionable practices, it must conduct a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation.

Code of Federal Regulations Title 42 Section 455.15 provides that if the findings of a preliminary investigation give the agency reason to believe that an incident of fraud or abuse has occurred in the Medicaid program, the Medicaid agency must refer the case to the State Medicaid Fraud Control Unit (MFCU).

*Condition:* We reviewed 10 of the 32 complaint files received from July 1, 2003, to June 30, 2004. Our review of the 10 complaint files noted the following:

- One file had no follow up information indicated on the complaint form relating to the audit conducted.

- One complaint was supposedly referred to four Managed Care Organizations (MCOs). However, two of the four MCOs stated that they did not receive this complaint. The other two MCOs did not reply to our request. In addition, one of the MCOs informed us that it attempted to notify the State of five to six cases of suspected fraud involving doctor shopping taking place with Medicaid patients. However, the representative of the MCO alleged that he (they) could not find anyone within the State to take responsibility for an investigation.

We reviewed all four suspected fraud cases referred to the MFCU by the Department during our audit period. For one of the four cases, the MFCU informed us that it did not receive the suspected fraud case. We were not able to determine whether the Department delivered the files to the MFCU or whether MFCU neglected to proceed with the investigation. The Department does meet with personnel from MFCU on a scheduled basis to review open and closed investigations; however, this investigation has apparently been overlooked by both agencies.

*Effect:* Failure to resolve complaints allows fraud or abuse, if occurring, to continue unnecessarily.

*Cause:* The Department’s internal controls do not ensure that the outcome of an investigation and resolution for complaints of fraud or abuse are maintained.

*Recommendation:* The Department of Social Services should establish internal controls over the investigation and resolution of complaints of Medicaid fraud or abuse to ensure that suspected cases are referred to the Medicaid Fraud Control Unit.

*Agency Response:* "The Department does not agree with this finding. The Department has controls to ensure that potential Medicaid fraud or abuse cases are referred to the Medicaid Fraud Control Unit.

All cases of suspected fraud and abuse are referred to the MFCU. The one referral cited as "lost", was lost by the MFCU and the Department on more than one occasion questioned MFCU concerning the missing letter acknowledging receipt of the referral.

Concerning the complaint referred to the MCOs, the distribution matter was corrected prior to the auditors' review. Concerning the MCO's claim that they were unable to find someone in the State to act on a suspected fraud case is a reflection on the failure of the MCO to contact the proper authority versus a failure of the Department to act on a complaint."

*Auditors' Concluding Comments:*

As indicated in the condition, the Department had documentation that indicates that the suspected fraud case was referred to MFCU. However, based on our discussions with the MFCU, the MFCU alleges that it did not receive the suspected fraud case. Further, the Department's questioning of MFCU concerning the receipt of the referral indicates a miscommunication between the Department and MFCU. Therefore, the Department should have re-forwarded the case to the MFCU to ensure that this suspected fraud case was investigated.

There did not appear to be any procedures in place that informed the MCOs of who should be contacted concerning suspected fraud cases. As a result, the suspected fraud cases were not properly investigated.

## III.A.4. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

*Background:* 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.

*Criteria:* Title 42 Code of Federal Regulations Part 433 Section 138 provides that the Department of Social Services must, during the initial application and each redetermination process of Medicaid eligibility, obtain from the applicant or recipient such health insurance information as would be useful in identifying legally liable third party resources. This Section also provides that within 60 days, the Department must follow up on such information (if appropriate) in order to identify legally liable third party resources and incorporate such information into the eligibility case file and into its third party data base and third party recovery unit so claims may be processed under the third party liability payment procedures.

Section 3903 of the State Medicaid Manual issued by the Department of Health and Human Services provides that the 60 days begin on the date that processing of the application is initiated (the date the agency learns of the potential third party resource) or the date the eligibility determination is made, whichever is later.

*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 the time of initial application disclosed that in four cases the third party insurance was not entered in the Department's third party database in a timely manner. The number of days noted for the four cases were 133, 156, 209, and 223.

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

*Effect:* The Department could be paying for Medicaid claims that are the legal obligation of third parties. The Department must then seek reimbursement from the liable third party to recover the payment.

*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 establish and implement internal controls that will ensure third party insurance information is entered into the Department's third party database in a timely manner.

*Agency Response:* "The Department agrees with this finding.

Concerning the four cases where the third party insurance was not entered in the database in a timely manner, the Department's management has made a number of changes to improve performance. For example, processing staff has been assigned to supervisors to monitor their work, monthly meetings are held to review the status of work, and the referral form was revised. Given these changes the process is presently set up to ensure that the majority of referrals are completed within 60 days from the time the regional office worker learns of the insurance. At times, some referrals have inadequate information or the information is not received timely from the regions; accordingly, these cases may be at risk of not meeting the 60-day requirement.

Concerning follow-up on paid claims with trauma diagnosis codes, the Department has strong controls in place to ensure that court cases are pursued. For non-court cases, the Department has developed a system to improve performance. During the last six-months of 2004 a Trauma Code Project match was initiated between the TPL vendor and DAS [Department of Administrative Services]. A second match is scheduled for the first quarter of SFY 2005 and upon completion the project will be evaluated and system modifications made if necessary. Secondly, the Department also initiated a process whereby the TPL vendor follows-up on potential trauma cases identified via EDS [Electronic Data Systems]. EDS identifies certain claims on a monthly basis and the TPL provider investigates the claims and refers them to DAS on a periodic basis."

### III.A.5. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

*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 Code of Federal Regulations Part 95 Section 621 specifies 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. The current vendor is working under a contract extension."

## III.A.6. Eligibility – Medicaid Quality Control System

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

*Background:* States are required to operate a Medicaid Quality Control System (MEQC) in accordance with requirements established by the Centers for Medicare and Medicaid Services (CMS). The MEQC system redetermines eligibility for individual sampled cases of beneficiary eligibility made by State Medicaid agencies, or their designees. Statistical sampling methods are used to select claims for review and project the number and dollar impact of incorrect payments to ineligible beneficiaries.

*Criteria:* Title 42 Code of Federal Regulations Part 431 Section 832 provides that, except when CMS authorizes less stringent reporting, states must submit a summary report on findings for all reviews in the six-month sample by the end of the third month following the scheduled completion of reviews for that six-month period and other data and reports as required by CMS.

Per Department of Health and Human Services letter dated March 15, 1996, states must submit a Certification of MEQC System Payment Error Rate that was calculated for the first six-month review period of the Federal fiscal year (October – March) by the end of the first full week in December. The second six-month review period (April – September) must be submitted by the end of the first full week in June.

*Condition:* Our review disclosed that the last Certification of MEQC System Payment Error Rate was submitted in November 2003 for the six-month review period April – September 2002. This report should have been submitted in June 2003. The reports for the six-month review period October 2002 – March 2003 and April 2003 – September 2003, which should have been submitted in December 2003 and June 2004, respectively, have not been submitted as of December 2004.

*Effect:* Title 42 Code of Federal Regulations Part 431 Section 832 establishes rules and procedures for disallowing Federal financial participation in erroneous medical assistance payments due to eligibility and beneficiary liability errors, as detected through the MEQC program. This Section provides that the State must, for each annual assessment period, have a payment error rate no greater than three percent or be subject to a disallowance of Federal financial participation.

Without the error rate certifications, the Department of Health and Human Services cannot make a determination for disallowing Federal financial participation.

*Cause:* The Department informed us that the reports have not been submitted in a timely manner because of staffing constraints.

*Recommendation:* The Department of Social Services should submit the required Medicaid Eligibility Quality Control reports to the Department of Health and Human Services in a timely manner in accordance with Federal regulations.

*Agency Response:* "The Department agrees with this finding. The Department's Quality Control Unit no longer performs quality control reviews of the Temporary Family Assistance and State Administered General Assistance programs in order to focus on the federally mandated Medicaid and Food Stamp quality control reviews. With this redirected effort the backlog of Medicaid quality control reviews will be addressed by June 30, 2005."

## III.A.7. Eligibility – Ineligible Clients and Inadequate Documentation

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

*Criteria:* Title 42 United States Code Section 602 provides that a family must meet the State's eligibility requirements as provided in the State Plan. Section B Part III of the State Plan states that "Connecticut's objective criteria for delivery of benefits and determination of eligibility for Temporary Family Assistance include standards of promptness for the determination of eligibility, periodic reviews of eligibility, standards of verification, determination of good cause for not complying with employment services requirements and treatment and limits on income and resources."

Title 45 Code of Federal Regulation Part 206 Section 10 and Section 8520.10 (D.) of the Department of Social Services' Uniform Policy Manual (UPM) requires that at least one face-to-face redetermination must be conducted for each TANF case once every twelve months.

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

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

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.

*Condition:* We randomly selected 40 benefit payments totaling $18,962 made on behalf of TANF recipients from a total of 252,877 claims totaling $103,918,001. These payments consisted of commingled Federal TANF funds and State funds. Of this $103,918,001, $9,890,229 (or 9.5 percent) was claimed as direct Federal expenditures and $94,027,772 (or 90.5 percent) was made with State expenditures. The Department does not identify which clients are being claimed under TANF and which clients are being paid from State funds. Our review of these sampled benefit payments disclosed:

- Two instances totaling $953 in which there was inadequate source documentation in the case file to verify the blood relationship between the head of household and the minor child.
- One instance totaling $333 in which we could not verify the existence of the household members.
- Two instances totaling $749 in which the clients' historical files could not be located and therefore, we could not verify whether the clients were eligible.
- One instance totaling $236 in which the client was a convicted drug felon and did not meet the requirements for TANF eligibility.
- Five instances in which a redetermination was not performed within 12 months prior to the benefit issuance date.
- Thirteen instances in which the cases did not contain a W-1129 Law Enforcement Information form signed by the client or did not have an

application that included the W-1129 information. The Department requests the W-1129

*Effect:* The above errors resulted in payments totaling $2,271 that did not meet the TANF eligibility requirements. Based on the Department claiming for Federal reimbursement only 9.5 percent of total assistance payments, the errors resulted in questioned costs totaling $204. In addition, if determinations and/or redeterminations are not adequately performed because of failing to obtain appropriate source documentation, the Department cannot ensure that recipient eligibility requirements are met.

*Cause:* Department is not following established procedures.

The 13 instances of not having proper W-1129 Law Enforcement Information form occurred because, prior to April 1, 2003, the Department required each individual applying for assistance, during the application process, to sign a W-1129 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. Regional offices are not using the revised application form or failed to ensure that W-1129 Law Enforcement Information forms were included in the case files.

*Recommendation:* The Department of Social Services should follow established procedures for obtaining required source documentation to ensure clients of the Temporary Assistance to Needy Families are eligible.

*Agency Response:* "The Department agrees in part with this finding. The Department agrees with the recommendation that we must follow established procedures for obtaining required documentation to ensure clients on Temporary Assistance for Needy Families are eligible. However, the errors cited were not the result of eligibility workers not following the established procedures, but were caused by problems with regional office filing systems resulting in the inability to locate a complete case file. Had the complete file been located, we believe the documentation would have been found and there would have been no error. In particular, this was almost certainly the circumstance with the cases for which blood relationship documentation could not be found, the overdue redeterminations (which the automated system showed were completed within the prior twelve months), and obviously those cited for missing historical files. Accordingly, the Department does not agree that the cited errors totaling $204 should be considered questioned costs.

The instances where the W-1129 Law Enforcement information form or application form containing this information were absent from the file were most likely cases that had been active and had completed a redetermination form within the prior twelve months. Except for the Food Stamp Program, there is no fleeing felon statement or question on the redetermination form. The Department will review this matter and determine whether it should add such information to the redetermination form.

Regarding the convicted drug felon case, the Department does perform regular matches with the Judicial Branch to identify individuals with outstanding arrest warrants. We will investigate the circumstances of this case to determine why our computer match did not identify this client. It's unclear from the audit finding whether this individual had completed her sentence or is complying with probation. Preliminary information indicates that she completed her sentence in 1997. If so, she is eligible for benefits."

*Auditors' Concluding Comment:*

Without adequate documentation to support the claims, the Department controls do not provide reasonable assurance that it is managing the TANF program in compliance with laws and regulations that could have a material effect on the program.

## III.A.8. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

*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 the 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) Section 8540.65 requires that, if an individual does not cooperate with the establishment of paternity and the securing of child support without good cause, the entire assistance unit is ineligible.

*Condition:* Our review of ten randomly selected F0024S IV-A Sanction Notices revealed one instance in which the caseworker failed to comply with the penalty requirement for child support non-cooperation as set forth in the Department's UPM.

*Effect:* We determined that $1,000 in benefit payments, which represent two months of benefit payments, should not have been paid to a TANF client because these costs represent benefit payments made to an ineligible recipient who, at the time, was not cooperating with child support requirements. Of this $1,000, $95 is considered to be questioned costs. The questioned costs amount is based on the Department claiming for Federal reimbursement only 9.5 percent of total benefit payments (see finding III.A.7. for calculation of the percentage). 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 do not always comply with the requirements of Section 8540.65 of the Department's UPM.

*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 required by Federal regulations.

*Agency Response:* "The Department agrees with this finding. The Department will remind eligibility workers of the need to take immediate action on referrals from the child support unit of clients who are failing to cooperate with child support. In the cited case, the client did eventually cooperate with child support but this occurred two months after the referral sanction was made. The eligibility worker should not have delayed action waiting to see if the client would cooperate."

## III.A.9. Activities Allowed or Unallowed – 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 Year: Federal Fiscal Year 2003-2004**
**Federal Award Number: G0401CTTANF**

*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 Purpose 4 to provide services to encourage the formation and maintenance of two-parent families. 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. During the State fiscal year ended June 30, 2004, the Department of Social Services claimed under TANF $17,673,450 in expenditures incurred by the Department of Corrections.

*Criteria:* Title 45 Code of Federal Regulations (CFR) Part 260 Section 30 provides that a non-custodial 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.

*Condition:* We 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 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. Further, DOC does not define "dependent" which leads to subjective interpretation. Out of 10 inmate case files that were reviewed, one could not conclusively support the eligibility of the inmate because documentation was conflicting on whether the inmate had a dependent child. In addition, we found the tracking of the number of dependents was inconsistent in two inmate case files.

*Effect:* There is a lack of assurance that all of the costs of the DOC that were claimed under TANF are allowable.

*Cause:* There is a lack of controls and procedures for obtaining an accurate number of inmates with eligible dependents.

*Recommendation:* The Department of Social Services should evaluate the necessity and feasibility of improving controls for determining the number of dependents of the inmates that are provided services that are claimed for Federal reimbursement under Purpose 4 of the Temporary Assistance for Needy Families program.

*Agency Response:* "The Department agrees with this finding. It appears that the data originally collected to support the number of inmates with dependents has not been stable over time and therefore the statistics for TANF claiming purposes need to be changed. Accordingly, as an interim procedure effective July 1, 2004, the DOC modified the report it produces for the Department to more specifically identify the inmates who have dependents. In addition, the Department reduces the claim by 50 percent to account for clients who had a child age 18 and under at initial admission, but who aged out in the intervening years. It is likely that the Department is excluding more expenditures than is necessary; however, this is a conservative approach that ensures that an over claiming of costs does not occur.

As a long-term procedure, effective January 2005, the DOC has modified its intake forms to ask if the inmate has a dependent child under the age of 18 and the birth date of the youngest dependent. In addition, the Department will report to DOC the number of inmates receiving the Addiction Services and Education and Training Services. This information will be used to develop a TANF eligibility rate and the rate will be applied to the expenditures each quarter to determine the amount to claim under TANF.

It should be noted that a small portion of the claim is attributable to halfway houses and the DOC is still working to modify the claiming procedures. In the mean time the Department continues to reduce the claim amount by 50 percent as described in the interim procedures."

## III.A.10. 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 Year: Federal Fiscal Year 2002-2003**
**Federal Award Number: G0301CTTANF**

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

*Condition:* We reviewed the Department's TANF Annual Report and Annual Report on State Maintenance of Effort Programs (ACF-204) for Federal fiscal year 2002-2003. We noted the following exceptions:

- The amount of Child Care Management Information Systems (CCMIS) expenditures prorated for the Child Care Assistance Program (CCAP) and the Child Care Assistance Program for Unemployed Individuals were calculated incorrectly as $3,541,121 and $1,270,404, respectively. The correct figures are $3,678,072 and $1,124,453. These errors also resulted in the MOE amounts being reported incorrectly for these two programs.

- The amount reported for "average monthly total for the fiscal year" of number of families served for the School Readiness Program was calculated incorrectly as 3,222 families. The correct figure is 3,215.

- The amount reported for "average monthly total for the fiscal year" of number of families served for the Child Care Assistance Program (excluding child care for unemployed) was calculated incorrectly as 11,544. The correct figure is 11,554.

- The amount reported for "average monthly total for the fiscal year" of number of families served for the Child Care Assistance Program for Unemployed Individuals was calculated incorrectly as 801. The correct figure is 791.

- The amount reported for "average monthly total for the fiscal year" of number of families served for the Transitionary Rental Assistance Program (T-RAP) was incorrectly calculated as 140. The correct figure is 151.

- The figures reported for the total number of individuals who participated in subsidized employment and the total number of families served under the Jobs First Employment Services Program were not adequately supported.

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

*Cause:* Clerical errors were noted. Also, a new person who was assigned to compile the TANF Annual Report and Annual Report on State Maintenance of Effort Programs (ACF-204) did not receive adequate training.

*Recommendation:* The Department of Social Services should institute procedures to ensure that all of the required information on the TANF Annual Report and Annual Report on State Maintenance of Effort Programs (ACF-204) 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 revise the annual federal report to correct CCMIS prorated amounts between the two components of the Child Care Assistance Program.

The Department also agrees that the other cited errors were made when compiling this report. Some errors were the result of incorrect calculations made by staff from other units that supplied data used in the report. The subsidized employment and Jobs First Employment Services Program data was provided by the Department of Labor without back-up documentation. It is believed to be accurate. In the future, the Department will secure all back-up data to double-check calculations and future reports will be carefully reviewed prior to submission to the Administration for Children and Families."

## III.A.11. Allowed or Unallowed Services – Department of Higher Education

**Temporary Assistance to Needy Families (TANF) (#93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

*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 Department of Higher Education (DHE), under the Connecticut Aid to Public College Students (CAPCS) Grant Program and Connecticut Independent College Student (CICS) Grant Program, certain grant payments provided to students were claimed for Federal reimbursement under TANF. As of the quarter ended June 30, 2004, for the Federal fiscal years 2002-2003 and 2003-2004, DSS claimed for Federal reimbursement expenditures totaling $15,460,957 and $3,591,162, respectively, made by DHE on behalf of supporting TANF Purpose 2. TANF Purpose 2 is to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.

The Department of Higher Education provides grants, which are not paid back by the students and which fill a financial need for students trying to pursue a better education in order to become economically better off.

*Criteria:* Title 45 Code of Federal Regulations (CFR) Part 263 Section 11 provides that States may use Federal TANF funds for expenditures that are reasonably calculated to accomplish the purposes of TANF, as specified at 45 CFR 260.20. Title 45 CFR Part 260 Section 20 states that TANF Purpose 2 is to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.

Section A Part I of the TANF State Plan defines a needy parent as a parent of a child who is a member of a needy family. The parent may be the custodial or non-custodial parent.

In the TANF State Plan, under the CAPCS and CICS Grant Programs descriptions, it provides that grant payments are made to independent undergraduate students with at least one child.

*Condition:* Our review of the TANF ACF-196 Financial Reports submitted to the Department of Health and Human Services (DHHS) during the State fiscal year ended June 30, 2004, disclosed that the Department of Social Services claimed Federal reimbursement under TANF for expenditures incurred by DHE in support of TANF Purpose 2 for students who were not parents.

We selected ten grant payments totaling $33,247 claimed for the quarter ended September 30, 2003. We reviewed five grant payments under the CAPCS Grant Program and five grant payments under the CICS Grant Program. The data provided to us showed that, in all ten cases, the students did not have any dependents.

