State of Connecticut
Single Audit Report

For The Year Ended June 30, 2005

Auditors of Public Accounts
Hartford, Connecticut

STATE OF CONNECTICUT

Single Audit Report

For the Year Ended June 30, 2005

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Letter of Transmittal

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P JOHNSTON

ROBERT G. JAEKLE

September 27, 2006

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, 2005.

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 $5,300,000,000 in Federal financial assistance during the fiscal year ended June 30, 2005. 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 six months later than the March 31, 2006, 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 2005 financial statements, which would normally have been completed by December 2005, until September 2006. 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 approximately $85,000,000 in Federal reimbursements as of June 30, 2005, 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, 2005.

Respectfully submitted,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

State of Connecticut
Financial Statements

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

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KEVIN P JOHNSTON

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, 2005, 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 six 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 58 percent of the assets and 53 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 95 percent of the assets and 97 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 26 percent of the assets and 24 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 58 percent of the assets and 53 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 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, 2005, 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 4 of the financial statements, the State of Connecticut adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 40, *Deposit and Investment Risk Disclosures*, during the fiscal year ended June 30, 2005. This standard requires additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk that have the potential to result in losses.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2006, 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

September 27, 2006
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:
As of June 30, 2005, the State had a total net asset deficit of $1.4 billion, a deterioration in net assets of $94 million occurring this fiscal year. This deterioration resulted from an increase of $145 million in the net assets of business-type activities which was offset by a decrease of $239 million in the net assets of governmental activities.

During the year, revenues of governmental activities exceeded expenses by $604 million. However, this excess was offset by transfers and special items of $843 million, resulting in a decrease of net asset of $239 million.

For business-type activities, expenses exceeded revenues by $354 million. However, this deficiency was offset by transfers of $499 million, resulting in an increase in net assets of $145 million.

Fund Level:
The governmental funds had a total fund balance of $2.5 billion at year end. Of this amount, $2.7 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of $0.2 billion. The portion of the total unreserved fund balance deficit that pertains to the General Fund was a $1.0 billion deficit. The General Fund had an actual budget surplus of $380 million this year.

The Enterprise Funds had total net assets of $4.0 billion, substantially all of which was invested in capital assets or restricted for various purposes.

Debt Issued and Outstanding:
Total long-term debt was $17.9 billion for governmental activities, of which $13.2 billion was bonded debt and $0.2 billion was economic recovery notes.

Total long-term debt was $2.2 billion for business-type activities, of which $1.6 billion was bonded debt.

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 occurs, 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 is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that State's activities meet the criteria for using these funds, and "combining statements" for its component units. Under the GASB 34 financial reporting model, as presented here, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

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

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

Transportation Fund. The Transportation Fund is a special revenue fund that accounts for motor fuel taxes, vehicle registration and driver license fees, and other revenue 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's transportation system.

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, Special Tax obligation principal and interest.

Budgetary reporting. The State adopts a biannual budget for the General fund, the Transportation fund, and other Special Revenue funds. A budgetary comparison statement, using original and final budgets, is presented for the General and Transportation funds to demonstrate compliance with the current fiscal year budgets.

Major Proprietary Fund Financial Statements:

Proprietary funds (enterprise and internal service) are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting where all assets and liabilities are reported on the balance sheet. Revenues are recorded when earned and expenses are recorded when incurred. In accordance with the requirements of the GASB 34 reporting model utilized in preparation of this report:

- Proprietary fund reporting distinguish current assets and liabilities from non-current assets and liabilities.

- Three classifications are used to classify equity for proprietary funds. 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, an investment trust fund, a private-purpose trust fund, and agency funds. These fund types are 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.

Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's operations and programs. The accounting used for fiduciary funds is much like that for proprietary funds.

Component Unit Combining Statements:

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

Connecticut Housing Finance Authority. Classified as a major component unit, CHFA 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.

Connecticut Health and Educational Facilities Authority. Classified as a major component unit, CHEFA was created to provide resources for financing major projects for health and educational institutions.

Connecticut Development Authority. CDA was created to stimulate commercial development in the State.

Connecticut Resources Recovery Authority. CRRA was created to implement the State Solid Waste Management Plan.

Connecticut Higher Education Supplemental Loan Authority. CHESLA was created to provide resources for student loans.

Connecticut Innovations, Incorporated. CI was created to stimulate and promote technological innovation and application of new technology within the State.

Capital City Economic Development Authority. CCEDA was created to stimulate economic development in the city of Hartford.

University of Connecticut Foundation, Inc. The Foundation was created 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 State's 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, these statements are presented as other supplementary information in this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following condensed financial information was derived from the government-wide Statement of Net Assets and reflects the financial position of the State at the end of the fiscal year 2005, compared to the prior year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004*	2005	2004*	2005	2004*
ASSETS:						
Current and Other Assets	$ 4,441	$ 3,902	$ 3,715	$ 3,552	$ 8,156	$ 7,454
Capital Assets	9,640	9,908	3,075	2,857	12,715	12,765
Total Assets	14,081	13,810	6,790	6,409	20,871	20,219
LIABILITIES:						
Current Liabilities	2,777	2,914	730	607	3,507	3,521
Long-term Liabilities	16,694	16,047	2,061	1,948	18,755	17,995
Total Liabilities	19,471	18,961	2,791	2,555	22,262	21,516
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	3,295	3,553	2,314	2,210	5,609	5,763
Restricted	1,325	1,686	1,570	1,410	2,895	3,096
Unrestricted	(10,010)	(10,390)	115	234	(9,895)	(10,156)
Total Net Assets	$ (5,390)	$ (5,151)	$ 3,999	$ 3,854	$ (1,391)	$ (1,297)

* Restated for comparative purposes. See Note 21.

The State had a total net asset deficit of $1.4 billion at year end, a deterioration in net assets of $94 million occurring in this fiscal year. This deterioration resulted from an increase of $145 million in the net assets of business-type activities which was offset by a decrease of $239 million in the net assets of governmental activities.

Governmental activities had a total net asset deficit of $5.4 billion at year end, a deterioration in net assets of $0.2 billion occurring in this fiscal year. Of this amount, $4.6 billion was invested in capital assets (buildings, roads, bridges, etc.) or was restricted for various purposes, resulting in an unrestricted net asset deficit of $10.0 billion. This deficit does not mean that the State will not be able to pay its bills next year. Rather, it is the result of having long-term obligations that are greater than currently available resources. Specifically, the State had the following outstanding long-term obligations which contributed to the deficit: a) general obligation bonds in the amount of $3.4 billion which were issued to finance various grant programs of the State, such as school construction and other municipal aid programs; and b) other long-term obligations in the amount of $4.4 billion which the State has partially funded (net pension obligation) or not funded (compensated absences obligation).

Although the net assets of the business-type activities increased by $0.1 billion, these resources cannot be used to make up for the net asset deficit in governmental activities. The State can only use these net assets to finance the ongoing operations of its Enterprise funds, such as the University of Connecticut, Bradley International Airport, Employment Security, etc.

CHANGE IN NET ASSETS

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 during the fiscal year 2005, compared to the prior year,

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

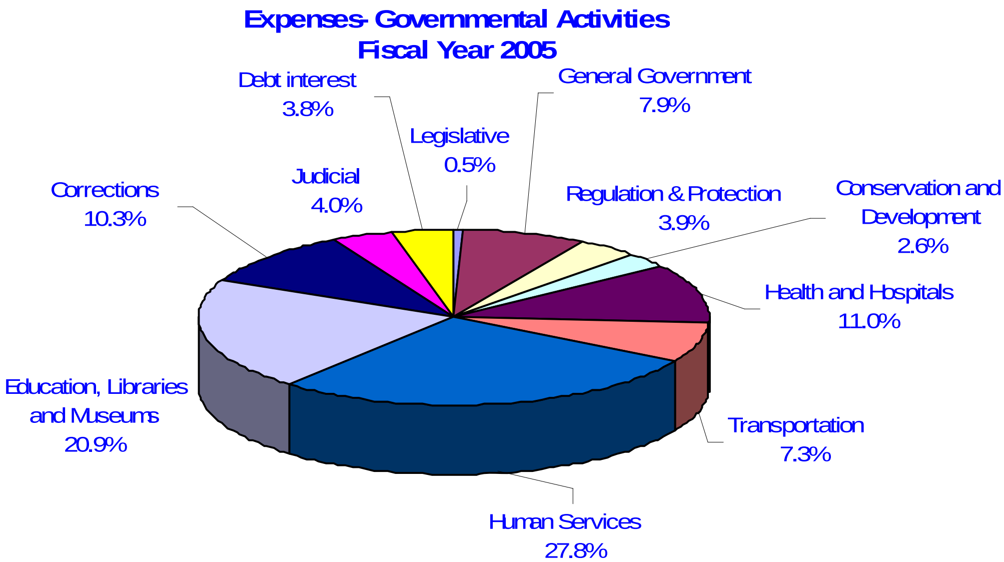
	Governmental Activities		Business-Type Activities		Total	
	2005	2004*	2005	2004*	2005	2004*
REVENUES						
Program Revenues						
Charges for Services	$ 1,317	$ 1,254	$ 2,863	$ 2,936	$ 4,180	$ 4,190
Operating Grants and Contributions	3,810	3,850	262	228	4,072	4,078
Capital Grants and Contributions	335	544	87	9	422	553
General Revenues						
Taxes	10,840	9,742	-	-	10,840	9,742
Casino Gaming Payments	418	403	-	-	418	403
Other	188	135	94	91	282	225
Total Revenues	16,908	15,927	3,306	3,264	20,214	19,191
EXPENSES						
Legislative	91	90	-	-	91	90
General Government	1,288	1,101	-	-	1,288	1,101
Regulation and Protection	633	590	-	-	633	590
Conservation and Development	424	448	-	-	424	448
Health and Hospitals	1,801	1,683	-	-	1,801	1,683
Transportation	1,184	1,154	-	-	1,184	1,154
Human Services	4,537	4,630	-	-	4,537	4,630
Education, Libraries and Museums	3,408	3,174	-	-	3,408	3,174
Corrections	1,676	1,579	-	-	1,676	1,579
Judicial	650	546	-	-	650	546
Interest and Fiscal Charges	612	577	-	-	612	577
University of Connecticut & Health Center	-	-	1,386	1,254	1,386	1,254
State Universities	-	-	507	470	507	470
Bradley International Airport	-	-	62	59	62	59
CT Lottery Corporation	-	-	691	657	691	657
Employment Security	-	-	580	812	580	812
Clean Water	-	-	28	25	28	25
Other	-	-	406	361	406	361
Total Expenses	16,304	15,573	3,660	3,638	19,964	19,211
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	604	354	(354)	(374)	250	(20)
Transfers	(693)	(417)	499	611	(194)	194
Special and Extraordinary Items	(150)	(157)	-	(6)	(150)	(163)
Increase (Decrease) in Net Assets	(239)	(220)	145	231	(94)	11
Net Assets (Deficit) - Beginning (Restated)	(5,151)	(4,931)	3,854	3,623	(1,297)	(1,308)
Net Assets (Deficit) - Ending	$ (5,390)	$ (5,151)	$ 3,999	$ 3,854	$ (1,391)	$ (1,297)