*Effect:* The Department's procedures do not ensure that all the expenditures of the DHE claimed under TANF are allowable in accordance with the approved State TANF Plan and Federal regulations. We consider the entire amount of $33,247 for the ten grant payments tested to be known questioned costs because the payments were not made to students who had a child as provided in the TANF State Plan.

*Cause:* The Department did not establish the necessary controls to ensure compliance with Federal regulations and the TANF State Plan.

*Recommendation:* The Department of Social Services should adjust its claims for Federal reimbursement of Department of Higher Education expenditures incurred in support of Purpose 2 of the Temporary Assistance for Needy Families (TANF) program to include only those costs associated with services provided to students with children as provided in the State Plan. In addition, the Department of Social Services should establish procedures to ensure that claims submitted for Federal reimbursement are based on services that are allowed under TANF.

*Agency Response:* "The Department agrees in part with this finding. The TANF State Plan, under DHE initiatives, does indicate that TANF eligible payments are made to independent undergraduate students with at least one child. However, our TANF consultant drafted State Plan Amendments for inclusion in the TANF State Plan related to claiming grant payments made to "needy" dependent students under the CAPCS and CICSG programs under purpose 2. It has been brought to the Department's attention through this finding that these amendments were inadvertently not incorporated in the most recent TANF State Plan. The Department will submit these [retroactive] Amendments to the Administration for Children and Families with an effective date of October 1, 2002. This should bring the Department into compliance with the cited condition and, accordingly, these payments should not be considered questioned costs."

### III.A.12. 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 2003-2004**
**Federal Award Number: 05-0405CT5028**

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Year: Federal Fiscal Year 2003-2004**
**Federal Award Number: G0401CTTANF**

**Food Stamp Program (CFDA #10.551)**
**Federal Award Agency: United States Department of Agriculture (USDA)**
**Award Year: Federal Fiscal Year 2003-2004**
**Federal Award Number: 4CT400400**

*Criteria:* Title 42 Code of Federal Regulations (CFR) Part 435 Section 948 requires that the State 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, 2003, and December 31, 2003, disclosed problems. We found that no alerts were dispositioned (investigated, resolved and removed as appropriate) prior to their due dates. Each alert is assigned a specific due date generated by the system. As of March 25, 2004, 6,571 out of 8,216 total alerts for the TANF, Food Stamps and Medicaid programs had not been dispositioned. Our review also disclosed that out of a test sample of 30 alerts that were dispositioned, seven alerts were not properly investigated, updates were not made to EMS, and apparently the alerts were simply removed from the system. In addition, five out of the 30 alerts were generated in error and four out of the 30 alerts could not be properly investigated due to errors within the system.

*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 did not determine the amount of questioned costs because of the large amount of effort that would have been required to do so.

*Cause:* Matches routinely performed cause numerous system alerts, many of which are based on out-dated information. Because of these large numbers, proper review and disposition of alerts is not taking place. The alert errors were due to computer programming problems.

*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. The Department will continue to work to improve the Eligibility Management System so that it does not generate erroneous IEVS alerts. In addition, we are working to streamline eligibility processes so that eligibility workers will have adequate time to investigate IEVS alerts in a timely and accurate manner."

## III.A.13. Reporting – TANF ACF-196 and CCDF ACF-696 Financial Reports

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Year: Federal Fiscal Year 2003-2004**
**Federal Award Number: G0401CTTANF**

**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 Year: Federal Fiscal Year 2003-2004**
**Federal Award Number: G0401CTCCDF**

*Criteria:* Title 45 Code of Federal Regulations Part 265 Section 3 requires that the State must file quarterly expenditure data on the State's use of Federal TANF Funds, State TANF expenditures, and State expenditures of maintenance of effort (MOE) funds in separate State programs. 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.

Program Instruction ACYF-PI-CC-99-07 provides that all states are required to complete and submit CCDF Financial Reporting Form ACF-696. All amounts reported must be actual obligations or expenditures made in accordance with all applicable statutes and regulations.

*Condition:* Our review of the TANF ACF-196 Financial Report for the quarter ended September 30, 2003, relative to the Federal fiscal year 2002-2003, submitted on December 30, 2003, disclosed that expenditures for services provided by the Department of Corrections was improperly claimed as follows:

- The Department reported estimated expenditures totaling $11,491,660 based on contract terms instead of actual expenditures incurred for programs administered by the Judicial Department. Although the Department reduced the amount claimed by ten percent, we could not verify whether the percentage is sufficient to prevent over-claiming.

- The amount reported on Line 7, "Total Expenditures" for "State MOE Expenditures in TANF" was incorrectly reported as $160,632,171. The correct amount should be $160,514,507.

Our review of the TANF ACF-196 Financial Report for the quarter ended June 30, 2004, relative to the Federal fiscal year 2003-2004, submitted on September 29, 2004, disclosed that expenditures for services provided by the Department of Corrections was improperly claimed as follows:

- The Department of Corrections double counted $5,157 in Education and Training costs submitted to DSS to be claimed under TANF.

- The Department incorrectly applied the fringe benefit rate to all the non-salary expenditures claimed for the Department of Corrections, thus resulting in an over-claim of $45,889. This amount is based on corrected costs that we calculated by removing the aforementioned $5,157 from the total non-salary education and training costs.

Our review of the TANF ACF-196 Financial Report for the quarter ended December 31, 2003, relative to the Federal fiscal year 2003-2004, submitted on March 31, 2004, disclosed that the Work Performance Bonus was claimed as both direct Federal expenditures and State MOE. Specifically the Department reported for the TANF program expenditures totaling $9,981 for the Work Performance Bonus as direct Federal expenditures and as State MOE funds. The $9,981 could have been reported as either Federal expenditures or State MOE, but not both.

Our review of the ACF-696 Financial Report for the quarter ended December 31, 2003, relative to the Federal fiscal year 2003-2004, submitted on March 30, 2004, disclosed the Department reported for the CCDF program expenditures totaling $51,300 for the Certificate of Eligibility Development as MOE. This $51,300 was also allocated to CCDF through the Cost Allocation Plan. A portion of the allocated amount was reported as MOE and the remaining portion was reported as Federal expenditures of the Mandatory program. This double counting of the Certificate of Eligibility Development costs is not allowable.

*Effect:* The Department did not prepare the ACF-196 and ACF-696 in accordance with provided instructions. The ACF-196 and ACF-696 are not representative of the actual financial status for the TANF and CCDF programs, respectively.

We cannot determine if the Department incorrectly claimed expenditures, which were incurred by the Judicial Department, on the ACF-196 for quarter ended September 30, 2003, because the Department has not revised the ACF-196 for quarter ended September 30, 2003, with actual amounts.

The claimed reported on Line 7 “Total Expenditures” for “State MOE

Expenditures in TANF" on the ACF-196 for the quarter ended September 30, 2003, submitted on December 30, 2003, was overstated by $117,664.

Total expenditures in the amount of $45,889 represents questioned costs reported on the quarter ended June 30, 2004, ACF-196 financial report submitted for the Federal fiscal year 2003-2004 because they are unallowable.

For the ACF-196 submitted for the quarter ended December 31, 2003, the Department reported improper MOE funds totaling $9,981. However, the Department did exceed its MOE requirement so that the $9,981 can be used as direct Federal expenditures. As a result there are no questioned costs related to this exception.

For the ACF-696 submitted for the quarter ended December 31, 2003, the Department reported improper MOE funds under the CCDF program. However, the Department did exceed its MOE requirement so the Department could claim the portion of expenditures allocated through the CAP as direct Federal expenditures. As a result there are no questioned costs related to this exception.

*Cause:* Grant estimates were not reconciled to actual expenditures because the Department had not received expenditure information from the Judicial Department at the time of our review. It appears that the remaining conditions were clerical errors that went unnoticed during the supervisory review process.

*Recommendation:* The Department should report actual expenditures and implement the necessary internal controls to ensure that TANF ACF-196 and CCDF ACF-696 Financial Reports contain complete and accurate data. The Department should make necessary revisions to the ACF-196 and ACF-696 reports submitted for Federal fiscal years ended September 30, 2003 and September 30, 2004, as applicable.

*Agency Response:* "The Department agrees with this finding. Regarding the programs administered by the Judicial Department, the Department's net underclaim for services was $1.67 million and the Department will adjust the Judicial grants to actual amounts when a revised report is filed for the FFY 2003 TANF claim. It should be noted, however, the Department has fully claimed its TANF grant and any underclaim adjustments are purely for record keeping purposes and bear no impact on State reimbursement.

Regarding the total expenditures for the State MOE for TANF, the Department will correct this in the next quarterly Federal report. This did not, however, effect the MOE claimed since the Department had excess MOE for FFY 2003.

Regarding the Department of Correction fringe costs, this overclaim will be corrected in the next quarterly Federal report filing.

Regarding the Work Performance Bonus claimed as both direct Federal expenditures and as State MOE funds, the Department will correct this in the upcoming quarterly Federal filings.

The Department corrected the double counting of Certificate of Eligibility Development in a subsequent quarter retroactive through QE 12/03 and this is no longer double claimed."

## III.A.14. Subrecipient Monitoring – Expenditures of Other State Agencies

**Temporary Assistance to Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CTTANF and G-0401CTTANF**

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

*Background:* Pursuant to Section 402 of the Social Security Act and Title 45 Part 98 Section 10 of the Code of Federal Regulations, the Department of Social Services has been designated to administer the Temporary Assistance for Needy Families (TANF) program and the Child Care and Development Fund program, respectively. The Department of Social Services claimed for Federal reimbursement under TANF, expenditures incurred by the Department of Children and Families, the Department of Mental Health and Addiction Services, and the State Department of Education. The Department of Social Services claimed for Federal reimbursement under the Child Care and Development Block Grant and the Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) expenditures incurred by the State Department of Education.

*Criteria:* Title 45 Code of Federal Regulations (CFR) Part 92 Section 26, 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 state 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 the Catalog of Federal Domestic Assistance title and number, award name and number, award year, if the award is Research and Development, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the Federal Single Audit requirements for that fiscal year.

*Condition:* Our audit disclosed that the Department of Children and Families (DCF), the Department of Mental Health and Addiction Services (DMHAS), and the State Department of Education (SDE) are not informing their subrecipients that some of the funds provided to them are Federal funds awarded under the TANF and Child Care programs. Further, the contracts between DCF, DMHAS and SDE and their subrecipients do not include provisions that advise the subrecipients of the Federal requirements imposed on them. Also, the subrecipients may not be providing audits to DCF, DMHAS, and SDE in accordance with OMB Circular A-133.

*Effect:* The Department of Social Services cannot ensure that expenditures made by other agencies and claimed for Federal reimbursement were used for allowable activities.

*Cause:* The Department of Children and Families, the Department of Mental Health and Addiction Services, and the State Department of Education claimed that they were not aware that they should inform their subrecipients that the funds provided were subsequently claimed for Federal reimbursement under TANF and the Child Care program.

*Recommendation:* The Department of Social Services should implement procedures to ensure that other State agencies that provide awards under the Temporary Assistance for Needy Families and the Child Care programs to subrecipients have the information necessary to comply with OMB Circular A-133, Subpart D - Section 400 (d), concerning their responsibilities as pass-through entities.

*Agency Response:* "The Department agrees with this finding. We are pursuing efforts with the Office of Policy and Management and the agencies affected to institute the required procedures."

### III.A.15. Subrecipient Monitoring

**Social Services Block Grant (SSBG) (CFDA #93.667)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-030CTCOSR and G-0401CTSOSR**

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

*Criteria:* Title 45 Code of Federal Regulations (CFR) Part 92 Section 26, which applies to 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 the revised Office of Management and Budget (OMB) Circular A-133 and that states 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 the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is Research and Development, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

*Condition:* Our review of the Department of Social Services' contracts with subrecipients for expenditures that were claimed either as Federal SSBG funds or Child Care funds 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 the SSBG program, we tested 25 contracts which were awarded to 23 subrecipients. For 15 (13 subrecipients) out of the 25 SSBG contracts tested, we noted that some financial status, programmatic and statistical, or monitoring reports, required by the contract, were not on file or were not submitted to the Department within the time allotted by the provisions of the contracts. Twenty-two of the subrecipients were required to submit financial audit reports. Our review disclosed that the Department did not have financial audit reports for three of the 23 subrecipients. As of February 2005, the Department did not review eight out of the 19 reports received. Three of the eight audit reports had audit findings included in the Schedule of

Findings and Questioned Costs for which management decisions were not issued.

For the Child Care programs, our test of five subrecipients disclosed that a financial audit report was not received from one subrecipient. This subrecipient was also included with the 23 subrecipients tested in the above paragraph.

*Effect:* The contracts are not in compliance with OMB Circular A-133. The Department cannot ensure that Federal funds are used for allowable activities.

Some subrecipients are not in compliance with the provisions of their contracts. In addition, accurate reports were not prepared regularly or timely.

*Cause:* The Department does not have procedures in place to include the Federal award information in the contracts for which Federal funds are provided and to ensure that required reports are received from the subrecipients and reviewed in a timely manner.

*Recommendation:* The Department of Social Services should implement procedures to comply with OMB Circular A-133, Subpart D - Section 400 (d), concerning its responsibilities as a pass-through entity and to ensure that subrecipients are properly monitored.

*Agency Response:* "The Department agrees with this finding. The Department will ensure that the federal award information, including the CFDA title and number, award name and number, name of Federal agency and award year is added to the Part III template of the subrecipients' contracts. In addition, procedures will be developed and implemented to ensure that subrecipients are notified of the reporting requirements, including time frames."

### III.A.16. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

*Background:* The Department of Social Services has been designated the Lead Agency to administer the Child Care and Development Fund in accordance with Title 45

Code of Federal Regulations Part 98, Section 10. The Department of Social Services entered into a contract with a vendor to determine eligibility and make child care payments for the Department's Care 4 Kids Program, which is claimed under CCDF. The Department's Child Care Management Information System (CCMIS) maintains the data related to the child care program.

During the fiscal year ended June 30, 2004, child care payments totaled $60,687,683. These payments consisted of commingled Federal CCDF funds and State funds. The Department does not identify which clients are being claimed under CCDF and which clients are being paid from State funds. Of the $60,687,683, $31,070,044 (or 51.20 percent) was claimed as direct Federal expenditures and $29,617,639 (or 48.80 percent) was provided with State expenditures. The $31,070,044 in Federal expenditures is based on the total child care payments claimed as Federal expenditures on the quarterly Federal Financial Reports submitted during the State fiscal year.

*Criteria:* Title 45 Code of Federal Regulations Part 98 Section 20, provides that in order to be eligible for services a child shall be under the age of 13 years of age, or at the option of the Lead Agency, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision. In addition, the child shall be residing with a parent or parents who are working or attending a job training or educational program.

*Condition:* We randomly sampled from the total population 40 child care payments totaling $12,072 made to child care providers. Our test of these payments disclosed that there was inadequate source documentation to support the age of one child and whether the child resided with a parent that was working or attending a job training or educational program. The payment in the sample was $641 ($328 based on 51.20 percent of the total Federal expenditures).

*Effect:* The above error does not provide reasonable assurance that child care payments are made on behalf of eligible children. However, the questioned costs identified here would be offset because the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement.

*Cause:* The Department's vendor did not have documentation to support the child's date of birth or whether the child resided with a parent or parents that were working or attending a job training or educational program.

*Recommendation:* The Department of Social Services should ensure that eligibility determinations for the Child Care and Development Fund are processed accurately and completely.

*Agency Response:* "The Department agrees with this finding. We have notified our vendor and corrected the cited errors. It should be noted that the Department conducts a random sample of 34 child care cases each month to ensure that the vendor properly processes the payments under the Child Care and Development Fund. Corrective action is taken based on the findings of these continuing reviews."

## III.A.17. Activities Allowed or Unallowed – Day Care Services

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

*Background:* During the fiscal year ended June 30, 2004, child care payments totaled $60,687,683. These payments consisted of commingled Federal CCDF funds and State funds. The Department does not identify which clients are being claimed under CCDF and which clients are being paid from State funds. Of the $60,687,683, $31,070,044 (or 51.20 percent) was claimed as direct Federal expenditures and $29,617,639 (or 48.80 percent) was provided with State expenditures. The $31,070,044 in Federal expenditures is based on the total child care payments claimed as Federal expenditures on the quarterly Federal Financial Reports submitted during the State fiscal year. Also, see the Background section in finding III.A.16.

*Criteria:* Title 42 United States Code (USC) Section 9858c(c)(2)(A) provides that funds may be used for child-care services in the form of certificates, grants, or contracts.

Title 42 USC Section 9858k(b) provides that, with regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services that supplant or duplicate the academic program of any public or private school.

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 for the performance and administration of Federal awards.

*Condition:* We randomly sampled from the total population 40 child care payments totaling $12,072 made to child care providers. Our test of these payments disclosed the following:

- The amount of the payment made to one provider was calculated incorrectly. The payment in the sample was an adjustment for $143 and was based on the child in the sample receiving full-time care from August 25, 2003, to September 1, 2003, and part-time care throughout the rest of August. However the child only received full-time care during the last week of August and did not receive any care throughout the remainder of August. This resulted in an overpayment in the amount of $87 ($45 based on 51.20 percent of the total Federal expenditures).

- The hours of care approved for one child were unreasonable. The payment in our sample was $116 ($59 based on 51.20 percent of the total Federal expenditures) and was paid on behalf of a child who was approved to receive care from 9:20 a.m to 2:10 p.m. on Monday, Tuesday and Wednesday during September 2003. However, since the child is considered school age, the child should have been attending school and day care services during this time period should not be allowed.

- For one child, the information on the CCMIS was inaccurate. For the service month December 2003, the family's training schedule and the child's daycare schedule entered into CCMIS was based on full-time care but should have been based on half-time care. Based on a part-time schedule the monthly payments should be $228. The payment made was $365. This resulted in an overpayment totaling $137 ($70 based on 51.20 percent of the total Federal expenditures).

*Effect:* The above errors do not provide reasonable assurance that child care services provided to clients are allowed under the program. Although these errors must be considered questioned costs, we noted that the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement, so the total amount eligible for Federal reimbursement would probably not change as a result of these questioned costs.

*Cause:* The first error was caused because the contractor did not verify whether part time services were provided. The second error was caused because the contractor did not end care for the child when school started. The third error was caused by the contractor entering the incorrect schedule into CCMIS.

*Recommendation:* The Department of Social Services should improve its internal controls to ensure that child care services provided to clients are allowed under the Child

Care Development Fund.

*Agency Response:* "The Department agrees with this finding. We have notified our vendor and corrected the cited errors. It should be noted that the Department conducts a random sample of 34 child care cases each month to ensure that the vendor properly processes the payments under the Child Care and Development Fund. Corrective action is taken based on the findings of these continuing reviews."

## III.A.18. Activities Allowed or Unallowed – Family Fees

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

*Background:* See the Background section in finding III.A.16.

*Criteria:* Title 45 CFR Part 98 Section 42 provides that the Department establish a sliding fee scale that provides for cost sharing by families that receive CCDF child care services. The sliding fee scale should be based on income and the size of the family.

Title 45 CFR Part 98 Section 13 provides that the Department submit a CCDF Plan. Title 45 CFR Part 98 Section 16 requires the CCDF Plan to include a description of the sliding fee scale. The Department's CCDF Plan provides that families that are not exempt from a family contribution are required to pay a range of two to ten percent of their annual/monthly gross income. Families that receive cash assistance and participate in an approved training program are exempt from a family contribution.

*Condition:* We randomly sampled from the total population 40 child care payments totaling $12,072 made to child care providers. The fees contributed by the 40 families represented by our sample totaled $903. The population of fees contributed during the State fiscal year ended June 30, 2004, by the families provided child care services totaled $8,845,171.

Our review disclosed that the fees were not calculated correctly for three of the 40 families tested because the families' income information was not entered into the CCMIS correctly. The CCMIS calculates the fee based on the income and family data entered. As a result, the families did not contribute their proper share of the child care costs.