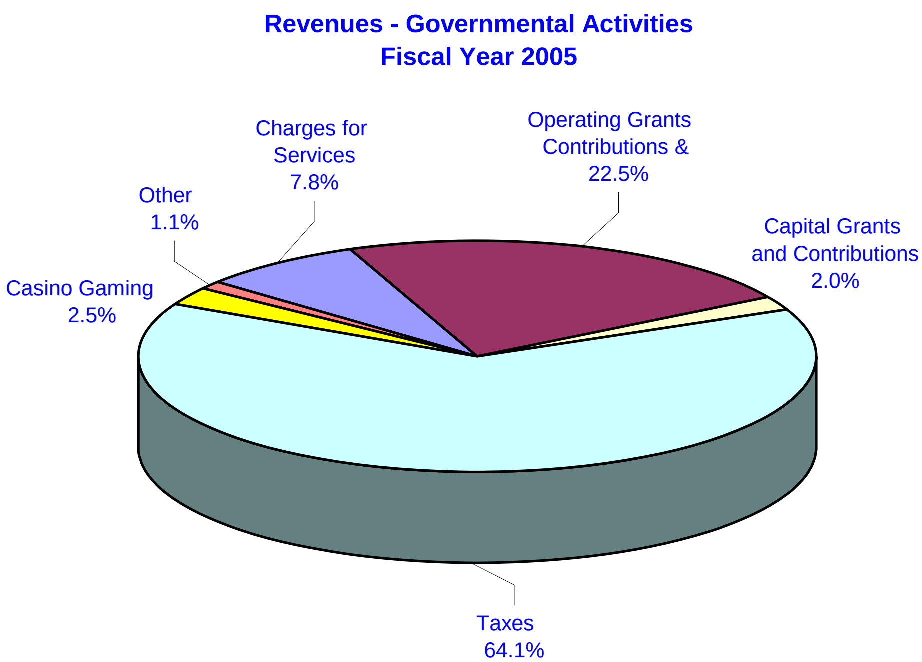
* Restated for comparative purposes. See Note 21.

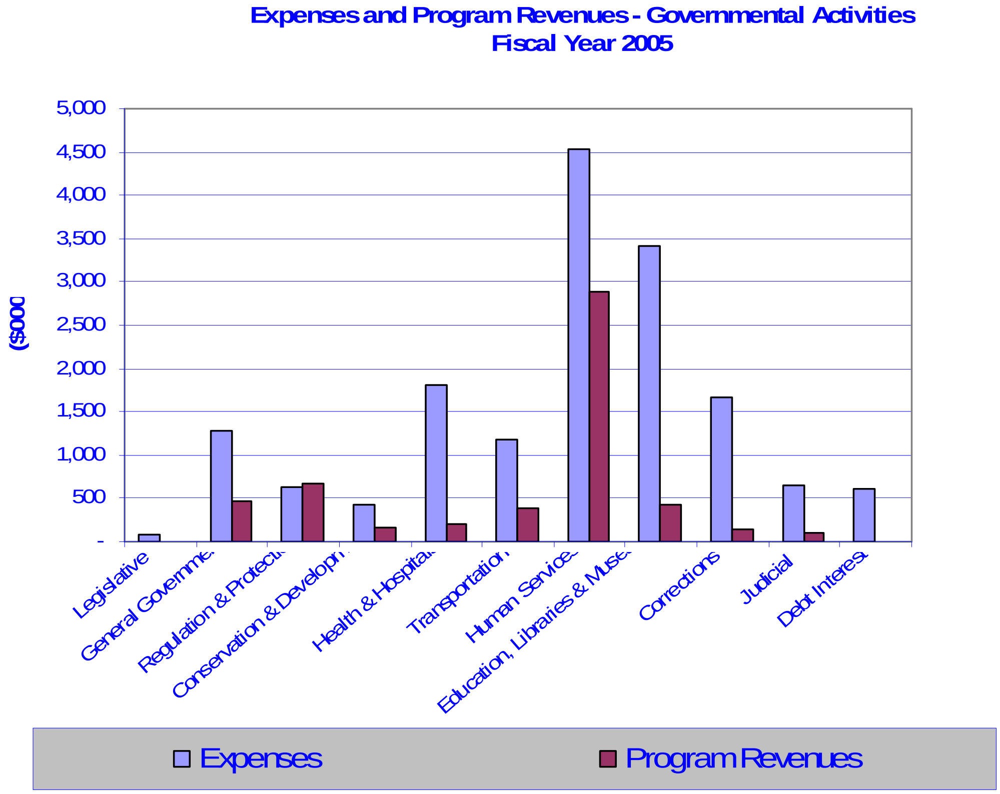
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are activities that are both unusual in nature and infrequent in occurrence.

Total revenues of the State increased by $1.0 billion to $20.2 billion. Virtually all of this increase was due to an increase in tax revenues. Total expenses increased by $753 million to $20.0 billion. This increase can be attributed mainly to an increase of $731 million in governmental activities' expenditures. Although, total revenues exceeded total expenses by $250 million, this excess was offset by transfers and special items of $344 million, resulting in a decrease of total net assets of $94 million.

GOVERNMENTAL ACTIVITIES
The following charts depict the distribution of revenues and expenses for Fiscal Year 2005.







Total revenues for the governmental activities increased by $981 million to $16.9 billion. This increase was due mainly to an increase in tax revenue, reflecting a growing economy. Total expenses increased by $731 million to $16.3 billion. This increase can be attributed mainly to increases in general government, health and hospital, and education expenses of $539 million. Even though total revenues exceeded total expenses by $604 million, this excess was offset by transfers and special items of $843 million, resulting in a reduction of net assets of $239 million. Of note is a transfer of a state building to a component unit for $242 million. If this transfer had not occurred, the deterioration in net assets for the year would have not occurred.

As noted above, total revenues increased by 6% during the fiscal year because of a stronger economy. Specifically, the State added 21,700 new jobs during the fiscal year. In contrast, the State only added 6,800 new jobs in the previous fiscal year. In addition, corporate profits rebounded in the second and third quarters of the fiscal year after a disappointing start to the year. The Gross Domestic Product showed steady growth in excess of 3% during the fiscal year, and retail sales were up 9.6% for the year. During most of the fiscal year, the unemployment rate remained below 5%: however, in the final quarter of the fiscal year, it grew to just over 5%. The real estate market remained strong in the State for most of the fiscal year.

Total revenues and expenses of business-type activities were virtually unchanged between fiscal years 2005 and 2004. Although, total expenses exceeded total revenues by $354 million, this deficiency was offset by transfers of $499 million, resulting in an increase in net assets of $145 million.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State completed fiscal year 2005 with a balance of $2.5 billion in its governmental funds. However, the General fund reported a deficit of $1.0 billion in unreserved fund balance. Although governmental fund expenditures exceeded fund revenues by $172 million, this deficiency was offset by other financing activities and special items of $681 million, resulting in an increase in fund balance of $509 million in governmental funds in fiscal year 2005.

General Fund

The General fund is the chief operating fund of the state. At the end of fiscal year 2005, the General fund had a fund balance of $0.4 billion. Of this amount, $1.4 billion was reserved for various purposes, leaving a deficit of $1.0 billion in unreserved fund balance. Although, total fund revenues exceeded total fund expenditures by $1,033 million, this excess was reduced by other financing uses and special item of $453 million, resulting in an increase in fund balance of $580 million for the fiscal year .