- One family fee for the service month January 2004 was overstated by $30. This caused the family to overpay its share of the child care costs.

- One family fee for the service month June 2003 was understated by $26. This caused the family to underpay its share of the child care costs.

- One family fee for the service month January 2004 was understated by $43. This caused the family to underpay its share of the child care costs.

*Effect:* The above errors indicate a lack of reasonable assurance that the families who are receiving child care service under the Child Care Development Fund are paying their share of the costs as required by Federal regulations. However, any questioned costs that resulted from these errors probably would not effect total Federal reimbursement because the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement.

*Cause:* The errors were caused by workers entering the incorrect income information into CCMIS.

*Recommendation:* The Department of Social Services should ensure that the families who are receiving child care service under the Child Care Development Fund are paying their share of the costs as required by Federal regulations.

*Agency Response:* “The Department agrees with this finding. We have notified our vendor and corrected the cited errors. It should be noted that the Department conducts a random sample of 34 child care cases each month to ensure that the vendor properly processes the payments under the Child Care and Development Fund. Corrective action is taken based on the findings of these continuing reviews.”

## III.A.19. Activities Allowed or Unallowed – Construction or Improvement Loans

**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 Year: Federal Fiscal Year 2003-2004**
**Federal Award Number: G0401CTCCDF**

*Background:* The Child Care Facilities Loan Distribution program is a public-private partnership between the State of Connecticut’s Department of Education and Department of Social Services, the Connecticut Health and Educational

Facilities Authority (CHEFA), and seven major banks. The purpose of the program is to provide access to capital for Connecticut's child care providers. It is comprised of three programs: the Guaranteed Loans program, the Small Direct Loans program, and the CHEFA Tax-Exempt Financing program. The Guaranteed Loans program provides loans to child care facilities that are primarily for capital projects such as building or renovating the child care facility but can also be used for working capital or to acquire equipment. The Small Direct Loans Program provides loans to family child care homes and child care centers that can be used for licensure, upgrading education equipment or adding an addition. The Tax Exempt Financing Program provides loans to not-for profit child care providers that must be used for new construction or substantial renovation projects.

*Criteria:* Title IV of the Social Security Act appropriates funds (Mandatory and Matching Funds) for the purpose of providing child care assistance. The State has to expend State funds equal to the Federal awards the State receives under the Federal Matching program.

Title 42 United States Code (USC) Section 9858d(b)(1) states that no funds made available under the Child Care and Development Block Grant shall be expended for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility.

*Condition:* Expenditures totaling $1,178,267 made under the Child Care Facilities Loan Distribution program were claimed for Federal reimbursement under the Child Care Matching Funds of the Child Care and Development Fund Program for the Federal fiscal year 2003-2004. Further, additional expenditures totaling $1,178,267 made under this Loan program were used as the portion of State funds expended under the Matching Program for the Federal fiscal year 2003-2004. We could not determine how much of the $2,356,534 in expenditures was provided as loans for construction or substantial renovation of any building or facility.

*Effect:* The Department might have claimed expenditures totaling $1,178,268 for Federal reimbursement that were not allowable under Title 42 USC Section 9858d(b)(1). In addition, the State might have used unallowable expenditures as its State match. However, the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement and used for its State match.

*Cause:* The Department thought that such expenditures were allowable because the Child Care Facilities Loan Distribution program was listed as an activity that the State will undertake in the State Plan for the Federal fiscal years 2003–

2004 and 2004-2005, which was approved by the Department of Health and Human Services.

*Recommendation:* The Department of Social Services should revise its Federal claim to include only expenditures that are allowed under the Child Care Mandatory and Matching Funds of the Child Care and Development Fund.

*Agency Response:* "The Department does not agree with this finding. The Child Care Facilities Loan Fund is included as an approved service in Connecticut's Child Care and Development Fund two-year plan. If necessary, we will seek further clarification from the Federal Department of Health and Human Services and amend our plan to ensure future funds are expended for only allowable expenditures."

## III.A.20. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: G03B1CTLIEA and G04B1CTLIEA**

*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 (Community Action Agencies) of the Low-Income Home Energy Assistance program were maintaining cash balances in excess of actual fund requirements.

We reviewed four dates during the audited period for six of the 12 Community Action Agencies to determine whether the Community Action Agencies had excessive cash on hand. Our review disclosed that some or all six Community Action Agencies had excessive cash balances on the four dates reviewed. For the dates reviewed, the net balance of cash processed above program expenditures ranged between $1,276,788 in February 2004 and $2,749,407 in March 2004.

*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. The Department 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 including the requirement for disbursement of those funds in Part III of the contracts.

The cash balances were funds received by the CAAs to make payments on behalf of utility heated households. The excessive balances represent the monies accumulated during the timeframes in which the reports were received, when the payments were processed and received by the CAAs, and the schedule by which the CAAs paid the vendors, which is usually on a bi-weekly basis."

## III.A.21. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: G-030CTCOSR and G-0401CTSOSR**

*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, 2003, TANF funds totaling $26,178,810 were expended to carry out programs under SSBG.

*Criteria:* Title 42 United States Code Section 604(d)(3)(A) and 9902(2) provides that 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.

*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 administering 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. Procedures will be implemented to ensure that TANF 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 federal poverty guideline. The procedures will include a review of the services being provided by contractors and will include a revised reporting form."

## III.A.22. 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 2002-2003 and 2003-2004**
**Federal Award Numbers: 0304CT4004 and 0404CT4004**

*Background:* We reviewed the State's procedures related to the Child Support program. As part of this review, we tested ten cases for each of the following requirements:

- Establishment of paternity and support obligations;
- Enforcement of support and medical support obligations;
- Provision of child support services for interstate cases – initiating state; and
- Provision of child support services for interstate cases – responding state.

Our review disclosed some noncompliance with the provisions of child support services for interstate cases.

*Criteria*: Title 45 Code of Federal Regulations (CFR) Part 303 Section 7 includes the following requirements related to interstate IV-D cases.

- The state IV-D agency must establish an interstate central registry responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases. Within 10 working days of receipt of an interstate IV-D case from an initiating state, the central registry must acknowledge receipt of the case and inform the IV-D agency in the initiating state where the case was sent for action.

- As part of the initiating state IV-D agency responsibilities, the IV-D agency must, within 20 calendar days of determining that the noncustodial parent is in another state, refer any interstate IV-D case to the responding state's interstate central registry for action.

- As part of the responding state IV-D agency responsibilities, the IV-D agency must notify the IV-D agency in the initiating state within 10 working days of receipt of new information on a case.

*Condition*: Our review of 20 child support interstate case files administered by the State disclosed four cases that were not in compliance with Federal regulations as follows:

- The State’s interstate central registry did not respond to the initiating States within the appropriate 10 day time frame for two interstate cases tested.

- The Department of Social Services, acting as the initiating State, did not refer one interstate case to the responding State's interstate central registry for action within the 20 day requirement.

- The Department of Social Services, acting as the responding State agency, did not notify the initiating State within 10 working days of the receipt of new information for one of the interstate cases tested.

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

*Cause*: The cause was not determined.

*Recommendation*: The Department of Social Services should ensure that child support interstate claims are processed in a timely manner as required by Federal regulations established for the Child Support Enforcement program.

*Agency Response*: "The Department agrees with this finding. The Department will remind staff of the need to take actions within the federal timeliness guidelines."

## III.A.23. Reporting – FNS-209 Report

**Food Stamps (CFDA #10.551)**
**Federal Award Agency: United States Department of Agriculture (USDA)**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**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 active households:

- 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.

*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. In July 2003 the Department initiated a change to the computer system generated Food Stamp demand notice language. The computer change is currently in the "User Acceptance Testing" region and the new notices will be used once the testing is complete.

The Department also initiated a computer system change on February 16, 2005, for the automatic compromise of claims and for a change in the text to the demand letter notice. Upon completion of the computer programming changes and testing, a regional implementation strategy will be developed and these actions will resolve this condition."

## III.A.24. Special Test and Provisions – ADP System

**Food Stamps (CFDA # 10.551)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Number: 4CT400400**

*Criteria:* Title 7 Code of Federal Regulations (CFR) Part 272 Section 10 provides that the State is required to sufficiently automate its Food Stamps program operations and computerize its systems for obtaining, maintaining, utilizing and transmitting information concerning the Food Stamps program. This includes processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration.

*Condition:* Our review of the Eligibility Management System (EMS) included a test of recertification applications taken by the Department. Our review of the case files of ten clients disclosed that two case files did not have a recertification application on file and one case file did not have a signed recertification application on file. Based on the narrative notes included in EMS, recertification applications were completed.

*Effect:* Without having recertification applications on hand, an important control regarding the accuracy of the information included in EMS is not present.

*Cause:* It appears that the Department did not properly file the applications in the case files.

*Recommendation:* The Department of Social Services should take necessary action to ensure that the data included in the Eligibility Management System is adequately supported.

*Agency Response:* “The Department agrees with this finding. The Department will be reinforcing to regional staff the necessity of having the Food Stamp recertification applications in the case file.”

## III.A.25. Allowable Costs/Cost Principles – Improper Reporting of Expenditures

**Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H126A030007 and H126A040007**

*Background:* The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). According to the Department's Cost Allocation Plan, accrued leave amounts should be allocated to various programs based on the percentage of total full-time salaries. Accrued leave represents the payments made by the Department to employees who leave State service. These payments are made in accordance with State regulations for accrued sick and vacation leave earned by the employee but not used.

The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. The Department of Health and Human Services (HHS) has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR Part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan.

*Criteria:* The Office of Management and Budget (OMB) Circular A-87 provides that for a cost to be allowable under Federal awards it must be allocable to Federal awards under the provisions of OMB Circular A-87. In addition, a cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

*Condition:* Our review of the Federal Financial Status Report submitted for the quarter ended June 30, 2004, disclosed that expenditures that were incurred for the same purpose were allocated as an indirect cost and a direct cost of the Vocational Rehabilitation program. The report reviewed represented expenditures incurred for the period October 1, 2003, to June 30, 2004. Our review disclosed that the Department reported accrued leave expenditures totaling $8,653 that were indirectly allocated to the Vocational Rehabilitation program based on the Department's Cost Allocation Plan. These expenditures represented indirect costs that were incurred for the quarters ended December 31, 2003, and March 31, 2004. However, we also noted that the cumulative total expenditures reported on the June 30, 2004 report, included accrued leave expenditures totaling $16,897 that were directly charged to the Vocational Rehabilitation program.

*Effect:* The accrued leave costs totaling $16,897 directly charged to the program are considered to be questioned costs because these accrued leave costs were not based on the approved Cost Allocation Plan.

*Cause*: The Department was not aware that its reporting procedures resulted in accrued leave costs being charged indirectly and directly to the Vocational Rehabilitation program.

*Recommendation:* The Department of Social Services should develop reporting procedures that would ensure accrued leave costs of the Vocational Rehabilitation are being accounted for properly.

*Agency Response:* "The Department agrees with this finding. The Department charged $16,897 of accrued leave for Vocational Rehabilitation salaries as a direct cost and also charged $8,653 of Vocational Rehabilitation accrued leave as an indirect cost per the Department's Cost Allocation Plan.

Prior to making any corrections or adjustments, the Department has sought clarification from the State Comptroller's Office as to how best to handle this issue. Currently, the State requires the accrued leave be charged to the direct Federal SID involved. For Federal cost allocation purposes, however, these expenses must be allocated based upon a Departmental allocation method. This creates an inherent conflict which will require some direction from the State Comptroller to ensure statewide application of a Federal requirement. The Department will adjust the federal cost claim consistent with the guidance received from the State Comptroller."

## III.A.26. Program Income

**Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H126A030007 and H126A040007**

*Background:* Some clients in the Vocational Rehabilitation program receive SSDI (Social Security Disability Insurance) or SSI (Social Security Income) benefits. The Vocational Rehabilitation program will be reimbursed by the Social Security Administration (SSA) for these clients if they successfully complete the Vocational Rehabilitation program. The client is considered to have successfully completed the program when the client earns above the monthly

SGA (Substantial Gainful Activity) amount (or “level”), which is issued by SSA each year, and thus stops receiving SSDI and/or SSI. The amount of the reimbursement is equal to the actual costs of rehabilitating the client, or 40 percent of the average national payment for SSDI or SSI for up to 60 non-consecutive months.

The Department of Social Services’ Bureau of Rehabilitation Services (BRS) keeps track of the SSI and/or SSDI and earning status of successfully rehabilitated clients using a database. The database automatically determines those clients who the BRS may be able to receive reimbursement for by interfacing with the SSA and Department of Labor (DOL) database systems. After the database determines a client to be eligible, an employee of the BRS submits a claim to the SSA.

*Criteria:* Title 34 Code of Federal Regulations, Part 361, Section 63, provides that sources of program income include, but are not limited to, payments from the SSA for rehabilitating Social Security beneficiaries. The Department is authorized to treat program income as a deduction from total allowable costs or as an addition to the grant funds to be used for additional allowable program expenditures.

*Condition:* There were a total 1,350 cases that were closed during the fiscal year ended June 30, 2004, because the clients were successfully rehabilitated. Our review of ten of these 1,350 cases disclosed that controls are not in place to ensure that reimbursement requests are submitted for all Vocational Rehabilitation cases that are eligible for SSA reimbursement. We noted the following exceptions for two of the ten cases tested:

- In one instance, the client was self-employed. The BRS does not have access to earnings information from DOL on people who are self-employed; therefore the process for determining if a self-employed client has become eligible for SSA reimbursement would have to be determined manually by the BRS. Since the BRS did not have formal procedures in place for performing such a review, the SSA eligibility status of self-employed clients was not being performed by the BRS.

- In another instance, the BRS’ database was not programmed to identify a code provided by the SSA’s database that would have led the BRS to determine that a client had become eligible for SSA reimbursement. As a result of our review, this case was reviewed by the BRS and a claim in the amount of $19,245 was submitted to the SSA.

*Effect* Failure to submit a claim for all cases eligible for SSA reimbursement may reduce the amount of funding available to be used to administer the

Rehabilitation Services-Vocational Rehabilitation Grants to States. For the two exceptions, SSA has not determined whether rehabilitation costs will be reimbursed.

*Cause:* The BRS did not have formal procedures in place for determining if a self-employed client has become eligible for SSA reimbursement. Additionally, the BRS' database was not programmed to detect all status codes provided by the SSA that may lead to the determination that a client has become eligible for SSA reimbursement.

*Recommendation:* The Department of Social Services Bureau of Rehabilitation Services should implement controls to ensure that reimbursement requests are submitted for all cases that are eligible for Social Security Administration reimbursement.

*Agency Response:* "The Department agrees with this finding. The Department has implemented corrective measures.

Concerning reimbursements from SSA for those SSI and SSDI beneficiaries who stopped receiving benefits due to self-employment, the Department is now running a quarterly report to identify these clients. The Department is reviewing each case to determine if a reimbursement is warranted and if so submitting the proper claim to SSA.

In regards to the code provided by the SSA's database which was not programmed within the BRS' database used to identify reimbursement claims, the Department has made a programming change to include the identified code in the BRS database."

### 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 Year: State Fiscal Year Ended June 30, 2004**
**Federal Award Number: ACC CT 901 VO**

*Background:* The Department contracts with a vendor to perform various administrative duties under the Section 8 program. The vendor subcontracts with housing agencies to administer the programs in their areas. The Department paid $45,111,398 to the vendor during the fiscal year ended June 30, 2004. This payment amount represents payments for rental assistance and administrative fees. The vendor forwards the rental assistance and a portion of the provided administrative fees to the housing agencies, which pay the landlords the rent assistance.

The Department's contract with this vendor requires that the vendor shall 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, a 5-10 percent review of new applications, and a 5-10 percent review of HQS (housing quality standards) Inspections.

*Criteria:* Title 24 Code of Federal Regulations Part 982 Section 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. Per the description of the compliance requirement included in the Office of Management and Budget Compliance Supplement, housing assistance payments must be stopped no later than the first of the month following the specified correction period.

Office of Management and Budget (OMB) Circular A-87 allows costs to be charged or allocated 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.

*Condition:* For the Section 8 program, we reviewed a sample of ten inspections of housing units. For three housing units the Department found failure with housing quality standards. However, for one of these three housing units, corrective action was not taken in a timely manner. The owner failed the inspection of May 14, 2004, and subsequently passed the inspection on September 23, 2004. The housing assistance payments made to the owner were not stopped effective July 1, 2004, which was the stop date required by HUD policy.

*Effect:* Housing assistance payments were made for one unit that failed housing quality standards inspections. During the audited period, for the inspections we sampled, there were no improper housing assistance payments made. However, there were improper housing assistance payments totaling $2,323 that were made from the period July1, 2004, to September 22, 2004.

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

*Recommendation:* The Department should ensure that it stops housing assistance payments to owners who do not correct housing quality standard deficiencies within the specified time period. The Department should recover overpayments of housing assistance payments.

*Agency Response:* "The Department agrees with this finding. The contractor did not take the proper actions to suspend housing assistance payments in accordance with HUD policy. The Department will pursue recovery of the overpayments."

## III.A.28. 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 Year: State Fiscal Year Ended June 30, 2004**
**Federal Award Number: ACC CT 901 VO**

**Temporary Assistance to Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

*Background:* The Department contracts with a vendor to perform various administrative duties under the Section 8 program and the State Rental Assistance Program (RAP). The vendor subcontracts with housing agencies to administer the programs in their areas. The Department paid $45,111,398 and $2,270,992 under Section 8 and State RAP, respectively, to the vendor during the fiscal year ended June 30, 2004. These amounts represent payments for rental assistance and administrative fees. The vendor forwards the rental assistance and a portion of the provided administrative fees to the housing agencies, which pay the landlords the rent assistance. A portion of the State Rental Assistance Program expenditures is claimed under TANF as direct Federal charges and the remaining portion is claimed as maintenance of effort.

The Department's contract with this vendor requires that the vendor shall implement internal processes to ensure programmatic compliance including but not limited to independent audits of financial processes, independent audits of program functions, supervisory staff review of 5-10 percent of reexaminations, 5-10 percent review of new applications, 5-10 percent review of HQS (housing quality standards) Inspections…

The Department pays administrative fees to the vendor for leased units (e.g. those units for which the Department is paying to the landlords housing assistance payments, and those units that are in "hold status" because of factors such as housing quality standards 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 vendor for those tenants that should be removed from the program.

*Criteria:* 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.

*Condition:* For the Section 8 program we reviewed the Hold Report dated September 28, 2004, and found that the Department paid administrative fees to the vendor for tenants that apparently should have been removed from the Section 8 Housing Choice Vouchers program. That Hold Report showed that there were 397 tenants on "hold status." There were 25 tenants on the Hold Report with hold dates that were effective more than 180 days before the Hold Report date. Identified questioned costs totaled $8,699 for administrative fees that were incurred for 25 clients who were in "hold status" for more than 180 days during the period October 2001 to September 2004 for the 25 tenants.

For the Section 8 and TANF programs, we noted the following:

- The Department had neither obtained nor reviewed an audit report on the vendor. At our request, the Department did obtain on January 24, 2005, an audit report for the vendor for the fiscal year ended June 30, 2003. Without monitoring the activity of the vendor, the Department cannot be certain that funds are being expended in accordance with Federal regulations.

- We were informed that, beginning in May 2003, the vendor began performing the contractually required reviews of 5-10 percent of subrecipient activity. We were also informed on December 18, 2003, and again on October 6, 2004, that the Department did not verify whether the vendor did perform its required reviews of 5-10 percent of housing agencies' activity.

*Effect:* There appear to be names on the Hold Report for households who are no longer participating in the Federal program. For the Section 8 program, we identified $8,699 in questioned costs for administrative fees paid for 25 tenants on the Hold Reports. If the Department removes nonparticipating households from the active program records, new households may be eligible for housing assistance.

The Department may have paid the vendor for administrative fees for services that were not received. The amount of questioned costs could not be determined.