Budgetary Highlights-General Fund

Early in the fiscal year, the General fund surplus was estimated to be $84 million. By the end of the fiscal year, fund revenues had greatly increased because of a strong economy, causing the surplus estimate to grow to$674 million. However, most of the estimated surplus was eventually appropriated by the State legislature for various expenditure programs, resulting in a final estimated surplus of $173 million.

Although actual fund revenues exceeded expenditures by $730 million, this excess was reduced by other financing activities of $350 million, resulting in an actual surplus of $380 million. A portion of the 2004 surplus in the amount of $150 million was appropriated during the current fiscal year for various expenditure programs. This amount was reported in the budgetary statement as other financing source.

During the year, actual revenues exceeded original budget revenues by $903 million. A tax revenue variance of $857 million accounts for much of the total variance. Some of the tax revenues that exceeded original estimates were: personal income, $440 million; corporations, $177 million; and inheritance and estate, $ 88 million.

During the year, final appropriations exceeded original appropriations by $662 million. Some of the major adjustments to initial appropriations that occurred during the year were: $138 million to pre-pay debt service on economic recovery notes; $100 million for deposit to the Teachers' Retirement Fund; and $85 million for educational aid to cities and towns. Because of these additional appropriations, the Constitutional spending cap was exceeded by $371 million.

Other Funds

The Debt Service fund had a fund balance of $678 million at year end, all of which was reserved.

The Transportation fund had a fund balance of $173 million at year end, most of which was unreserved.

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, 2005 amounted to $12.7 billion (net of accumulated depreciation). In fiscal year 2005, capital assets for governmental activities declined mainly as a result of the transfer of a state building to a component unit while capital assets for business-type activities increased 8.0%. 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	
	2005	2004 *	2005	2004 *	2005	2004 *
Land	$ 1,264	$ 1,224	$ 64	$ 52	$ 1,328	$ 1,276
Buildings	1,046	1,036	2,098	1,916	3,144	2,952
Improvements Other than Buildings	197	134	258	246	455	380
Equipment	389	446	352	350	741	796
Infrastructure	5,363	5,396	-	-	5,363	5,396
Construction in Progress	1,381	1,672	303	293	1,684	1,965
Total	$ 9,640	$ 9,908	$ 3,075	$ 2,857	$ 12,715	$ 12,765

* Restated for comparative purposes. See Note 21.

Additional information on the State's capital assets can be found in Note 10 of this report.

Long-term Debt.

Bonded 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 specific revenues of enterprise funds.

State of Connecticut's Bonded Debt (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 9,905	$ 9,607	$ -	$ -	$ 9,905	$ 9,607
Transportation Related Bonds	3,114	3,154	-	-	3,114	3,154
Revenue Bonds			1,620	1,714	1,620	1,714
Premiums and deferred amounts	229	181	34	36	263	217
Total	$ 13,248	$ 12,942	$ 1,654	$ 1,750	$ 14,902	$ 14,692

In fiscal year 2005 the State increased outstanding bonds by $210 million. Bonds of governmental activities increased by $306 million while bonds of business-type activities decreased by $96 million. 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. As of December, 2005, the State had a debt incurring margin of $3.8 billion.

Other Long-Term Debt

State of Connecticut's Other Long - Term Debt (in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Net Pension Obligation	$ 3,636	$ 3,440	$ -	$ -	$ 3,636	$ 3,440
Compensated Absences	415	371	102	104	517	475
Workers Compensation	299	277	-	-	299	277
Lottery Prizes	-	-	337	385	337	385
Other	88	72	166	97	254	169
Total	$ 4,438	$ 4,160	$ 605	$ 586	$ 5,043	$ 4,746

The State's other long-term obligations increased by $297 million during the year. An increase of $196 million in the net pension obligation of governmental activities accounted for most of the change.

Additional information on the State's long-term debt can be found in Note 16 of this report.

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.