*Cause:* It appears that there is a lack of review and follow-up of participants on the Hold Report, both by the Department and the vendor.

The Department did not include procedures to verify that the vendor is performing contractual duties.

*Recommendation:* The Department of Social Services should not pay administrative fees to the vendor for tenants on the Hold Reports who should be removed from the Section 8 Housing Choice Vouchers program and should confirm that only valid participants appear on the Hold Reports. The Department should ensure that the vendor performs all contractual services.

*Agency Response:* "The Department agrees with this finding. The Department did not verify that the contractor performed the required quality control reviews of subrecipients. However, documentation supporting that the contractor performed the quality control reviews are maintained at each subrecipient site and the Department staff have begun reviewing the documentation in order to verify that the reviews have been done. This verification is being noted on revised monitoring forms."

## III.A.29. Allowable Costs/Cost Principles – Allocation Statistics

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003, 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

**Child Support Enforcement (Title IV-D) (CFDA #93.563)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 0304CT4004 and 0404CT4004**

**State Children's Insurance Program (SCHIP) (CFDA #93.767)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5021 and 05-0405CT5021**

**State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Number: 4CT400400**

**Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H126A030007 and H126A040007**

*Background:* The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). Each expenditure transaction is assigned an expenditure code. The State's accounting system accumulates the expenditures by the recorded expenditure codes and generates the reports that DSS uses to record the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to Federal and State programs as specified in the Department's Federally approved Cost Allocation Plan (CAP). Costs are allocated to programs based on the allocation basis assigned to the respective cost pools. Some specific allocation bases used in the Department's Cost Allocation Plan are described below.

- The Quality Control Reviews allocation statistic is based on the ratio of quality control reviews completed during the applicable period by benefiting programs as compared to the total of quality control reviews. The result is the percentage of effort allocable to benefiting programs. The Plan indicates that Quality Control Review statistics are available semi-annually or at least annually as reviews are being performed.

- The Department Allocation basis is used to allocate costs that cannot be identified to one program or group of specific programs. The statistics used to allocate the costs to all programs is based on the ratio of total number of staff hours attributable to each unit or grant divided by the total number of hours accounted for in that quarter.

- The Data Processing Time Logs allocation statistic is based on the reporting of time for the Management Information Systems (MIS) staff using a daily time reporting log. The time logs are tabulated by staff to produce monthly summaries of daily time reports. Employees could charge hours to a benefiting program or to General Support. The hours that are directly associated with a benefiting program would be used to allocate total MIS costs directly to the benefiting program based on a percentage of total hours. The remaining costs, which are accumulated in the General Support cost pool, would be allocated to various programs based on the Department Allocation method.

The Department of Social Service's Cost Allocation Plan provides that, as part of its Random Moment Time Study, the Department will randomly select a sub-sample of ten percent of all sample observations and have an individual, who is different than the person that typically performs the Random Moment Time Study surveys, collect the information. The responses to this sub-sample will act as a control report and be compared to those of the overall sample.

*Criteria:* The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. For a cost to be allowable under Federal awards they must meet the following general criteria.

- Be allocable to Federal awards under the provisions of OMB Circular A-87. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be adequately documented.

Title 45 Code of Federal Regulations Section 95.517 provides that for the State to claim Federal financial participation for costs associated with a program it must do so only in accordance with its approved cost allocation plan.

*Condition:*

1. Our review of the allocation statistics used in the Department's Cost Allocation Plan for the quarter ended December 31, 2003, disclosed the following:

   - For the Department Allocation method the total hours used to allocate costs were 1,055,734.50; however, the supporting documentation only supported 1,054,734.50 hours (a 1,000 hour difference).

   - The allocation statistics used in the Quality Control Reviews allocation basis were not adequately updated. The statistics used were based on the quality control reviews that were completed for the Federal fiscal year ended September 30, 2002. However, the allocation statistics for the Federal fiscal year ended September 30, 2003, were available to be used. The Department has also used the allocation statistics for the fiscal year ended September 30, 2002, to allocate costs for the quarters ended March, 31, 2004, June 30, 2004, and September 30, 2004.

     Further, during or prior to the Federal fiscal year ended September 30, 2003, the Department stopped performing quality reviews for State programs and for the Temporary Assistance for Needy Families (TANF) program. In addition, the Department was performing quality reviews for the Child Care and Development Fund; however, these quality reviews were not included as part of the allocation statistic. These quality reviews were performed during the Federal fiscal years ended September 30, 2002, and 2003.

   - The allocation statistics used in the Total Data Processing Time Logs were not adequately updated. The allocation statistics from the quarter ended September 30, 2003, were used instead of the statistics from the quarter ended December 31, 2003. The quarter ended December 31, 2003, statistics were available at the time the allocation of costs was generated.

2. Our review of the Department's cost allocation process for distributing accrued leave costs for the quarter ended December 31, 2003, disclosed some discrepancies. According to the Department's Cost Allocation Plan, accrued leave amounts should be allocated to various programs based on the percentage of total full-time salaries. Accrued leave costs should be accumulated in each cost pool that has been allocated salary expenditures. Our review disclosed that eight accrued leave amounts totaling $1,886 were not allocated in accordance with the approved Cost Allocation Plan. These eight accrued leave amounts were not allocated

based on the percentage of full-time salaries, as required by the Cost Allocation Plan, but were allocated based on the allocation method (for example Random Moment Sampling) assigned to their respective cost pools.

3. It was noted that the Department of Social Services does not randomly select a sub-sample of ten percent of all Random Moment Time Study sample observations and have an individual, who is different than the person who typically performs the Random Moment Time Study surveys, collect the information.

*Effect:* Some costs are not being allocated properly to Federal awards and established controls are not being executed to ensure that all costs are being allocated properly. In addition, the Department did not comply in all respects with its approved Cost Allocation Plan. Based on making adjustments to the Department's allocation statistics for Condition 1 and Condition 2 above, we determined that costs were improperly allocated to Federal programs, as provided in the schedule below. The improper allocations resulted in questioned costs charged to Federal programs, based on the programs' applicable Federal financial participation rates (except for SCHIP, which is based on the percentage of expenditures that were claimed for Federal reimbursement), for the quarter ended December 31, 2003, as follows:

| **Program** | **Improper Allocation** | **Questioned/ (Unclaimed ) Costs** |
|---|---|---|
| Medicaid | $ (32,934) | $ (16,444) |
| TANF | 32,225 | 32,225 |
| CCDF | (88,611) | 0 |
| Child Support Enforcement | (2,025) | (1,336) |
| SCHIP | 354 | 67 |
| Food Stamps | 21,714 | 10,857 |
| Vocational Rehabilitation Services | 479 | 479 |
| Various Federal/State Programs | 68,798 | NA |
| Net Total | $ 0 | $ 25,848 |

Based on the above schedule, the Department failed to claim for Federal reimbursement expenditures totaling $17,780 incurred under the Medicaid and Child Support Enforcement programs to which it was entitled. For the TANF, SCHIP, Food Stamps, and Vocational Rehabilitation Services, the errors noted resulted in questioned costs totaling $43,628. For the CCDF program, there was no net effect to the questioned costs because the

Department fully expended the authorized CCDF award provided by the Department of Health and Human Services.

*Cause:* The errors were caused by the Department not using updated statistical information and errors related to the Department's automated cost allocation process.

*Recommendation:* The Department of Social Services should use statistics that would provide a proper base for distributing costs to benefiting cost objectives that will produce an equitable result in consideration of relative benefits derived. In addition, the Department should comply with its approved Cost Allocation Plan.

*Agency Response:* "The Department agrees with this finding. Further detail may be necessary on the accrued leave item to be certain that we correctly modify our claimed expenditures for this finding. The Department will review all findings at greater lengths to determine the proper treatment of these expenses for our Federal claims."

### III.A.30. Allowable Costs/Cost Principles –Improper Allocation of Costs

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003, 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

**Child Support Enforcement (Title IV-D) (CFDA #93.563)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 0304CT4004 and 0404CT4004**

**State Children's Insurance Program (SCHIP) (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**

**State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Number: 4CT400400**

**Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H126A030007 and H126A040007**

*Background:* The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan. Each expenditure transaction is assigned an expenditure code. The State's accounting system accumulates the expenditures by the recorded codes and generates the reports that DSS uses to record the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to the programs as specified in the Department's Cost Allocation Plan.

*Criteria:* The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. For a cost to be allowable under Federal awards they must be allocable to Federal awards under the provisions of OMB Circular A-87. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

*Condition:* Our review disclosed the following two exceptions that resulted in significant costs not being properly allocated:

1. During the State fiscal year ended June 30, 2004, expenditures totaling $943,375 were made to enhance the Department's claiming activities for the Temporary Assistance for Needy Families Program (TANF). These expenditures were allocated to various Federal and State programs that are administered by the Department. However, because these expenditures related only to the TANF program, these costs should have been allocated only to TANF.

2. For the entire fiscal year ended June 30, 2004, the Department did not

allocate expenditures totaling $542,395 to various Federal and State programs. These expenditures were included in an incorrect allocation cost pool, which resulted in these expenditures not being allocated to Federal programs.

Based on processing the above exceptions through the Department's Cost Allocation Plan, using the proper allocation statistics (See finding III.A.29.) generated for the quarter ending December 31, 2003, this error resulted in the costs being allocated improperly to Federal programs as follows:

| Program | Condition 1 | Condition 2 | Net Total |
|---|---|---|---|
| Medicaid | $ 289,344 | $ (81,270) | $ 208,074 |
| TANF | (901,970) | | (901,970) |
| CCDF | 6,773 | | 6,773 |
| Child Support Enforcement | 106,277 | (461,124) | (354,847) |
| SCHIP | 40,555 | | 40,555 |
| Food Stamps | 152,501 | | 152,501 |
| Vocational Rehabilitation | 82,574 | | 82,574 |
| Other State/Federal Programs | 223,946 | | 223,946 |
| Net Total | $ 0 | $(542,394) | $(542,394) |

For Condition 1, the reason for the improper allocated amount to TANF being only $901,970, compared to the $943,375 identified in Condition 1, is because the difference represents the net effect of total costs originally allocated to TANF ($41,405) and the costs that should have been allocated to TANF ($943,375).

*Effect:* The above errors resulted in costs not being properly allocated to Federal programs. The net effect to expenditures claimed under Federal programs resulted in questioned costs or unclaimed Federal reimbursement as follows:

| Program | Net Total | Questioned/ (Unclaimed) Costs |
|---|---|---|
| Medicaid | $ 208,074 | $ 104,146 |
| TANF | (901,970) | 0 |
| CCDF | 6,773 | 0 |
| Child Support Enforcement | (354,847) | (234,199) |
| SCHIP | 40,555 | 7,706 |
| Food Stamps | 152,501 | 76,251 |
| Vocational Rehabilitation | 82,574 | 82,574 |
| Various Programs | 223,946 | NA |
| Net Total | $ (542,394) | $ 36,478 |

The questioned costs and unclaimed Federal reimbursements are based on the Federal programs financial participation rates. However, for the SCHIP programs, the questioned costs are based on the Department claiming for Federal reimbursement only 19 percent of its total administrative costs allocated to those programs. The remaining costs are expenditures incurred with State funds. There were no question costs to CCDF because the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement.

Based on the above schedule, the Department failed to claim for Federal reimbursement expenditures totaling $234,199 incurred for the Child Support Enforcement program. For the Medicaid, SCHIP, Food Stamps, and Vocational Rehabilitation programs, the errors noted resulted in questioned costs totaling $270,687. There was no effect to the TANF program because the audit error resulted in unclaimed Federal reimbursement. The expenditures would have been claimed under TANF for the Federal fiscal years ended September 30, 2003 and 2004; however, the Federal awards authorized for the TANF program for those fiscal years were reported by the Department as being fully expended.

*Cause:* The Department's automated cost allocation system did not accumulate the above expenditures in the proper cost pools.

*Recommendation:* The Department of Social Services should review its automated cost allocation system to ensure that expenditures are being accumulated in the proper cost pools so that the costs are allocated to Federal programs in accordance with the relative benefits received.

*Agency Response:* "The Department agrees with this finding. While the TANF expenditures in question were correctly coded, the Cost Allocation Plan import rules did not properly assign these costs to the correct cost pool. The Department will correct this assignment rule. Concerning the Child Support and Medicaid costs that were excluded from cost allocation, the Department will now routinely check all items that are excluded from cost allocation based upon their account usage. Changes will be made to our claim to adjust for the items noted in this finding."

## III.A.31. Allowable Costs/Cost Principles – Noncompliance with Federal Regulations Concerning Cost Allocation Plans

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 05-0305CT5028 and 05-0405CT5028**

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003, 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

**Child Support Enforcement (Title IV-D) (CFDA #93.563)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 0304CT4004 and 0404CT4004**

**State Children's Insurance Program (SCHIP) (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**

**State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Number: 4CT400400**

**Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H126A030007 and H126A040007**

*Background:* The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved

Cost Allocation Plan (CAP). The costs of certain pools are allocated based on the ratio of total number of staff hours attributable to each pool divided by the total number of hours accounted for in that quarter. The expenditures are originally accumulated in each pool prior to the start of the allocation process based on the coding of each expenditure transaction.

*Criteria:* Subpart E of Title 45 Code of Federal Regulations (CFR) Part 95 establishes the requirements for the development, documentation, submission, negotiation and approval of public assistance cost allocation plans. This Subpart provides that:

- The plan shall describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the Department.

- The plan shall contain sufficient information in such detail to permit the Director, Division of Cost Allocation (DCA), to make an informed judgment on the correctness and fairness of the Department's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the Department.

*Condition:* During our audit period, we noted that the Department changed its allocation process without disclosing the change in its Cost Allocation Plan (CAP). The process it used for years was essentially a one-step process that allocated department costs directly to Federal and State Programs. This was changed to a two-step process where the costs for certain departments are first allocated to all departments and programs. The costs that were allocated to each department during the first step are then allocated to Federal and State programs.

*Effect:* Contrary to the requirement of Subpart E of 45 CFR 95, the Department did not include sufficient information in the CAP to permit the Director, DCA to make an informed judgment on the correctness and fairness of the State’s procedures for identifying, measuring and allocating costs to each program administered by the DSS, which may result in costs being improperly allocated to Federal programs.

*Cause:* Apparently, the Department did not fully consider the need to include the allocation process in its CAP.

*Recommendation:* The Department of Social Services should comply with the requirements for the development, documentation, submission, negotiation and approval of public assistance cost allocation plans in accordance with Subpart E of Title 45 Code of Federal Regulations (CFR) Part 95.

*Agency Response:* "The Department agrees with this finding. The two-step process for allocating costs is an acceptable method to the Federal government. Through an oversight, the change in methodology was not clearly documented in the Department's recent cost allocation plan submission. The Department will submit a cost allocation plan amendment for the quarter ending March 31, 2005. With that change the Department will include the appropriate references to the two-step allocation process."

### III.A.32. Allowable Costs/Cost Principles – Expenditure Documentation

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

**Child Support Enforcement (Title IV-D) (CFDA #93.563)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: 0304CT4004 and 0404CT4004**

**State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Number: 4CT400400**

*Background:* The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). Each expenditure is assigned an expenditure code. The State's accounting system accumulates the expenditures by the recorded codes and generates the reports that DSS uses to record the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to the programs as specified in the Cost Allocation Plan.

*Criteria:* The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. For a cost to be allowable under Federal awards, they must meet the following general criteria:

- Be allocable to Federal awards under the provisions of OMB Circular A-87. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective

in accordance with the relative benefits received.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be adequately documented.

*Condition:* We sampled 40 expenditure transactions totaling $44,627. This sample was randomly selected from expenditure transactions totaling $90,943,486. These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of payments disclosed the following two conditions:

1) The Department did not have adequate documentation to support the charge of costs to Federal programs for four transactions sampled. We noted that:

   - One payment in the amount of $206 was paid for the rental of automobiles. The Department did not have any documentation to support the expenditure code assigned to this expenditure. In addition, there was no documentation to support which employee was assigned the automobile. The majority of this expenditure was allocated to Food Stamps and a small portion was allocated to a State program.

   - Two payments totaling $161 were paid for the rental of copiers. The Department did not have any documentation to support the expenditure codes assigned to these two expenditures. When we questioned Department officials, they could not tell us where the copiers were located. These expenditures were allocated entirely to the Child Support Enforcement program (CFDA #93.563).

   - One payment of $360 was paid for a conference. This transaction was not recorded with the proper expenditure code, which resulted in this expenditure not being allocated to the proper Federal award in accordance with relative benefits received. The expenditure was allocated entirely to the Child Care and Development Fund; however, the expenditure did not entirely benefit the Child Care and Development Fund. We were informed that this expenditure should have been allocated to miscellaneous grants.

2) We also noted that one payment in the amount $98 was made for the purchase of goods. There was no vendor invoice to support the paid amount, which represents a weakness in internal controls. Based on the documentation that was available, the item purchased was allowable under Federal programs.

*Effect:* The Department's controls are not always providing reasonable assurance that allowable costs are being claimed under the proper Federal programs. Based on processing the above exceptions noted in Condition 1 through the Department's Cost Allocation Plan, using the proper allocation statistics (See finding III.A.29.) generated for the quarter ending December 31, 2003, we determined questioned costs were charged to Federal programs as follows:

| **Program** | **Improper Allocation** | **Questioned /Unclaimed Costs** |
|---|---|---|
| CCDF | 360 | 360 |
| Child Support Enforcement | 161 | 106 |
| Food Stamps | 197 | 98 |
| Miscellaneous Grants | (360) | (360) |
| State programs | 9 | NA |
| Net Total | $367 | $204 |

The questioned costs and unclaimed Federal reimbursements are based on the Federal programs financial participation rates. The questioned costs of the CCDF program would be offset because the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement.

Based on the above schedule, there were questioned costs totaling $204 claimed for Federal reimbursement of expenditures incurred on behalf of the Child Support Enforcement, Food Stamps, and Vocational Rehabilitation programs.

*Cause:* The Department did not have adequate documentation on hand to support the costs allocated to Federal awards.

*Recommendation:* The Department of Social Services should ensure that expenditures claimed under Federal awards are supported by adequate documentation in accordance with the provisions of Office of Management and Budget Circular A-87.

*Agency Response:* "The Department does not agree with this finding. While supporting documentation cannot be found for the items cited, the Department maintains that these items were properly handled from a coding and cost allocation perspective. Accordingly the $236 of expenditures should not be considered questioned costs."

*Auditors' Concluding Comments:*

In accordance with OMB Circular A-87, for a cost to be allowable under Federal awards, the costs must be adequately documented.

## III.A.33. Suspension and Debarment – Absence of Some Certifications

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Awarding Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

**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 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTCCDF and G0401CTCCDF**

**Social Services Block Grant (SSBG) (CFDA #93.667)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-030CTCOSR and G-0401CTSOSR**

*Background:* Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. All nonprocurement transactions (i.e., subawards to subrecipients) are considered covered transactions.

*Criteria:* Title 45 Code of Federal Regulations (CFR) Part 76 provides that the Department must verify that its subrecipients are not suspended or debarred or otherwise excluded from Federal programs. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the subrecipient, or adding a clause or condition to the covered transaction with that subrecipient.

*Condition:* The Department of Social Services did not verify that all of its subrecipients are not suspended or debarred or otherwise excluded from Federal programs.

The Department's procurement procedures do not include using one of the three options provided by the Federal regulations.

*Effect:* The Department could be contracting with subrecipients that are suspended or debarred from Federal programs.

*Cause:* The Department uses a standard contract developed by the Office of the Attorney General. The language included in the contract does not specifically indicate that the subrecipient certifies that the subrecipient is not suspended or debarred from Federal programs. The Department is currently working with the Office of the Attorney General to revise the contract. The Federal regulations do provide two additional options (checking the *Excluded Parties List System* maintained by the General Services Administration or collecting a certification from the subrecipient) that the Department may follow to be in compliance with the Suspension and Debarment requirement. However, the Department has not incorporated either of these two options in its procurement procedures.

*Recommendation:* The Department of Social Services should develop procedures as specified in the Federal regulations to verify that its subrecipients are not suspended or debarred or otherwise excluded from Federal programs.

*Agency Response:* "The Department agrees with this finding. As indicated by the Auditors, the Department is continuing to work with the Attorney General to revise the contract language; however, if this cannot be done the Department will pursue one of the other options allowed by Federal regulation."

## B. DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

### III.B.1. Matching

**Shelter Plus Care (CFDA # 14.238)**
**Federal Award Agency: Department of Housing and Urban Development**
**Award Years: Federal fiscal years 1994-1995, 1995-1996, and 1996-1997**
**Federal Award Numbers: CT26C93-1103, CT26C93-1106, and CT26C94-0060**

*Background:* Grant expenditures made during State fiscal year ended June 30, 2004, consisted of expenditures made from awards granted during Federal fiscal years 1994-1995, 1995-1996, and 1996-1997. Grant expenditures are required to be matched with at least equal value on a cumulative basis.

*Criteria:* Section 582.110 of the Code of Federal Regulations requires that matching amounts be provided at least equal in value to the aggregate amount of rental assistance provided to Shelter Plus Care (SPC) Federal program participants.

*Condition:* Supporting documentation could not be found for ten matching transactions selected as a test check for Bridgeport contract CT26C93-1106.

Based on Annual Progress Reports, matching requirements were not met for three grants as follows:

- Match of $5,177,739 was reported for Middletown contract CT26C93-1106 at January 18, 2004, when housing assistance payments amounted to $5,317,573.
- Match of $4,057,183 was reported for Hartford contract CT26C93-1103 at October 31, 2003, when housing assistance payments amounted to $4,442,386.
- Match of $708,842 was reported for Stamford contract CT26C94-0060 at October 31, 2003, when housing assistance payments amounted to $2,037,970.

*Effect:* Without supporting documentation, matching transactions cannot be substantiated.

Minimum Federal matching requirements for three grants were not met by a total of $1,854,165.

*Cause:* Provider reports received prior to 1998, which are used to substantiate the match, could not be found and were believed to have been discarded in error.

There was an insufficient amount of matching transactions to meet the

Federal matching requirements.

*Recommendation:* The Department of Mental Health and Addiction Services should ensure that the Shelter Plus Care Program is correctly accounted for and that grant-matching requirements are met.

*Agency Response:* "The Department of Mental Health and Addiction Services agrees with this finding.

The Office Of The Commissioner's (OOC) Housing Unit assigned personnel familiar with the database and the Annual Project Report (APR) process to review the reporting system in detail. Various issues relating to the data collection have been identified. These issues include lost and/or deleted data, incorrect service costs per unit, service costs incorrectly entered into the database, and agencies providing services not entered into the database.

In addition, meetings have been held with the department's Information System Division (ISD) to review hard-copy printouts of data from the "match" database and comparing that information with data submission from the regional offices. The Housing Unit's personnel, assigned to this task meets or communicates with regional office staff responsible for data submission, to assure that matching information is submitted in the proper manner.

The database contains deficiencies that currently contributes to the overall problem of reporting data correctly on the APR. The match information exists but, presently, cannot be documented.

The OOC Housing Unit continues to work with ISD to make corrections to the electronic database and regional staff will be instructed to fill in the required data manually, on the APR, until such times as the database is functioning properly. Recent discussions have centered around utilizing Medicaid funding information, which is available, to document match for all Shelter Plus Care grants. It is DMHAS' intention to proceed and investigate using Medicaid funding and once approved, to implement its use. It is anticipated that this issue will be resolved by April 1, 2005."

## C. DEPARTMENT OF LABOR

### III.C.1. Reporting – ETA 227 Overpayment Detection and Recovery Activities

**Unemployment Insurance (UI) (CFDA 17.225)**
**Federal Award Agency – Department of Labor**
**Award Year: State Fiscal Year 2003-2004**
**Federal Award Number: UI13538NE**

*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, which we reviewed for the quarter ended June 30, 2004, was prepared using the same type of supporting documentation that was used in prior year ETA 227 reports. As reported in our prior Single Audit Report, 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:* We were informed that Connecticut, unlike other States, has an unlimited time period for collection of Unemployment Insurance overpayments resulting in an adverse affect on the aging of receivables.

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's Benefit Payment Control Unit (BPCU) has had difficulty completing the ETA 227 report because it's geared towards states that have a collection period of four years from the initial overpayment.

To correct the problem, BPCU has started an automation project that will "tag" collections that are greater than four years and remove them from the aging statistics of the ETA 227 report. This automation is part of a larger automation initiative within BPCU. Current estimates for completion of this initiative are June 30, 2005."

## D. DEPARTMENT OF PUBLIC HEALTH

### III.D.1. Cash Management – Monitoring of Subrecipient Cash Balances

**HIV Prevention Program (CFDA #93.940)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Calendar Years 2003 and 2004**
**Federal Award Numbers: U62/CCU102002-18 and U62/CCU123477-01**

**Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA #93.283)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: U50/CCU116806-04, U90/CCU116996-03 and U90/CCU116996-04**

*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:* The Department of Public Health typically provides advance funding to subrecipients. Subsequent payments are normally made based on pre-determined timelines or grant budgets. In order to alleviate the prior audit condition, DPH increased by two the number of payments made to subrecipients with grant agreements providing for annual funding of $300,000 or more. With the exception of the WIC Program, the Department does not have a process in place to effectively 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's attention to the condition had not fully addressed previous recommendations calling for improved cash management in accordance with

Federal requirements.

*Recommendation:* The Department of Public Health should take steps to ensure that an appropriate cash management process is in place.

*Agency Response:* "We agree with this finding. As part of a previous corrective action plan, the Department increased by two the number of payments over which subrecipients with grant agreements of $300,000 or more receive funding. This brought the total number of payments for these agreements to six payments per year. In addition, such contractors are now required to submit Cash Needs Statements on a bimonthly basis. Payments are made, and may be revised, based on the review and approval of these statements, as well as programmatic and financial reports required in the agreement.

Furthermore, the Department plans to lower the threshold for these procedures from $300,000 to $275,000, commencing with agreements that start on or after July 1, 2005. We believe this represents a strong good-faith effort to respond to this audit finding, in view of continuing serious resource constraints."

### III.D.2. Allowable Costs/Cost Principles – Documentation of Salary Costs

**HIV Prevention Program (CFDA #93.940)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Calendar Years 2003 and 2004**
**Federal Award Numbers: U62/CCU102002-18 and U62/CCU123477-01**

**Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA #93.283)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: U90/CCU116996-04 and U50/CCU111188-10**

*Criteria:* OMB Circular A-87 indicates that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

The Department policy indicates that, for split-funded employees, quarterly reports are to be submitted to the fiscal unit from applicable units. These reports are to be supported by biweekly personnel activity reports which are signed by each employee. OMB Circular A-87 dictates that personnel activity reports must be prepared at least monthly and signed by the employee.

*Condition:* We noted several instances in which only annual certifications were obtained for employees charged solely to a Federal award.

We identified one instance in which personnel activity reports were not available for a split-funded employee.

*Effect:* In the absence of semi-annual certifications for those employees charged solely to a Federal award and personnel activity reports for those split-funded, there is non-compliance with OMB Circular A-87. However, since the certifications did not conflict with the actual charges, we are not questioning any costs.

The split-funded employee was charged to the two CDC programs cited above. Questioned costs, including fringe benefits and indirect costs, amount to $61,579.

*Cause:* A lack of administrative oversight appears to have contributed to the condition.

*Recommendation:* The Department should ensure its compliance with OMB Circular A-87 by maintaining at least semi-annual certifications for all employees charged solely to a Federal award and personnel activity reports for those employees which are split-funded.

*Agency Response:* "We agree with this finding. We have reviewed the instances wherein semi-annual certifications or personnel activity reports were not properly completed. These instances have been brought to the attention of the appropriate program managers. The Department has previously disseminated timekeeping standards for federally funded employees on several occasions. These standards are again being disseminated."

### III.D.3. Subrecipient Monitoring – Subrecipient 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 2002-2003 and 2003-2004**
**Federal Award Number: 4CT700700**

**Immunization Program (CFDA #93.268) (Non-Major Program)**
**Federal Award Agency: Department of Health and Human Services**
**Award Year: Calendar Year 2003**
**Federal Award Number: H23/CCH104484-12**

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

*Condition:* Staff responsible for reviewing the Schedules of Federal Awards submitted by subrecipients appeared to sufficiently identify errors in the schedules. However, a process was not in place to document consideration of whether the errors could have impacted the determination of major programs at the subrecipient level. Seven of 18 subrecipient audits (39 percent) were identified as containing errors in the Schedules of Federal Awards. Of these, two contained errors/omissions that exceeded $1 million.

*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 objective of the Department of Public Health was to identify the errors and notify the subrecipients in order to avoid future errors, rather than correct the current audits.

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

*Agency Response* "We agree with this finding. The Department of Public Health previously instituted procedures, effective fiscal year end 2003-2004, to notify subrecipients of error(s) in the Schedules of Federal Awards (Schedules) and to request revised Schedules, which correct the error(s). The procedures include notifying the entity of the error(s) in the Schedule in a letter, which details the item(s) in question and the date that pertinent information was previously provided. The letter requests a revised Schedule which includes an audit of the item(s) in question and which rectifies the error(s). A diary date is established and, if the revised Schedule is not received on a timely basis, a second letter is issued in follow-up. Upon receipt of the corrected Schedule, a letter is issued to the entity accepting the audited financial statements."

### III.D.4. Equipment Inventory Management

**Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA #93.283)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: U90/CCU116996-03 and U90/CCU116996-04**

**HIV Prevention Program (CFDA #93.940)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Calendar Years 2003 and 2004**
**Federal Award Numbers: U62/CCU102002-18 and U62/CCU123477-01**

*Criteria:* 45 CFR 92.32(b) requires that States manage equipment acquired under a Federal grant in accordance with State laws and procedures. The State of Connecticut has issued a Property Control Manual dictating procedures for State agencies to adhere to when managing such assets.

*Condition:* Personal computers purchased as part of the HIV Prevention Program and lab equipment purchased or received as direct assistance as part of the CDC Program, were not properly tagged and controlled as required by the State of Connecticut Property Control Manual. The total value of all of these items that were not entered on the inventory records was approximately $623,000.

*Effect:* The failure to properly maintain equipment in accordance with State procedures increases the risk that losses of such items may go undetected.

*Cause:* The Department of Public Health had delegated the responsibility for tagging and recording laboratory equipment to staff of the lab, rather than assigning business office employees to the task. The failure to record the computer equipment in the inventory records appeared to be an oversight.

*Recommendation:* The Department of Public Health should increase efforts to improve internal controls over equipment procured as part of Federal programs.

*Agency Response:* "We agree with this finding. We have instituted quarterly reviews of all purchase orders that are issued for capital equipment and controllable asset purchases. This process will identify all equipment purchases that must be added to the inventory management system. The inventory control staff member will reconcile this information to the actual entries for discrepancies.

The agency is reviewing options to strengthen the inventory management of capital equipment purchases using federal direct assistance funds. These items are not processed through the purchasing unit and will not be identified in the reconciliation detailed above. The Fiscal Office has requested that all agency units report purchases and funding budget line items for tracking."

### III.D.5. Subrecipient Monitoring – WIC Providers and Local Agencies

**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 2002-2003 and 2003-2004**
**Federal Award Number: 4CT700700**

*Criteria:* In order to serve as an effective tool in the management of the WIC Program, documentation of violations detected during covert compliance buys should be communicated to the offending retailers in a timely fashion.

7 CFR 246.19 requires that State agencies promptly notify local agencies of any finding in a monitoring review.

*Condition:* We noted delays of six months or more from the time violations were detected to the date notifications were sent to vendors.

Previous audits have criticized the Department of Public Health for failure to perform Management Evaluation Reviews (MER) in accordance with promulgated timeframes. While the required number of reviews were performed during the audited period, we noted that the review of the financial management system was frequently performed months away from the balance of the MER process, delaying the presentation of any findings until after the complete report is issued. Reports were not always issued in a timely manner after the completion of the MER.

*Effect:* The failure to notify vendors and local agencies of violations in a timely manner increases the likelihood that the violation will continue uncorrected.

*Cause:* A lack of administrative control contributed to this condition. The MER issue was complicated by the fact that fiscal staff of the Department performed the financial reviews, while Program staff performed the rest of the MERs. It was often not feasible for the Department to assign this work at the same time.

*Recommendation:* The Department of Public Health should attempt to coordinate the various steps in the WIC monitoring processes in order to provide for timely resolution of compliance issues.

*Agency Response:* "We agree with this finding. The Department of Public Health has attempted and will continue to attempt to coordinate program and fiscal monitoring. Because the nature of the program monitoring involves a more lengthy process than fiscal monitoring, it is not always possible to perform reviews of the same local agencies in the same fiscal year."

### III.D.6. Period of Availability

**Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA 93.283)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: U90/CCU116996-03 and U90/CCU116996-04**

*Criteria:* Federal awards typically specify a time period during which the grantee may use the Federal funds. Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

*Condition:* The Department of Public Health uses a "budget reference" field to track the various grant years within each account. As a result of the migration of the State of Connecticut to a new accounting system, errors totaling $849,000 were noted resulting in charges to grant years that were no longer available. This required increased effort on the part of DPH staff to make necessary corrections, some of which had not been done at the time of our review.

*Effect:* The failure to record the correct budget year at the time of the initial entry into the accounting system creates inefficiencies and increases the risk that errors will be made and go undetected. Preparation of timely and accurate financial status reports is made more difficult.

*Cause:* This condition was primarily due to difficulties encountered by the Department in establishing procedures required to facilitate the State's migration to a new accounting system.

*Recommendation:* The Department of Public Health should improve controls designed to ensure that transactions are recorded in the proper grant, and that adjustments are made in a timely manner.

*Agency Response:* "With the implementation of the new accounting system, the use of Budget Reference Year (BRY) was a new fiscal requirement. Initially, there was a lack of clarity on the part of staff as to the proper use of the BRY. Through Quality Assurance meetings conducted by the Contracts and Grants Management Division (CGMD), jointly with the Fiscal Office, the proper use of BRY was clarified. A fiscal memorandum was subsequently issued by the Chief Financial Officer to all Department employees, providing detailed guidelines on coding the BRY."

## E. DEPARTMENT OF CHILDREN AND FAMILIES

### III.E.1. Allowable Costs/Cost Principles – Cost Allocation Plan

**Foster Care-Title IV-E (CFDA #93.658)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1401 and G-0401CT1401**

**Adoption Assistance (CFDA #93.659)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1407 and G-0401CT1407**

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers 05-0305CT5028 and 05-0405CT5028**

*Criteria:* To be allowable under Federal awards, costs must meet the following general criteria: Be allocable to Federal awards and be adequately documented. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received (OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments).

State public assistance agencies are required to promptly submit amendments to their cost allocation plan if any of the following events occur (45 CFR section 95.509):

(a) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to Federal laws or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.

(b) A material defect is discovered in the cost allocation plan.

(c) The State plan for public assistance programs is amended so as to affect the allocation of costs.

(d) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.

*Condition:* Our review of the Department's Public Assistance Cost Allocation Plan (PACAP), including individual transactions processed through such plan, identified the following conditions:

- The Department distributed workers' compensation costs ($8,560,188) to a central office administrative cost pool during the fiscal year ended June 30, 2004. These costs were subsequently allocated to the remaining 10 functional cost pools in the Department's PACAP based on the proportion of full-time staff assigned to these cost pools relative to total staffing for all cost pools. This methodology allocated approximately 68 percent of workers compensation costs to seven Federal cost pools for the quarter ended March 31, 2004. The percentage of costs allocated to Federal cost pools fluctuates from quarter to quarter but the percentage generally results in approximately two-thirds of these costs being allocated to Federal cost pools. These dollars are subsequently distributed through the PACAP based upon random moment sampling. Our analysis of workers compensation costs for the fiscal year ended June 30, 2004, disclosed that approximately 80 percent of the costs are borne by facilities whose regular operating costs are for the most part directly allocated to non-Federal cost pools.

- Two payroll transactions ($4,478) were incorrectly allocated through the PACAP. Employee personal service and fringe benefit costs ($4,004) for one transaction was miscoded. The other transaction ($474) represented an overpayment made to an employee. Payroll testing was based on a sample size of 24 transactions with a dollar value of $88,898 from a universe of $301,574,393 for the fiscal year ended June 30, 2004.

- The Department allocated $112,843 in training costs based on insufficient documentation for the quarter ended March 31, 2004.

- The Department used an incorrect fringe benefit basis to calculate and distribute fringe benefit costs in its PACAP for the quarters ended December 31, 2003, and March 31, 2004.

*Effect:* Workers' compensation costs allocated to Federal cost pools did not produce an equitable and representative distribution of costs. A portion of these costs ($8,560,188) are thus considered questioned costs but were not quantified by us due to the significant amount of effort necessary to arrive at an actual amount.

The two payroll exceptions resulted in the following Federal programs being overcharged by their indicated amounts of questioned costs: Foster Care ($75); Adoption Assistance ($101); TANF ($70); and Medicaid ($6). The questioned costs include $213 in improper payments made as the result of the overpayment.

The Department has no reasonable assurance that training costs distributed in its cost allocation plan and charged to Federal programs were supportable, allowable and accurate. Therefore costs charged to the Foster Care ($25,914), Adoption Assistance ($23,813) and TANF (15,210) programs are considered questioned costs.

Fringe benefit costs charged to Federal programs for the quarters ended December 31, 2003, and March 31, 2004, were incorrect.

*Cause:* The Department's method for allocating workers' compensation costs does not reflect the proportional share of costs borne by its facilities.

The overpayment was apparently not reviewed by supervisory personnel. The State of Connecticut implemented a new accounting/human resource system during the fiscal year ended June 30, 2004. Position account coding information was automatically transferred from the former systems into the new system. The conversion resulted in some position codings being incorrectly coded. The Department discovered that the position was coded incorrectly in June of 2004 and subsequently corrected the coding.

The Department accepts the training percentage communicated to it by the provider and does not require documentation from the provider in support of the percentage.

Starting with the November 14, 2003, payroll, the State of Connecticut began to charge the employer share of certain fringe benefits on an actual cost basis. State agencies were informed of this change via a financial daily e-mail communicated to the agencies in December of 2003. The Department did not become aware of the new methodology until informed by the auditors. Once informed, the Department recalculated fringe benefit costs claimed for the quarters ended December 31, 2003, and March 31, 2004, and reported the amended amounts on Federal reports for the quarter ended June 30, 2004.

*Recommendation:* The Department should amend its PACAP by incorporating a method for allocating workers compensation costs on a more representative basis. The Department should also ensure that percentages used to allocate costs are properly supported and should promptly amend its PACAP when any of the events identified in 45 CFR 95.509 occur.

*Agency Response:* "We agree with this finding in part. While the Department agrees that there may be more precise methods to allocate various cost components, the Department correctly followed the approved cost allocation plan in allocating workers' compensation costs based on staffing. The Department utilizes this same allocation methodology to allocate all central office costs that benefit the full range of agency activities. While one component of costs may seem to be imprecise in a particular year, the cost allocation process in total is still fairly presented. The Department will review its current cost allocation plan for possible improvements. The Department agrees with the other findings presented above. The Department will adjust its Federal claims for the incorrectly allocated payroll transaction and seek additional documentation from its contractor to support the training costs reported. The Department has already corrected its claims to reflect the appropriate fringe benefit costs."

## III.E.2. Reporting – Quarterly Claims

**Foster Care-Title IV-E (CFDA #93.658)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1401 and G-0401CT1401**

**Adoption Assistance (CFDA #93.659)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1407 and G-0401CT1407**

*Background:* The Department's statewide automated child welfare information system maintains data related to board and care payments made from the Department's board and care checking account on behalf of Department placed children. The information system, however, does not generate the reliable reports needed to prepare Federal financial report Form ACF-IV-E-1. Instead, 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, which is entered by the Department's Revenue Enhancement Unit, with data from board and care payments made on behalf of each child that is downloaded from the Department's information system.