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Basic Financial Statements

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Statement of Net Assets

June 30, 2005

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 1,530,194	$ 498,592	$ 2,028,786	$ 134,206
Deposits with U.S. Treasury	-	572,789	572,789	-
Investments	136,903	161,634	298,537	298,936
Receivables, (Net of Allowances)	1,940,813	629,280	2,570,093	62,712
Due from Component Units	2,619	-	2,619	-
Due from Primary Government	-	-	-	13,196
Inventories	49,993	8,549	58,542	3,849
Restricted Assets	-	13,018	13,018	752,292
Internal Balances	(171,037)	171,037	-	-
Other Current Assets	16,598	10,859	27,457	2,622
Total Current Assets	3,506,083	2,065,758	5,571,841	1,267,813
Noncurrent Assets:				
Cash and Cash Equivalents	-	197,550	197,550	-
Due From Component Units	15,939	-	15,939	-
Investments	-	348,115	348,115	62,530
Receivables, (Net of Allowances)	188,524	542,539	731,063	136,270
Restricted Assets	677,920	495,250	1,173,170	3,638,926
Capital Assets, (Net of Accumulated Depreciation)	9,640,319	3,074,629	12,714,948	432,231
Other Noncurrent Assets	51,946	66,109	118,055	18,102
Total Noncurrent Assets	10,574,648	4,724,192	15,298,840	4,288,059
Total Assets	14,080,731	6,789,950	20,870,681	5,555,872
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	628,360	269,407	897,767	61,204
Due to Component Units	13,196	-	13,196	-
Due to Primary Government	-	-	-	2,619
Due to Other Governments	76,160	94	76,254	-
Current Portion of Long-Term Obligations	1,202,379	197,556	1,399,935	143,464
Amount Held for Institutions	-	-	-	183,287
Deferred Revenue	13,942	149,668	163,610	-
Medicaid Liability	562,309	-	562,309	-
Liability for Escheated Property	88,401	-	88,401	-
Other Current Liabilities	192,832	113,622	306,454	27,722
Total Current Liabilities	2,777,579	730,347	3,507,926	418,296
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	16,693,775	2,061,004	18,754,779	3,495,160
Total Noncurrent Liabilities	16,693,775	2,061,004	18,754,779	3,495,160
Total Liabilities	19,471,354	2,791,351	22,262,705	3,913,456
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,294,888	2,314,139	5,609,027	280,083
Restricted For:				
Transportation	118,532	-	118,532	-
Debt Service	647,226	66,466	713,692	34,332
Capital Projects	164,269	86,495	250,764	-
Unemployment Compensation	-	726,650	726,650	-
Clean Water and Drinking Water Projects	-	525,812	525,812	-
Bond Indenture Requirements	-	-	-	712,563
Permanent Investments or Endowments:				
Expendable	3,696	-	3,696	93,114
Nonexpendable	91,679	13,201	104,880	206,669
Other Purposes	299,531	149,935	449,466	55,299
Unrestricted (Deficit)	(10,010,444)	115,901	(9,894,543)	260,356
Total Net Assets (Deficit)	$ (5,390,623)	$ 3,998,599	$ (1,392,024)	$ 1,642,416

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

Statement of Activities

For The Fiscal Year Ended June 30, 2005
(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	$ 91,037	$ 2,303	$ 152	$ -
General Government	1,288,231	441,002	18,630	-
Regulation and Protection	633,466	516,530	154,860	-
Conservation and Development	424,125	82,707	79,509	-
Health and Hospitals	1,801,346	46,074	159,934	-
Transportation	1,183,961	57,964	-	335,256
Human Services	4,535,915	52,652	2,838,464	-
Education, Libraries, and Museums	3,408,288	10,042	413,659	-
Corrections	1,675,965	10,388	131,552	-
Judicial	649,666	97,006	12,817	-
Interest and Fiscal Charges	612,115	-	-	-
Total Governmental Activities	16,304,115	1,316,668	3,809,577	335,256
Business-Type Activities:				
University of Connecticut & Health Center	1,386,327	730,603	168,473	9,664
State Universities	506,993	261,043	36,885	76,352
Bradley International Airport	61,559	56,294	-	668
Connecticut Lottery Corporation	691,163	933,098	-	-
Employment Security	580,549	649,419	-	-
Clean Water	27,740	14,028	15,148	-
Other	405,423	218,538	41,509	-
Total Business-Type Activities	3,659,754	2,863,023	262,015	86,684
Total Primary Government	$ 19,963,869	$ 4,179,691	$ 4,071,592	$ 421,940
Component Units				
Connecticut Housing Finance Authority (12-31-04)	$ 177,433	$ 162,794	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,503	4,287	-	-
Other	251,388	312,290	3,518	165,412
Total Component Units	$ 434,324	$ 479,371	$ 3,518	$ 165,412