*Criteria:* Good internal controls provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency include all the activity of the reporting period and are supported by underlying accounting records.

*Condition:* We compared the quarterly board and care payments reported on the consultant's reports to the quarterly board and care payments reported from the Department's information system for the three quarters ended March 31, 2004. We noted variances between the quarterly reports in each of the quarters. The differences were $34,169, ($32,466) and $7,963 for the quarters ended September 30, 2003, December 31, 2003 and March 31, 2004, which amounted to $9,667 more in payments reported from the Department's checking account than amounts reported on the consultant's reports.

*Effect:* Quarterly claims submitted to the Federal Department of Health and Human Services (DHHS) may not accurately reflect the Department's disbursements.

*Cause:* The Department does not reconcile the consultant reports to reports produced from its child welfare information system.

*Recommendation:* The Department should establish controls to ascertain that 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 DHHS for reimbursement are based on expenditures actually made by the Department.

*Agency Response:* "We agree with this finding. The Department implemented a modification to our LINK computer system in June 2003 that was intended to address this issue. While the modification resulted in the same accounting data being used for both the Child Welfare reconciliation process as the Title IV-E claiming process, there remains an issue regarding the posting of re-issued payments to prior accounting periods. The Department will explore a manual reconciliation process for these transactions while continuing to explore a systematic solution within the LINK application."

## III.E. 3. Allowable Costs / Eligibility – Inadequate Documentation - Foster Care Recipients

**Foster Care-Title IV-E (CFDA #93.658)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1401 and G-0401CT1401**

*Criteria:* Foster care benefits may be paid on behalf of a child only if the following requirements are met:

- The State must provide documentation that the foster family home provider has satisfactorily met a criminal records check with respect to prospective foster parents (45 CFR 1356.30(a) and (b)).

- The provider, whether a foster family home or a child-care institution, must be fully licensed by the State foster care licensing authority. Anything less than full licensure is insufficient for meeting IV-E eligibility requirements (45 CFR 1355.20(a)(2). The foster family's home 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 is entered into the Department's child welfare information system (DCF Policy Manual Section 41-17-13).

- A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered foster care and at least once every 12 months thereafter while the child is in foster care. If a judicial determination regarding reasonable efforts to finalize a permanency plan is not made within this timeframe, the child is ineligible at the end of the 12$^{th}$ month from the date the child was considered to have entered foster care or at the end of the month in which a subsequent judicial determination of reasonable efforts was due. The child remains ineligible until such judicial determination is made (45 CFR Section 1356.21(b)(2)).

Adequate internal controls would include maintaining original documentation that would support the expenditure being claimed for Federal reimbursement.

*Condition:* We randomly selected 36 maintenance transactions from a population of 44,028 Foster Care claims identified on "*Federal Claims Detail Reports*" prepared by the Department for the State fiscal year ended June 30, 2004. Four additional maintenance payments reimbursed in part by the Foster Care program were also tested as part of our Comprehensive Annual Financial Report (CAFR) testing. These transactions are included in the population noted above. The CAFR transactions were randomly selected from 83,661 provider payments totaling $238,946,665 made in the State fiscal year ended June 30, 2004.

The 44,028 claims totaled $59,229,461 ($29,614,730 FFP). The 40 transactions totaled $49,830 ($24,915 FFP) and represented payments to 27 foster care homes and 13 child care institutions.

Our testing identified the following conditions:

We found that there was inadequate documentation in three foster family provider files to indicate conclusively that an initial criminal records check had been conducted with respect to prospective foster parents. We noted for an additional seven foster family files that there was inadequate documentation regarding State licensing requirements relative to FBI and biannual State and local police checks.

For all but two of these 10 cases, the Department documented that the providers were licensed and thus the cases were eligible for reimbursement under the Federal Foster Care program. One case that was not documented as licensed represented a case in which the child had been placed in an out-of-state residence. For the second case not documented as licensed, documentation of a valid license could not be found in the provider file or in the Department's child welfare information system.

For one out of the 40 transactions tested, the Permanency Plan Order for the service period could not be located.

For 18 out of 20 transactions tested, the Department did not have original court orders on file. The Department used photocopies of court orders to determine Foster Care IV-E eligibility,

*Effect:* The 11 transactions lacking adequate documentation represented $3,291 in questioned costs at the 50 percent Federal reimbursement rate. For two of the 11 transactions where we did not find documentation that we considered adequate, the Department could not demonstrate that the foster parents were licensed. Thus, for these two transactions questioned, we consider the cost to represent improper payments because the two 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 $697 at the 50 percent Federal reimbursement rate. This $697 in improper payments is included in the $3,291 in questioned costs.

The lack of original court orders in the Department's files lessens the Department's assurance relative to the authenticity of the order.

*Cause:* 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 as part of its re-licensing procedures. Because the Federal Foster Care program will only reimburse Foster Care payments made to licensed foster parents, the additional law enforcement checks must be documented as having met State licensing requirements. 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 court orders are not always obtained from the court in a timely manner. The Department uses copies of the orders to accelerate the Foster Care Title IV-E eligibility process.

*Recommendation:* The Department should improve its system of controls to eliminate these types of errors by ensuring that claims for reimbursement for Foster Care-Title IV-E maintenance costs are adequately documented prior to filing such claims with the Federal government. The Department should also obtain original or certified court orders and file such documents in the child's case record.

*Agency Response:* "We agree with this finding. The Department will correct its IV-E claim and review its policies regarding the maintenance of Foster Care file documentation and review these procedures with staff involved in the process."

## III.E.4. Allowable Costs / Eligibility – Inadequate Documentation/Ineligible Adoption Assistance Recipients

**Adoption Assistance (CFDA #93.659)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1407 and G-0401CT1407**

*Criteria:* A State must provide documentation that criminal records checks have been conducted with respect to prospective adoptive parents (45 CFR 1356.30(a) and (b)). 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 the Department's child welfare information system (DCF Policy Manual Section 41-17-13).

A child is eligible to receive adoption assistance subsidy payments if the child: is Title IV-E Foster Care eligible; is eligible for the former Aid to Families with Dependent Children (AFDC) program; or is eligible for SSI (42 USC 673(a)(2)(A)).

The agreement for the subsidy must be signed and in effect before the final decree of adoption (45 CFR Section 1356.41).

Adequate internal controls would include maintaining original documentation that would support the expenditure being claimed for Federal reimbursement.

*Condition:* We randomly selected 37 adoption assistance subsidy payments from a population of 35,024 Adoption Assistance claims identified on *"Federal Claims Detail Reports"* prepared by the Department for the State fiscal year ended June 30, 2004. Three additional subsidy payments reimbursed in part by the Adoption Assistance program were also tested as part of our CAFR testing. These transactions are included in the population noted above. The CAFR transactions were randomly selected from 83,661 provider payments totaling $238,946,665 made in the State fiscal year ended June 30, 2004. The 35,024 claims totaled $26,973,774 ($13,486,887 FFP). The 40 transactions totaled $28,026 ($14,013 FFP). Our testing identified the following conditions:

We could not determine compliance with Federal laws and regulations regarding criminal records checks for 19 of the 40 transactions tested. In 12 out of the 19 transactions, the Department could not locate the adoptive parents' files. For the remaining seven transactions, for which the files were provided, we could not locate the criminal records checks in the files.

The Department erroneously determined two children as eligible for the Adoption Assistance program based on the Department's placement of the children in the homes of relatives by whom they were later adopted. Even though the children did not qualify for any of the three required programs, the Department concluded the children were eligible for the Adoption Assistance program. These two transactions were also identified as having inadequate documentation relative to criminal records checks noted above.

For one transaction, we could not locate the adoption decree in the Department's files; therefore, we were unable to determine whether the agreement for the subsidy was signed and in effect before the final decree of adoption.

For seven transactions, the Department did not have the original adoption decrees on file. DCF used photocopies of the decrees to determine if the children were eligible for Adoption Assistance.

*Effect* The 20 transactions lacking adequate documentation represented $6,382 in questioned costs at the 50 percent Federal reimbursement rate. For the two payments made on behalf of ineligible children, we consider the payments to represent improper payments. The two improper payments represent $483 at the 50 percent Federal reimbursement rate. This $483 in improper payments is included in the $6,382 in questioned costs.

The lack of original adoption decrees in the Department's files lessens the Department's assurance that the subsidy agreements were signed prior to the finalization of the adoption decrees.

*Cause:* We could not determine if the Department misplaced the case files or the content in the files or if it did not acquire the needed documentation.

The Department's misinterpretation of Adoption Assistance eligibility requirements led to the wrong eligibility determination of the children.

We were informed that the Department did not receive the adoption decree from the court system to include in the case file. Also, the Department's request of decrees from the courts can be a difficult and slow process. The Department uses copies of the adoption decrees to quicken the Adoption Assistance eligibility determination procedure.

*Recommendation:* The Department of Children and Families should make certain that it properly determines children as eligible for Adoption Assistance subsidy payments and that it adequately maintains adoption files that support Federal requirements. The Department should also obtain original or certified adoption decrees and file such documents in the child's case record.

*Agency Response:* "We agree with this finding. The Department will correct its IV-E claim and review its policies regarding the maintenance of adoption file documentation and review these procedures with staff involved in the process."

## III.E.5. Procurement and Suspension and Debarment – Procurement Activities

**Foster Care-Title IV-E (CFDA #93.658)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1401 and G-0401CT1401**

**Adoption Assistance (CFDA #93.659)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0301CT1407 and G-0401CT1407**

**Temporary Assistance for Needy Families (TANF) (CFDA #93.558)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**

**Federal Award Numbers: G0301CTTANF and G0401CTTANF**

**Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers 05-0305CT5028 and 05-0405CT5028**

*Criteria:* States contracting for goods and services paid for in part with Federal funds must ensure that payments are not made to parties that have been debarred, suspended or otherwise excluded from participating in Federal programs (45 CFR 92.35).

*Condition:* Our review of the Department's procurement procedures disclosed that the Department does not determine whether vendors providing goods or services have been excluded from participating in Federal programs.

*Effect:* The Department has lessened assurance that vendors providing goods and services have not been excluded from participating in programs financed with Federal funds.

*Cause:* The Department does not have procedures in place that verify that a vendor is not suspended or debarred or otherwise excluded.

*Recommendation:* The Department should implement procedures that ensure that vendors providing goods and services to the Department have not been suspended, debarred or excluded from Federal programs.

*Agency Response:* "We agree with this finding. The Department will implement a system for reviewing potential contractors against the HHS Office of the Inspector General's List of Excluded Individuals/Entities prior to executing such contracts."

### III.E.6. Allowable Costs/Cost Principles–Computer Purchase Non Major Program

**Chafee Foster Care Independence Program (CFDA #93.674)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: State Fiscal Years 2001-2002, 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0201CT1420, G-0301CT1420 and G-0401CT1420**

*Background:* At the request of the Department of Children and Families we have performed a special review of the Adolescent Services Unit, including the administration of the Federally funded John F. Chafee Foster Care Independence Program (Chafee) (CFDA #93.674) within the Department of

Children and Families. This finding and findings III.E.7. and III.E.8. resulted from that review. These three findings are being included in this Schedule of Findings and Questioned Costs because they identify known questioned costs exceeding $10,000 for a non-major program.

The Department of Children and Families' Adolescent Services Unit is primarily responsible for the administration of programs funded by the John F. Chafee Foster Care Independence Program. Title I of the Foster Care Independence Act of 1999, as amended by Public Law 106-169 and codified as 42 U.S.C. 677, enacted this program, which helps ensure that young people involved in the foster care system get the tools they need to make the most of their lives.

According to the Catalog of Federal Domestic Assistance (CFDA), the Chafee Foster Care Independent Living Program is the formula grant "to assist States and localities in establishing and carrying out programs designed to assist foster youth likely to remain in foster care until 18 years of age and youth who have left foster care because they attained 18 years of age and have not yet attained 21 years of age, to make the transition from foster care to self-sufficiency."

*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 the benefits received. Expenditures must directly benefit the Federal program for it to be an allowable cost for that program. Circular A-87 also states that costs must be authorized or not prohibited under State or local laws or regulations.

*Condition:* During February 2002, ten laptop computers were purchased with Chafee funds, five of which were determined to be inappropriate purchases. Four of the computers were provided to the members of the Adolescent Services Unit that administers Chafee programs, one computer was provided to a consultant to perform Adolescent Services Unit work at home, and five were provided to a Non-Chafee program related Department Bureau Chief and four of the Bureau Chief's staff members.

*Effect:* We consider the $11,440 used to purchase the five computers that were not used to benefit the program to be questioned costs.

*Cause:* We were unable to determine why the Department purchased computers with Chafee funds and distributed them to staff who were not in that unit.

*Recommendation:* The Department should ensure purchases from the Chafee funds directly relate to the program from which they were purchased.

*Agency Response:* "We agree with this finding. The Fiscal Division has clarified the responsibility of programmatic grants managers to ensure that all purchases made with grant funds are in support of the specific grant. The present practice in the Adolescent and Transitional Services Bureau is for the entire team to discuss and review the spending plan before it is signed off by the Bureau Chief in order to ensure that all future use of funds will relate directly to related programming."

### III.E.7. Allowable Costs/Cost Principles – Gift Cards Non Major Program

**Chafee Foster Care Independence Program (CFDA #93.674)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: State Fiscal Years 2001-2002, 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0201CT1420, G-0301CT1420 and G-0401CT1420**

*Background:* See the Background section in finding III.E.6.

Gift cards from such department stores as Kohl's, Target and Wal-Mart were purchased, in various denominations under $100 dollars, with Chafee funds during all three audited years.

In interviews with Adolescent Services Unit staff, we were informed that gift cards were used for a wide range of reasons. Gift cards were:

- Frequently distributed at functions and events;
- Used as incentives for the youth to do extra activities or participate in various programs;
- Used as 'thank–you' awards for youth participating on boards and committees;
- Given to providers. We were informed by the staff that, for many providers that were under per diem arrangements with the Department rather than service contracts, the gift cards provide extra resources for their program. We were also informed that gift cards were given to providers for the purchase of incentives for kids participating in their programs, and were used for miscellaneous items needed at their facilities.

*Criteria:* The Department's Child and Family Services Plan, effective for years 1999 to 2004, included a required certification by the chief executive officer of the State, stating that the State has established and will enforce standards and procedures to prevent fraud and abuse in the programs carried out under the plan.

Good internal controls should include accountability of high-risk items such as gift cards through proper documentation of the purchases and a comprehensive inventory for tracking the items to ensure they were distributed to the appropriate population.

*Condition:* Our review found that the gift cards purchased by the Department were completely unaccounted for. Our review of expenditures during the audited period found numerous instances of purchases of gift cards. We noted that policies and procedures had not been established to account for how much was spent for the gift items, for what purpose the gift card could be given, which Unit employee distributed the items, to whom they were distributed, when they were distributed, and any inventory of what was still on hand.

The Department could not determine if the gift cards purchased with Chafee funds were used to benefit the youth in the Chafee programs, or were used for allowable activities under program rules.

*Effect:* Identifiable purchases of gift cards directly charged to Chafee funds totaled $40,649 over the three State fiscal years reviewed. This included $3,980, $16,018, and $20,651 in fiscal years ended June 30, 2002, 2003, and 2004, respectively. Because these gift card expenditures lacked adequate documentation in regard to whom they were given and how they benefitted the purposes of the Chafee program, we consider the $40,649 to be questioned costs.

*Cause:* The Department did not implement adequate policies, procedures and internal controls to ensure accountability for the gift cards that were purchased from Chafee funds.

*Recommendation:* The Department should implement adequate policies and procedures, including an inventory system for the gift cards that it purchases.

*Agency Response:* “We agree with this finding. The Adolescent and Transitional Services Bureau has established a new policy to address the management of gift cards. The gift cards are now centralized under one manager with a requirement for sign-out, rationalization for award and identification of each child provided the gift card.”

### III.E.8. Allowable Costs/Cost Principles–Promotional Purchases Non Major Program

**Chafee Foster Care Independence Program (CFDA #93.674)**
**Federal Award Agency: Department of Health and Human Services**
**Award Years: State Fiscal Years 2001-2002, 2002-2003 and 2003-2004**
**Federal Award Numbers: G-0201CT1420, G-0301CT1420 and G-0401CT1420**

*Background:* See the Background section in finding III.E.6.

The Annual Department of Children and Families' ConnectiKids Celebrity Golf Tournament is held by the Newington Rotary Club each year, with a portion of the net proceeds donated to the Department of Children and Families' 'Our Kids Funds,' a non-Chafee account administered by the Department. These funds are maintained in checking accounts at the Department's regional offices, and are used for gifts and other special items for all foster children.

*Criteria:* The Department's Child and Family Services Plan, effective for years 1999 to 2004, included the required certification stating that the program will be operated in an effective and efficient manner, and that the funds will be administered in compliance with regulations and policies governing the administration of grants. Quoted regulations included OMB Circular A-87, which establishes cost principles applicable to Federal grants. A basic tenet of Federal allowability of costs is that the funds must be spent only on the specific program(s) associated with the grant.

*Condition:* Our review disclosed that same Chafee funds were used for the Departmental ConnectiKids Celebrity Golf Tournament that had no connection to the Chafee program.

Our review of expenditures during the audited period found numerous instances of miscellaneous purchases for gifts and/or promotional materials. Although some expenditures were for promotional give-away items used during Chafee funded events, other funds were used to purchase Annual ConnectiKids Golf Tournament gift materials and were frequently not supported with request and approval documentation. Further research showed that there was a complete lack of accountability over these items and that the items did not benefit the Chafee program.

*Effect:* Financial resources available and directly spent on the target youth in the Chafee programs were significantly reduced by the use of Chafee funds for unallowable purchases.

Identifiable expenditures for promotional items for the annual golf tournament totaled $10,895. This figure included $5,422, $3,808 and $1,665 for fiscal years ended June 30, 2002, 2003, and 2004, respectively. We consider these expenditures to be questioned costs.

*Cause:* The Department did not determine specific program requirements, and create or implement adequate policies, procedures and internal controls to ensure accountability and compliance with general Federal and State rules, and specific Chafee program requirements.

*Recommendation:* The Department should make certain that Chafee funds expenditures are for events directly related to the Chafee Independent Living Program objectives, sufficiently documented and fully accounted for.

*Agency Response:* "We agree with this finding. The Fiscal Division has clarified the responsibility of programmatic grants managers to ensure that all purchases made with grant funds are in support of the specific grant. The present practice in the Adolescent and Transitional Bureau is for the entire team to discuss and review the spending plan before it is signed off by the Bureau Chief in order to ensure that all future use of funds will relate directly to related programming."

# 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 2002-2003 and 2003-2004**
**Federal Award Numbers: S010A020007 and S010A030007**

**Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H027020021 and H027A030021**

**Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H173A020024 and H173A030024**

**Improving Teacher Quality State Grants (CFDA # 84.367)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: S367A020006 and S367A030006**

*Background:* In our 2001 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 the prior Single Audit period.

*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, 2004. While the Department's monitoring controls were able to identify current period non-complying Local Education Agencies, those controls were not able to prevent excess cash drawdowns for local districts not identified for individualized tracking.

For its own internal control purposes, the Department identified all LEAs with total State and Federal excess cash balances in excess of $50,000 and 10 percent of payments. For the twenty-eight LEAs meeting this criteria, the excess cash balances for our major Federal programs were identified and summarized as follows:

| Program: | Number of LEAs | Excess Cash |
|---|---|---|
| Title 1 | 22 | $ 986,349 |
| IDEA (Cluster) | 25 | 1,862,521 |
| ITQSG | 25 | 678,349 |
| | | $ 3,527,219 |

The results reflect fiscal year ended June 30, 2004, 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. The Department has not yet implemented its reimbursement method for payments for those LEAs that remain significantly out of compliance. The audits conducted by Independent Public Accountants do not routinely identify the excess cash drawdowns made by the LEAs.

*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 with the finding. We are continuing to collect quarterly actual cash disbursement reports with a stricter threshold for required submission. This year, grantees with balances in excess of $50,000 and 10 percent of payments in FY2004 must file. The threshold for the two previous years was $100,000 and 25% in FY2002, and $100,000 and 10 percent in FY2003.

In addition to collecting the disbursement reports, we have identified eight grantees that have not shown improvement in their cash management practices over the three-year period. These grantees will be required to submit remediation plans and will be placed on the reimbursement method of payment next fiscal year unless improvement is noted and sustained.

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

### III.F.2. Allowable Costs/Cost Principles – Certifications, Attendance and Timesheet Procedures

**Title 1, Part A Improving Basic Grants (CFDA# 84.010)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: S010A020007 and S010A030007**

**Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H027020021 and H027A030021**

**Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H173A020024 and H173A030024**

**Improving Teacher Quality State Grants (CFDA # 84.367)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: S367A020006 and S367A030006**

*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 the generally accepted practice of the governmental unit and approved by a responsible official (s) of the governmental unit."

In addition, OMB Circular A-87, Attachment B, Section (h)(3) requires that, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

The establishment and maintenance of uniform certification, attendance and timesheet policies and procedures is central to an effective time and attendance system. Effective certification, 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 certifications, 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:* During the audited period the Department did not obtain any periodic certifications for its Federally funded employees. Our testing of a sample of ten Federal payroll transactions revealed the following deficiencies:

- Ten of ten Federal payroll transactions tested were not supported by the required periodic certifications: Four from Title 1, four from IDEA and two from ITQSG.

- Ten of ten Federal payroll transactions tested did not have properly approved timesheets.

Many of the Regional Vocational Technical Schools (inclusive of our sample) 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.

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 to certify those activities. Further, the attendance recordkeeping system upon which the Directors have based their payroll authorizations cannot be relied upon. Our Departmental Audit Report for the period ending June 30, 2002, included a recommendation to that effect and was agreed to by the Department.

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

*Cause:* Due to staffing changes, the tasks associated with the production of periodic certifications were not performed as they had been in previous periods.

Attendance and timesheet controls are inconsistently applied throughout the Regional Vocational Technical Schools.

*Recommendation:* Uniform certification, attendance and timesheet procedures should be established and maintained by the Department. Certifications should be obtained for all Federally funded employees. 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 the findings. The agency will research payroll data back to October 2003, and retroactively prepare the information necessary to comply with the Federal requirements for employees who work solely on a single Federal award or cost objective. Future certifications will be prepared for semi-annual periods and will be signed by the supervisory official.

As for the finding regarding certifying staff work activities: On January 21, 2005, the Superintendent issued a memorandum to all Connecticut Technical High School Principals, Assistant Principals and Business Offices outlining the revised guidelines for sign-off procedures for employee timesheets. Time and attendance documents are expected to be reviewed and approved by the supervisory official having first hand knowledge of the work performed by the employee.

All approved source documents shall be forwarded and maintained in the school business office where the school business manager has the responsibility for ensuring the accurate transcribing of time and attendance data into the Human Resource Management System."

## III.F.3. Procurement and Suspension and Debarment – Lack of Certifications

**Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H027020021 and H027A030021**

*Criteria:* The OMB Circular A-133 Compliance Supplement requires that, "Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. As of that date only those procurement contracts for goods and services awarded under a nonprocurement transaction that are expected to equal or exceed $25,000 or meet certain other specified criteria are considered "covered transactions." This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity."

*Condition:* Our review found that the Department did not perform any of the required verifications for its contracts or sub-awards of Federal funds during the period. Our initial sample testing included two Personal Service Agreements funded from the major Federal assistance program IDEA Part B, which did not have the required certifications. Our initial and extended testing found other instances of missing certifications for covered transactions but no additional exceptions involving our major Federal Assistance Programs.

*Effect:* While there was no indication that the Department of Education transacted with a debarred or suspended entity, the failure to obtain the required certifications increases the risk that such an entity may receive Federal funds from the Department.

*Cause:* Due to staffing changes, the tasks associated with the performance of verification procedures were not performed as they had been in previous periods.

*Recommendation:* The Department should comply with OMB Circular A-133 – Suspension and Debarment requirements by performing one of the permitted verification procedures for its covered transactions.

*Agency Response:* "We agree with this finding. The agency will ensure that proper verification procedures are followed so that an entity, for which the agency enters into a transaction, is not suspended or debarred or otherwise excluded for qualifying grant transactions and Personal Service Agreements. Agency staff have been notified and instructed to ensure that the appropriate certifications are to be on file for all Personal Service Agreements.

In the case of Requests for Proposals awarded through the agency grant process, a memorandum will be sent to staff reminding them that certifications are required as part of the award process and must be on file before an award letter can be issued."

## III.F.4. Allowable Costs/Cost Principles – Support for Adjusting Payroll Journal Entries

**Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: H027020021 and H027A030021**

**Improving Teacher Quality State Grants (CFDA # 84.367)**
**Federal Award Agency: U.S. Department of Education**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: S367A020006 and S367A030006**

*Criteria:* OMB Circular A-87, Attachment B, Subsection (h)(4) requires in part that, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on: (a) More than one Federal award, and/or (b) A Federal award and a non-Federal award." Furthermore, OMB Circular A-87, Attachment B, Subsection (h)(5) allows the use of budgetary estimates provided that they are reasonable approximations and that at least quarterly they are compared to actual costs.

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Good business practice requires that adjustments to payroll disbursements, employee accounts and account distributions should be properly authorized and supported with sufficient documentation.

*Condition:* Our review of payroll expenditures included the testing of five adjusting journal entries made during the fiscal year ended June 30, 2004. Those adjustments had an absolute value of $307,060 and represented the movement of payroll charges for several employees among four Federal programs and three State programs:

Federal Programs:

- CFDA #84.027 – Special Education Grants to States
- CFDA #84.186 – Safe and Drug Free Schools
- CFDA #84.126 – Rehabilitation Services
- CFDA #84.367 – Improving Teacher Quality State Grants

State Program:

- State: SID 10010
- State: SID 12274
- State: SID 12290

Two of the Federal programs (CFDA #84.027, #84.367) were included as major programs in our single audit review of the Department.

Our review found incomplete documentation supporting the adjusting entries. The available documentation was primarily composed of memos and payroll earnings reports. In several instances the memos discussed what appeared to be budgetary concerns as the reasons given for some of the transfers. We were unable to determine from the available support how the adjustments for the employees related to the actual hours worked on the respective Federal and State programs. Specifically, the adjustments were made without any evidence and/or certification that the employees worked on the respective Federal programs for the adjustment periods indicated. The Department was unable to provide us with any additional supporting documentation.

The adjusting transactions reviewed were essentially off-setting in amount for the indicated programs

*Effect:* In the absence of sufficient supporting documentation, payroll accounts and the resulting charges to Federal programs may be misstated because of incorrect adjustments or incorrect reclassifications of distributed amounts.

*Cause:* The sample adjusting journal entries were not supported by personnel activity reports, or equivalent documentation, nor certified by the appropriate supervisor.

*Recommendation:* The Department should take steps to ensure that adjusting journal entries that move payroll charges between Federal and State programs are supported by personal activity reports that detail the hours and programs worked on and that the adjustments are certified by the appropriate supervisor.

*Agency Response:* "We agree with this finding. The agency will develop a new adjustment/correction form for payroll expenditure adjustments that involve a change in fund or special identification. Required documentation certifying that the employees performed work relating to the program shall be filed."

## III.F.5. Allowable Costs – Non-Major Program

**Migrant Education-State Grant Program (MEP)(CFDA # 84.011)**
**Federal Award Agency: U.S. Department of Education (USDOE)**
**Award Years: Federal Fiscal Years 2002-2003 and 2003-2004**
**Federal Award Numbers: S011A030007 and S011A040007**

*Criteria:* Office of Management and Budget (OMB) Circular A-133 §510 (a) (4) requires known questioned costs in excess of $10,000 for a Federal Program that would otherwise not be audited as a major program for the current year, to be reported in the State Wide Single Audit. Further, OMB Circular A-133 §510 (a) (6) requires known fraud not otherwise reported to be included in the State Wide Single Audit.

According to regulations contained in 34 Code of Federal Regulations (CFR) §200.81 and 200.82 (a), and United States Department of Education (USDOE) guidance for the Migrant Education Program (MEP), it is incumbent upon the State Education Agency (SEA) to ensure that only eligible students receive the benefits of the program.

*Condition:* The USDOE discovered fraud in conjunction with eligibility determinations for MEP in several States. As a result of this discovery, the USDOE requested that each state confirm the eligibility of the students receiving MEP benefits in their jurisdiction. The investigation conducted in the State of Connecticut revealed that the number of confirmed ineligible students far outnumbered the number of confirmed eligible students in five out of the nine districts eligible for MEP funds in the State of Connecticut. Data for four of the five districts with large numbers of confirmed ineligibility were reviewed. Per-pupil data was not readily available at the time of testing, so data for reassessed Certificates of Eligibility (COE) new for fiscal year 2004 were used.

In these four districts, the number of confirmed ineligible COE represented approximately 25 percent of those students receiving benefits under MEP. Conversely, the number of COE where eligibility was confirmed represented approximately six percent of the sample. Therefore, COE in the sample with questioned eligibility represented 94 percent of the sample.

In terms of grant dollars, the total expended by the nine districts for the 2004 fiscal year was $2,514,399. The total amount expended by the four districts in the sample was $1,305,839. Based on the sample data, the amount of questioned costs for ineligible students for the 2004 fiscal year may be estimated at between $329,060 (25 percent of grant expenditures in sample) and $1,218,657 (94 percent of grant expenditures in sample).

It should be noted that Federal authorities are conducting an investigation in Connecticut in this regard. Until their investigation is complete, more precise estimates will not be available.

It should be further noted that the money set aside for program administration is a calculated percentage of the total grant received from the USDOE. Since a portion of the information submitted to the USDOE to obtain the grant is questionable, it may be argued that an equivalently proportional amount of the funds set aside for administrative purposes are also questionable. Since the amount of funds set aside for program administration is not material, and maintenance of this amount was not determined to be a reasonable motive for a deliberate fraudulent act, potentially questionable administrative funds were not investigated further for this period.

*Effect*: The number of students reported as eligible for the program has been overstated in reports to the USDOE. As a result of the overstatement, the State of Connecticut has received funding from the USDOE based on incorrect information. Additionally, the grant dollars expended for ineligible students constitutes a misuse of Federal grant dollars.

Further, the subrecipient grant process was impacted by the faulty eligibility data. The faulty data was used to allocate funds. The districts providing accurate data received a smaller portion of the grant than they should have; those providing faulty data received more.

*Cause*: The controls employed by the SEA and its representative agency were not sufficient to prevent ineligible students from receiving benefits under MEP.

*Recommendation*: The State Department of Education should improve the policies and procedures over participant eligibility determination for the Migrant Education Program such that the new policies and procedures ensure that only eligible students receive benefits under the program.

*Agency Response*: "We agree. The CSDOE [Connecticut State Department of Education] initiated a voluntary re-interviewing process at the request of the USDOE. This was due to significant problems that occurred with the MEP in states other than Connecticut. As noted, federal authorities are investigating and estimates of questioned grant funds have yet to be confirmed. For the award years noted in this finding, the CSDOE will work with appropriate federal authorities to identify grant dollars inappropriately spent. The CSDOE is reviewing and updating policies and procedures over the MEP to provide assurances that only eligible students receive benefits. These additional procedures will include continuance of the re-interviewing process for all new Certificates of Eligibility."

## G. UNIVERSITY OF CONNECTICUT SYSTEM

### III.G.1. Allowable Costs and Matching (University of Connecticut)

**Federally-Sponsored Research and Development Programs**

**Federal Award Agency: Various Federal Agencies**
**Award Year: State Fiscal Year Ended June 30, 2004**
**Research and Development Programs**

*Criteria:* OMB Circular A-21 establishes the cost principles to be used by Institutions of Higher Education in administering Federal Grants. OMB Circular A-110 establishes the administrative standards for meeting matching and level of effort requirements.

*Condition:* An investigation conducted by the U.S. Attorneys Office, the Defense Criminal Investigative Service, the U.S. Army Criminal Investigative Command, the Environmental Protection Agency Office of Inspector General and the Defense Contract Audit Agency Investigative Support Division reported the following:

- That the methods used by the University for charging Federal grants for the use of certain Specialized Service Facilities were not in compliance with Circular A-21 Section J.44c. Section J.44c requires that the rates charged for Specialized Service Facilities be designed to recover not more than the aggregate cost of services and that such rates be periodically reviewed. The investigation noted that UConn did not review and update their rate structure for Specialized Service Facilities since 1996.

- That the University had charged certain Federal grants for amounts relating to personal services that were in excess of maximum amounts established in Circular A-21 Section J.8.d.(2)(a). Section J.8d.(2)(a) prohibits charging Federal grants for amounts paid to faculty members for work performed in summer months that have been calculated in a manner that exceeds the faculty members normal base salary.

- That the University failed to document Federal matching requirements for certain grants in an acceptable manner and therefore failed to meet the requirements established in Circular A-110 Subpart C.23. Subpart C.23 requires that amounts claimed to meet matching requirements can be verified from the recipient's records.

*Effect:* The investigating agencies have to date identified questioned costs of $2,269,583. The investigating agencies are in the process of negotiating a settlement regarding this matter with the University.

*Cause:* The University's internal controls apparently failed to prevent or detect the aforementioned conditions in a timely manner.

*Recommendation:* The University should make a concerted effort to inform responsible personnel of the applicable administrative requirements, perform testing to assist in detecting instances of non-compliance and establish penalties for detected instances of non-compliance.

*Agency Response:* "As noted in the finding above, the University is presently in negotiations with the investigating agencies. The University will reinforce its existing education and training efforts to ensure that faculty, staff and administrators are cognizant of their compliance obligations. The University has already made changes in research administration business processes and controls, emphasizing compliance with government regulations and will continue to review and update them."

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

**Federally-Sponsored Research and Development Programs**

**Federal Award Agency: Department of Health and Human Services**
**Award Year: State Fiscal Year Ended June 30, 2004**
**Research and Development Programs:**
**Drug Abuse Research Programs (CFDA 93.279):**
**Account # 522841 – "Rapid Assessment of Drug Law & Policy in the FSU and CEE" – 1 R01-DA017002-01 from the National Institutes of Health, project period September 30, 2003 through August 31, 2008**
**Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA 93.283):**
**Account # 522762 – "Research on the Impact of Law and Policies on Public Health" – 16/CCR118660-03 from the Centers for Disease Control and Prevention, project period September 30, 2000 through September 29, 2003**

*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 using suitable means of verification - 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:* As part of our testing of payrolls processed during the 2003-2004 fiscal year, we reviewed electronically filed time and effort reports covering $80,352 of the $27,905,439 charged to Federal Research and Development Program accounts for salary payments. We found that two of the 80 charges tested were not adequately supported at the time of our review. Charges to account # 522841 and account # 522762 exceeded the percentage of effort documented in the time and effort system by $134 and $353, respectively. Additionally, we found that the integrity of the certifications made by two researchers had been compromised, as their passwords had been disclosed to others.

Similar problems were noted in our prior reviews; the Health Center took corrective action each time. 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 conditions described above lessen the reliability of the documentation produced by the time and effort reporting system.

*Cause:* The cause of the problem with accounts # 522841 and # 522762 could not be readily determined. Though the Health Center has made efforts to educate staff members as to the importance of maintaining the integrity of electronic signatures, some researchers continue to share their passwords with administrators assisting them with the review process.

*Recommendation:* Efforts to educate staff members as to the importance of never disclosing passwords for critical processes, such as the electronic certification of documents, to others should be continued. The feasibility of biometric authentication should be investigated.

*Agency Response:* "Management agrees with this finding. Problems related to accounts 5-22841 and 5-22762 stemmed from a department administrator forgetting to reconcile the reported effort to charges. Once brought to our attention, labor distribution change authorizations were filed to correct the discrepancy and ensure the charges agreed with the certified effort. Neither grant has been closed out; such a discrepancy would have been detected at closeout.

The Principal Investigators (PI) who inadvertently disclosed passwords both indicated that they sought assistance from their respective administrators when logging in to the T&E [Time and Effort] system to review and certify filings for their grants. Though they were assisted by their administrators, both PIs reviewed and certified their own T&E filings. "

## 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, 2004:

| 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

**Federal Family Education Loans (CFDA # 84.032)**
**Federal Pell Grant Program (CFDA # 84.063)**
**Federal Direct Loan Program (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:*

- 34 CFR 682.204 and 685.203 establish loan limits for subsidized and unsubsidized loans for the Federal Family Education Loans (FFEL) and Direct Loan programs, respectively. Limits are based on graduate/undergraduate enrollment, dependent/independent status, and class rank (determined by the University according to the number of credits earned). Eligibility for subsidized loans is based on financial need, which is defined as the student's cost of attendance less expected family contribution and other resources.

- The US Department of Education publishes annually the Pell Payment Disbursement Schedules. The amount of each student's Pell Grant is partially based on the student's courseload. The students' courseload should be supported by their registration record in the institution's information system.

- Pell Grant awards are based, in part, on a student's enrollment status, which should be supported by all institutional records.

*Condition:*

- Incorrect Subsidized/Unsubsidized Loans
  At Central Connecticut State University (CSU), from a sample of 14 students selected for eligibility testing, we noted that automated procedures established in the University's information system enabled one student to receive a subsidized Direct Loan for $2,000 more than the student was eligible for. We noted another instance in which a student received an unsubsidized Direct Loan for $437 more than the student were eligible for. We are treating these amounts as questioned costs. We also noted one instance in which a student's award package was incorrectly distributed between Direct Stafford Loans and Direct PLUS Loans because of the weakness in this automated procedure.

  At Eastern CSU, from a sample of eight students selected for eligibility testing, we noted that a manual procedure performed in the awarding process did not detect an inconsistency between the reported class rank and credits earned for one student. As a result, the student received $437 in a subsidized FFEL loan for which the student was not eligible. We are treating this amount as a questioned cost.

- Pell Overaward
  At Central CSU, from a sample of 14 students selected for eligibility testing, we noted one student who received $506 more in Pell Grant awards than the student was eligible for. We are treating this amount as a questioned cost.

- Information System Inconsistency
  At Capital (Community College) CC, from a sample of five students selected for eligibility testing, we noted one student whose Pell Grant was based on enrollment of nine credits. When we conducted our review, academic history records in Banner, the College's information system, reflected enrollment of only six credits for this student, while registration records indicated enrollment of nine credits. College staff reviewed this matter and the inconsistency has since been resolved; now the academic history and the registration records for this student both reflect enrollment of nine credits.

*Effect:*

- Incorrect Subsidized/Unsubsidized Loans
  Two students at Central CSU received Direct Loan overawards totaling $2,437, and one student at Eastern CSU received an FFEL overaward of $437. Another student's Direct Loan award package at Central CSU was distributed incorrectly between Stafford Loans and PLUS Loans.

  From this sample, we are treating $2,437 in Direct Loans from Central CSU and $437 in FFEL loans from Eastern CSU as questioned costs. The total of the Direct Loans in our sample from Central CSU was $61,962, while the total of Direct Loans at Central CSU was $22,794,910. The total of the FFEL loans in our sample from Eastern CSU was $41,735, while the total of FFEL loans at Eastern CSU was $13,648,321.

- Pell Overaward
  One student at Central CSU received a Pell Grant overaward totaling $506, which we are treating as a questioned cost. The total of the Pell Grants in our sample from Central CSU was $11,857, while the total of Pell Grants at Central CSU was $4,087,959.

- Information System Inconsistency
  The student's Pell Grant award was supported by enrollment records, but not the academic history records, in Banner.