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
Statutory Payment to State
Transfer of State Facilities
Other
Transfers-Internal Activities
Total General Revenues, Contributions, Special Items, 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
$ (88,582)	$ -	$ (88,582)	$ -
(828,599)	-	(828,599)	-
37,924	-	37,924	-
(261,909)	-	(261,909)	-
(1,595,338)	-	(1,595,338)	-
(790,741)	-	(790,741)	-
(1,644,799)	-	(1,644,799)	-
(2,984,587)	-	(2,984,587)	-
(1,534,025)	-	(1,534,025)	-
(539,843)	-	(539,843)	-
(612,115)	-	(612,115)	-
(10,842,614)	-	(10,842,614)	-
-	(477,587)	(477,587)	-
-	(132,713)	(132,713)	-
-	(4,597)	(4,597)	-
-	241,935	241,935	-
-	68,870	68,870	-
-	1,436	1,436	-
-	(145,376)	(145,376)	-
-	(448,032)	(448,032)	-
(10,842,614)	(448,032)	(11,290,646)	-
-	-	-	(14,639)
-	-	-	(1,216)
-	-	-	229,832
-	-	-	213,977
4,983,163	-	4,983,163	-
538,834	-	538,834	-
3,278,902	-	3,278,902	-
1,487,321	-	1,487,321	-
482,476	-	482,476	-
69,720		69,720	-
417,838	-	417,838	-
118,321	-	118,321	-
69,332	93,879	163,211	46,815
-	-	-	55,653
15,000	-	15,000	-
-	-	-	(15,000)
(165,412)	-	(165,412)	-
-	-	-	22,374
(692,499)	498,499	(194,000)	-
10,602,996	592,378	11,195,374	109,842
(239,618)	144,346	(95,272)	323,819
(5,151,005)	3,854,253	(1,296,752)	1,318,597
$ (5,390,623)	$ 3,998,599	$ (1,392,024)	$ 1,642,416

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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 90 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2005*, as issued by the State Comptroller.

Balance Sheet
Governmental Funds
June 30, 2005
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ 427,118	$ -	$ 133,662	$ 949,902	$ 1,510,682
Investments	-	-	-	136,903	136,903
Securities Lending Collateral	-	-	-	16,046	16,046
Receivables:					
Taxes, Net of Allowances	892,980	-	44,614	-	937,594
Accounts, Net of Allowances	188,284	-	9,071	39,249	236,604
Loans, Net of Allowances	-	-	-	188,524	188,524
From Other Governments	499,499	-	-	220,408	719,907
Interest	-	5,541	388	-	5,929
Other	-	-	-	6,265	6,265
Due from Other Funds	20,973	562	6,798	85,525	113,858
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	18,558	-	-	-	18,558
Inventories	34,024	-	12,210	-	46,234
Restricted Assets		676,993		927	677,920
Other Assets	-	-	-	19	19
Total Assets	$ 2,086,136	$ 683,096	$ 206,743	$ 1,643,768	$ 4,619,743
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	$ 279,159	$ -	$ 27,003	$ 188,005	$ 494,167
Due to Other Funds	95,606	5,541	1,114	128,639	230,900
Due to Component Units	-	-	-	13,196	13,196
Due to Other Governments	73,565	-	-	2,595	76,160
Deferred Revenue	413,417	-	5,789	67,968	487,174
Medicaid Liability	562,309	-	-	-	562,309
Liability For Escheated Property	88,401	-	-	-	88,401
Securities Lending Obligation		-	-	16,046	16,046
Other Liabilities	176,786	-	-	-	176,786
Total Liabilities	1,689,243	5,541	33,906	416,449	2,145,139
Fund Balances					
Reserved For:					
Petty Cash	971	-	-	-	971
Inventories	34,024	-	12,210	-	46,234
Loans	23,258	-	-	188,524	211,782
Continuing Appropriations	694,422	-	37,418	6,189	738,029
Debt Service	-	677,555	-	-	677,555
Restricted Purposes	-	-	-	328,812	328,812
Surplus Transfer to FY 06	15,851	-	-	-	15,851
Surplus Transfer to/Assets of Budget Reserve Fund	666,018	-	-	-	666,018
Unreserved Reported In:					
General Fund	(1,037,651)	-	-	-	(1,037,651)
Transportation Fund	-	-	123,209	-	123,209
Special Revenue Funds	-	-	-	535,689	535,689
Capital Project Funds	-	-	-	168,105	168,105
Total Fund Balances	396,893	677,555	172,837	1,227,319	2,474,604
Total Liabilities and Fund Balances	$ 2,086,136	$ 683,096	$ 206,743	$ 1,643,768	$ 4,619,743

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, 2005
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	2,474,604
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	2,791,957		
Equipment	1,141,958		
Infrastructure	12,004,178		
Other Capital Assets	1,059,044		
Accumulated Depreciation	(7,396,277)		9,600,860
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.			50,373
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.			477,526
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.			(12,792)
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	(3,636,304)		
Worker's Compensation	(298,556)		
Capital Leases	(76,955)		
Compensated Absences	(409,366)		
Claims and Judgments	(6,609)		(4,427,790)
Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement (Note 16).			
Economic Recovery Note	(209,560)		
Bonds Payable	(13,019,117)		
Unamortized Premiums	(502,703)		
Less: Deferred Loss on Refundings	273,634		
Accrued Interest Payable	(95,658)		(13,553,404)
Net Assets of Governmental Activities		$	(5,390,623)