*Cause:*

- Incorrect Subsidized/Unsubsidized Loans
  Automated or manual procedures performed in the awarding process did

not ensure compliance with Federal eligibility regulations.

- Pell Overaward
  The Pell Grant award for this student was not supported by the courseload in institutional registration records.

- Information System Inconsistency
  A problem with this student's registration records after the add/drop period resulted in the exclusion of a three-credit course from the academic history records in Banner.

*Recommendation:* These institutions should improve internal controls related to various procedures to ensure compliance with Federal student eligibility requirements.

*Agency Response:* *Central CSU:* "We agree with this finding in part. The amount of questioned costs of $2,437 in Direct Loans has been returned to the U.S. Department of Education Direct Loan Program.

The University is reviewing and will make necessary changes to its automated loan class validation procedures to make certain that students are not awarded incorrect Direct Loan amounts.

The amount of questioned costs of $506 from Pell Grants has been returned to the U.S. Department of Education Pell Grant Program.

The University Enrollment Center had incorrectly coded a drop course as a cancelled class so that the proper billing charges were not reflected to match the student's actual enrollment. The Enrollment Center will make the necessary change to the student's registration record to reflect the proper code [to match the student's actual enrollment].

Regarding the instance in which a student's award package was incorrectly distributed between Direct Stafford Loans and Direct PLUS Loans because of the weakness in this automated procedure, the Direct PLUS Loan process is not part of this automated process and PLUS loans are not awarded automatically. A PLUS loan must be requested by the parent indicating the amount of the loan that the parent would like to borrow; the University verifies that there is sufficient eligibility for the PLUS loan. The parent requested the amount of the PLUS loan that was awarded and [this] was not an incorrect distribution between Direct Stafford and Direct PLUS loans."

*Eastern CSU:* "We agree with the finding. This type of problem seldom happens and was caused when we began batch processing of aid awards instead of doing them one at a time. In the past, the output was reviewed by a part-time employee who had several other responsibilities. Beginning in September 2004, the output has been monitored by a full-time employee to preclude this type of error from occurring."

*Community Colleges:* "We agree with this finding. The College is confident that this finding is an anomaly. The institution's policy is to roll grades to academic history and will work to ensure its internal controls are sound and proper."

### III.H.2. Eligibility – Satisfactory Academic Progress Policies

**Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)**
**Federal Family Education Loans (CFDA # 84.032)**
**Federal Work-Study Program (CFDA # 84.033)**
**Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)**
**Federal Pell Grant Program (CFDA # 84.063)**
**Federal Direct Loan Program (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* 34 CFR 668.16 sets standards of administrative capability and requires that institutions that participate in the Title IV programs establish, publish, and apply reasonable standards for determining whether a student is maintaining satisfactory academic progress (SAP) in his or her educational program. These standards must include specific elements such as a qualitative component, which consists of grades, and a quantitative component, which consists of a maximum timeframe in which a student must complete the program.

*Condition:* We reviewed the SAP policies of a number of the State's higher education institutions. We noted numerous instances in which these policies do not meet Federal requirements.

<u>UConn</u>:

- The SAP policy states that undergraduate students may be considered for financial assistance until they have attempted 187 credits. Federal regulations require that the maximum timeframe in which a student must complete his or her educational program be no longer than 150 percent of the published length of the educational program. The published length of the majority of UConn's undergraduate programs is 120 credits; therefore, the maximum timeframe allowable would be 180 attempted credits.
- The policy does not specifically define the effect of course incompletes,

withdrawals, repetitions, and noncredit remedial courses on SAP.
- The policy does not explain the applications of standards to part-time students.
- The policy does not provide specific procedures for a student to re-establish that he or she is maintaining SAP.

Southern Connecticut State University (CSU):
- The policy does not contain a qualitative component.
- The policy does not specifically define the effect of course withdrawals for graduate students and full-time undergraduates. It also does not define the effect of course repetitions for graduate students and both full-time and part-time undergraduates.
- The policy does not provide specific procedures under which a student may appeal a determination that the student is not making SAP.
- The policy does not provide specific procedures for a student to re-establish that he or she is maintaining SAP.

Western CSU:
- The policy does not contain a qualitative component.
- The policy does not specifically define the effect of withdrawals for graduate and full-time undergraduate students. It also does not define the effect of course incompletes or course repetitions for graduate and undergraduate students.
- The appeals process appears to apply to graduate students only.
- The policy does not provide specific procedures for a student to re-establish that he or she is maintaining SAP.
- The policy does not provide for a determination of SAP at the end of each increment.

Gateway Community College (CC):
- The policy does not specifically define the effect of course withdrawals, repetitions, and noncredit remedial courses on SAP.

Three Rivers CC:
- The policy does not provide specific procedures for a student to re-establish that he or she is maintaining SAP.

Tunxis CC:
- The policy does not specifically define the effect of course incompletes and repetitions; the effect of course withdrawals and remedial courses on SAP is unclear.
- The policy does not provide specific procedures for a student to re-establish that he or she is maintaining SAP.

*Effect:* These institutions were not in compliance with Federal regulations.

*Cause:* The institutions have not established SAP polices that comply with all the requirements of 34 CFR 668.16.

*Recommendation:* These institutions should establish SAP policies that comply with the requirements of 34 CFR 668.16.

*Agency Response:* *UConn:* "We agree with this finding."

*Southern CSU:* "We agree with this finding."

*Western CSU:* "We agree with this finding that the Academic Progress Policy that was posted on the University Web site was not in compliance with Federal regulations. The University does have an established policy that contains qualitative components, as well as it addresses the other concerns listed in the audit finding. This policy is correctly listed in the University Catalog."

*Community Colleges:* "We agree with this finding. Each Community College (Gateway, Three Rivers, and Tunxis) agrees with the auditor's findings relative to shortcomings in the colleges' satisfactory academic progress policy. Each college is presently taking measures to modify its academic progress policy."

### III.H.3. Cash Management

**Federal Pell Grant Program (CFDA # 84.063)**
**Federal Direct Loan Program (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* 34 CFR 668.166 requires an institution to disburse Title IV funds to students or parents by the end of the third business day following the date the institution received those funds.

*Condition:* UConn:
The initial drawdown of Pell Grant funds for award year 2003-2004, totaling $3,445,925, was made on July 30, 2003. These funds were disbursed to students between August 14, 2003 and September 25, 2003.

Central CSU:
We noted that the university maintained an excess cash balance of $3,216,591 in Direct Loan program funds for approximately 15 days from

mid-September until early October 2003.

*Effect:* These institutions maintained excess Title IV cash in these program funds.

*Cause:* UConn:
Miscommunication between the Office of Sponsored Programs and the Financial Aid Office contributed to this condition.

Central CSU:
The University did not disburse Direct Loans to student accounts within the required timeframe and delayed the return of funds to the US Department of Education.

*Recommendation:* Procedures should be developed to ensure that excess cash is not maintained in Title IV program funds.

*Agency Response:* *UConn:* "We agree with the finding."

*Central CSU:* "We agree with this finding."

### III.H.4. Reporting – Fiscal Operations Report and Application to Participate (FISAP)

**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 Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* The instructions for completing the FISAP are contained in the *Instructions Booklet for Fiscal Operations Report for 2003-2004 and Application to Participate for 2005-2006 (FISAP)*. These instructions provide guidelines for institutions to follow in completing the *Total Tuition and Fees* and *Total Expended for State Grants Scholarships* lines on the FISAP.

*Condition:* UConn:
Amounts on the university's FISAP for Part II, Section E, Line 22 (a) and (b) – *Total Tuition and Fees* were reported as $155,886,657 and $60,189,405, respectively. A review of the supporting documentation for these figures disclosed that they should have been reported as $160,577,015 and $61,899,808, respectively.

Western CSU:

The amount reported on the university's FISAP for Part II, Section E, Line 24 – *Total Expended for State Grants and Scholarships* was $2,788,573. Our review of the underlying documentation noted that this amount should have been reported as zero.

*Effect:* Amounts initially reported to the US Department of Education were incorrect. Because our reviews were conducted before the Federal deadline for submission of these institutions' FISAPs, the correct amounts were subsequently reported. If an institution provides inaccurate data, the level of funding for its campus-based programs could be affected.

*Cause:* UConn:
Confusion related to the implementation of several new account codes in the University's accounting system and uncertainty over the reporting of other accounts were the causes for this condition.

Western CSU:
The *Instructions Booklet for Fiscal Operations Report for 2003-2004 and Application to Participate for 2005-2006 (FISAP)* states that the amount reported for State Grants and Scholarships should not include state awards if the institution has the final decision on which students receive these awards.

The amount reported consisted of Connecticut State University Grant funds and other grants and scholarships; the University makes the determination on which students receive these grants. Therefore, these grant funds expenditures should not have been included on the FISAP.

*Recommendation:* These institutions should comply with the requirements of the Instructions Booklet in preparing the FISAP.

*Agency Response:* *UConn:* "We agree with the finding."

*Western CSU:* "We agree with this finding that the reported amount on the University's FISAP for Part II, Section E, Line 24 was listed incorrectly."

## III.H.5. 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: 2003-2004**

*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:* UConn:
From a sample of 19 Title IV recipients who had credit balances in their student accounts, five recipients did not receive payment of these credit balances within the required timeframes. Credit balances between $1,141 and $7,591 were paid to students between four days and one month later than required. We also noted one student whose credit balance of $102 was applied to subsequent charges rather than being paid to the student without the student's written authorization.

Manchester CC:
We noted one student with a credit balance in his student account who did not receive payment within the required timeframe.

*Effect:* These institutions are not in compliance with the required timeframes for paying students the credit balances in their student account.

*Cause:* UConn:
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.

Manchester CC:
When a student's award is received after the semester is complete and the student has registered for future semesters, Banner (the College's information system) will not process the payment to the student because of the order in which it applies payments to a student's account. In these instances, special procedures are required to process payment to the student, and the payment may not occur in a timely manner.

*Recommendation:* These institutions should pay credit balances resulting from Title IV program funds directly to the student or student's parents within the required timeframes.

*Agency Response:* *UConn:* "We agree with the finding."

*Manchester CC:* "We agree with this finding. The condition noted one student with a credit balance in his student account who did not receive payment within the required timeframe. We will continue to review current procedures and controls to ensure that all students with credit balances receive payment within the required timeframe."

### III.H.6. Special Tests: Disbursements to Students – Notifications

**Federal Family Education Loans (CFDA # 84.032)**
**Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)**
**Federal Direct Loan Program (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* Per 34 CFR 668.165(a), if an institution credits a student's account with Direct Loan, FFEL, or Perkins Loan Program funds, the institution must notify the student, or parent [in the case of PLUS loans] in writing of (i) The date and amount of disbursement; (ii) The student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the proceeds returned to the holder of that loan; and (iii) The procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement.

*Condition:* UConn:
One of the University's most significant postings of FFEL funds to student accounts for the Spring 2004 semester occurred on January 8, 2004. None of the students whose accounts were credited received the required notification.

Central CSU:
The University did not provide students who received Direct Loans with the required notification.

Western CSU:
The University did not provide students who received FFEL funds with the required notification.

Manchester CC:

The College did not provide students who receive FFEL funds with written notification of theses requirements. Rather, the College relied on verbal communication with the students during the entrance interview and also advised students to access their accounts through the College website.

*Effect:* Students receiving loan funds were not notified of the date and amount credited to their student accounts.

*Cause:* Procedures at these institutions did not ensure compliance with these requirements.

*Recommendation:* These institutions should implement procedures to ensure compliance with the Federal notification requirements related to loans.

*Agency Response:* *UConn:* "We disagree with the findings. Logs from the University's computer scheduling office indicate that e-mail notifications were continuously sent to all FFELP loan recipients during the period in question. However, it appears that when the University moved from paper notification to e-mail notification, the memo (MQ) screen was no longer updated making it not immediately apparent that notification had been sent."

*Central CSU:* "We agree with this finding."

*Western CSU:* "We agree with this finding that notification of disbursement to students needs to be updated."

*Manchester CC:* "We agree with this finding. Manchester CC will implement procedures to ensure compliance with the Federal notification requirements related to loans."

*Auditors' Concluding Comments:*

As part of our testing of notification to students of the date and amount of the disbursement credited to the student's account, we inquired of the Financial Aid Office about the University's procedures for notification to students. We were informed by systems personnel that during our audited period we could access the Student Accounts Receivable (SARS) memoranda query screen to view the date students were notified by email to their husky account that student loan funds had been credited to their UConn billing account. For the students selected in our sample, the memoranda query screens indicated that students were notified by email to their husky accounts during the Fall 2003 semester and also for certain dates in the Spring 2004 semester, i.e., January 14, 2004, January 28, 2004, and February 29, 2004, with the exception of the January 8, 2004 disbursement. Prior to email notification in fiscal year 2003-2004, the SARS memoranda query screen indicated that each student was notified when their account was credited electronically. In order to provide an audit trail, the University should continue to indicate in its systems, the notification to the student by email of the date and amount of the credit of FFEL funds to student's account.

## III.H.7. Special Tests: Disbursements to Students

**Federal Family Education Loans (CFDA # 84.032)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* 34 CFR 668.167(b)(1)(ii) requires an institution to disburse FFEL funds to students within three business days if the institution received the funds from a lender via either EFT or master check.

*Condition:* Western CSU:
From a sample of ten FFEL recipients, we noted one instance in which funds received by the institution via EFT were disbursed to the student nine days later than required.

Manchester CC:
From a sample of ten FFEL recipients, we noted one instance in which funds received by the institution via EFT were disbursed to the student eleven days later than required.

*Effect:* Disbursements to students were not made within the required timeframe.

*Cause:* Western CSU:
The cause is unknown.

Manchester CC:
The College requested funds from the lender prior to satisfaction of all requirements.

*Recommendation:* These institutions should implement procedures to ensure compliance with Federal disbursements requirements.

*Agency Response:* *Western CSU:* "We agree with this finding that in one instance a student's disbursement did not take place within three business days."

*Manchester CC:* "We agree with this finding. The instance cited was an exception to our policy. The funds were requested based on a verbal confirmation from the student to provide verification of attendance. There were delays in acquiring signatures from all the instructors, which resulted in a late disbursement. The Financial Aid staff has been reminded of our policy and the importance of complying with federal regulations."

## III.H.8. Special Tests: Student Loan Repayments

**Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* Per 34 CFR 674.31(b)(2), repayment begins nine months after the borrower ceases to be at least a half-time regular student at the institution.

*Condition:* UConn:
From a sample of ten borrowers who entered repayment during the audited period, we noted one instance in which a change in enrollment status was not reported to the Federal Perkins Loan servicer in a timely manner. The University's Registrar's Office recorded in its information system on September 9, 2003, that the borrower failed to register for the Fall 2003 semester. The University's Perkins Loans Office did not separate the borrower on its records until April 23, 2004, which is seven months later.

Western CSU:
From a sample of five borrowers who entered repayment during the audited period, we noted one instance in which a student's separation date was incorrect. The borrower graduated in May 2002, therefore, her separation date should have been listed in the Perkins Loans servicer's records as June 1, 2002. The date listed was July 1, 2003, l3 months later than the actual separation date.

*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 institutions should ensure that information relating to the enrollment status of borrowers is provided to the loans servicer in a timely manner.

*Agency Response:* *UConn:* "We disagree with this finding. The PeopleSoft software did not provide notification of separation/completed/non-registered students during the period of August 3, 2003, through September 24, 2003. This was apparently a short-term technical problem with the software. Although we were initially unaware that the student in question had left the University, the Perkins Loan Office staff ultimately noted the separation and activated the account. A review of our files indicates that there have been no other gaps in the receipt of information from the PeopleSoft system. Tremendous progress has been made in identifying those students who leave the University, and we will continue to explore new methods of finetuning the system."

*Western CSU:* "We agree with this finding that an incorrect separation date was listed on an individual's exit interview concerning her Perkins Loan."

### III.H.9. Special Tests: Borrower Data Transmission and Reconciliation

**Federal Direct Loan Program (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2003-2004**

*Criteria:* The Direct Loan Technical Reference Manual and 34 CFR 685.102(b) require the University to prepare a monthly reconciliation between institutional records and Direct Loan School Account statements.

*Condition:* During our review of Direct Loans administration at Central CSU, we noted that the University was unable to provide documentation that any reconciliations had been performed.

*Effect:* The University cannot document that it is in compliance with the Federal requirement.

*Cause:* The Financial Aid Office did not retain reconciliation documentation.

*Recommendation:* The University should perform a monthly reconciliation between institutional records and Direct Loan School Account statements and retain documentation to these reconciliations.

*Agency Response:* *Central CSU:* "We agree with this finding in part. The University does perform the Direct Loan reconciliation, however, did not maintain sufficient documentation to satisfy the auditors."

# I. DEPARTMENT OF TRANSPORTATION

## III.I.1. Reporting

**Highway Planning and Construction (CFDA 20.205)**
**Federal Award Agency: Department of Transportation (Federal Highway Administration)**
**Award Year: State Fiscal Year Ended June 30, 2004**
**Federal Award Numbers: Various**
**State Projects: Various**

*Background:* The Department participates in the Federal Highway Planning and Construction program (CFDA 20.205.) Costs related to direct construction activity and Department personnel that work on Federally participating projects are recovered, in part, from the Federal Department of Transportation - Federal Highway Administration.

*Criteria:* The Department prepares and submits semi-monthly claims for reimbursement via a "Final Voucher for Payment under 23 U.S.C. 117" (FHWA1447.) Claims are supported by expenditure data compiled by a Department system which is incorporated into a Federal billing system. Both of these systems were developed internally for the Department, and currently operate parallel to the State's new (Core-CT) accounting system.

*Condition:* The Department ceased to report personnel costs within reimbursement claims in November 2003. It is estimated that approximately $34,000,000 in allowable personal service costs were not billed/claimed for the fiscal year ended June 30, 2004.

*Effect:* It is estimated that personnel charges that may be billed to the program approximate $2,000,000 each payperiod. During the fiscal year ended June 30, 2004, the Department incurred approximately $34,000,000 in such unclaimed personnel costs. It is estimated that the total of unclaimed personnel costs may have increased to approximately $100,000,000 as of September 2005.

The grantor agency (Federal Department of Transportation – Federal Highway Administration) will incur costs for expenditures related to prior periods due to, what could be deemed as being, unnecessary delays.

*Cause:* In November 2003, the Department, along with most state agencies, began to use a new payroll system (Core-CT). This new system does not calculate amounts that may be billed for the Highway Planning and Construction program. As stated above, the Department utilizes two programs to generate claim information. These systems continue to generate project expenditures from construction activity, but can not translate payroll information from the new (Core-CT) system. See also Finding II.A.3. in Section II of this Schedule of Findings and Questioned Costs.

*Recommendation:* The Department should make it a priority to develop a system to translate payroll information from the new Core-CT payroll system for use in it's programs that compile and bill claimed program costs.

*Agency Response:* "We agree with this finding.

As stated in the finding, the State is using a new computerized financial accounting system referred to as CORE-CT. As a result of this change, the Department's federal billing system is no longer able to capture payroll-related expenses incurred by Department personnel, and therefore, has been unable to bill federal agencies for those expenditures since November 2003. CORE-CT is currently unable to create a federal billing for the Department, but is developing a contract module that is anticipated to have the ability to create our federal billings in July 2006. In the interim, the Department has been attempting to create a system that will capture the CORE-CT payroll data, convert it to historical Department coding, and input it into the Department's Current Audit Billing (CAB) system to create a federal billing. The Department is currently in the process of developing and testing this system, and anticipates that we will be able to begin billing federal agencies for previously incurred personal services expenditures by August 2005. Each payroll period will be processed separately until all previously incurred payrolls have been billed.

The transition to CORE-CT has been difficult for the Department. Our project based accounting system coupled with the reimbursable nature of our federal funding has presented unique challenges to the Department and the CORE-CT team. These issues compounded with reductions in personnel have created the situation we have today. We will continue to strive to do our best to make the implementation of CORE-CT a success for the Department, and to develop a system that will allow us to resume billing federal agencies in a timely manner."