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, 2005
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 10,245,910	$ -	$ 556,394	$ 27,922	$ 10,830,226
Assessments	-	-	-	17,968	17,968
Licenses, Permits and Fees	142,903	-	323,568	63,677	530,148
Tobacco Settlement	-	-	-	118,321	118,321
Federal Grants and Aid	2,625,698	-	-	1,491,309	4,117,007
Charges for Services	34,140	-	57,687	3,856	95,683
Fines, Forfeits and Rents	159,476	-	27,308	2,741	189,525
Casino Gaming Payments	417,838	-	-	-	417,838
Investment Earnings	15,199	29,932	6,428	17,783	69,342
Miscellaneous	148,102	-	4,856	317,609	470,567
Total Revenues	13,789,266	29,932	976,241	2,061,186	16,856,625
Expenditures					
Current:					
Legislative	83,538	-	-	2,468	86,006
General Government	822,983	-	1,044	343,449	1,167,476
Regulation and Protection	293,013	-	73,148	236,311	602,472
Conservation and Development	119,996	-	-	287,551	407,547
Health and Hospitals	1,584,186	-	-	177,375	1,761,561
Transportation	1,615	-	471,227	100,193	573,035
Human Services	4,112,023	-	-	342,069	4,454,092
Education, Libraries, and Museums	2,305,449	-	-	1,019,416	3,324,865
Corrections	1,581,512	-	-	39,761	1,621,273
Judicial	598,420	-	-	29,182	627,602
Capital Projects	-	-	-	707,023	707,023
Debt Service:					
Principal Retirement	808,318	239,535	3,455	-	1,051,308
Interest and Fiscal Charges	445,264	146,483	1,936	50,880	644,563
Total Expenditures	12,756,317	386,018	550,810	3,335,678	17,028,823
Excess (Deficiency) of Revenues Over Expenditures	1,032,949	(356,086)	425,431	(1,274,492)	(172,198)
Other Financing Sources (Uses)					
Bonds Issued	-	-	-	1,278,110	1,278,110
Premiums on Bonds Issued	-	41,424	-	51,590	93,014
Transfers In	395,795	422,000	28,007	188,997	1,034,799
Transfers Out	(891,435)	(28,096)	(446,182)	(364,141)	(1,729,854)
Refunding Bonds Issued	-	447,013	-	-	447,013
Payment to Refunded Bond Escrow Agent	-	(484,379)	-	-	(484,379)
Capital Lease Obligations	27,628	-	-	-	27,628
Total Other Financing Sources (Uses)	(468,012)	397,962	(418,175)	1,154,556	666,331
Special Item:					
Statutory Payment from Component Units	15,000	-	-	-	15,000
Net Change in Fund Balances	579,937	41,876	7,256	(119,936)	509,133
Fund Balances - Beginning	(179,590)	635,679	166,438	1,347,255	1,969,782
Changes in Reserves for Inventories	(3,454)	-	(857)	-	(4,311)
Fund Balances - Ending	$ 396,893	$ 677,555	$ 172,837	$ 1,227,319	$ 2,474,604

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, 2005

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 509,133
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	(1,278,110)	
Refunding Bonds Issued	(447,013)	
Premium on Bonds Issued	(93,014)	(1,818,137)
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	1,051,308	
Payments to Refunded Bond Escrow Agent ($710 reported in debt service)	485,089	
Capital Lease Payments	4,432	1,540,829
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of Net Assets		(27,628)
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 and other reductions were as follows:		
Capital Outlays	620,771	
Depreciation Expense	(634,323)	
Transfer and Retirements	(249,759)	(263,311)
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.		(4,311)
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:		
Increase in Accrued Interest	(11,881)	
Decrease in Interest Accreted on Capital Appreciation Debt	27,781	
Amortization of Bond Premium	38,179	
Amortization of Loss on Debt Refundings	(28,192)	
Increase in Compensated Absences Liability	(43,805)	
Increase in Workers Compensation Liability	(21,875)	
Decrease in Claims and Judgments Liability	6,574	
Increase in Net Pension Obligation	(195,950)	(229,169)
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		50,785
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		(3,660)
Debt issue costs are recorded as expenditures in the governmental funds. However these costs are amortized over the life of the bonds in the Statement of Activities In the current year, these amounts are:		
Debt Issue Costs Payments	9,791	
Amortization of Debt Issue Costs	(3,940)	5,851
Change in Net Assets of Governmental Activities		$ (239,618)

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, 2005
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	Original	Final	Actual	(negative)
Budgeted:				
Taxes, Net of Refunds	$ 9,441,100	$ 10,175,200	$ 10,297,928	$ 122,728
Operating Transfers In	396,100	386,900	386,894	(6)
Casino Gaming Payments	430,000	417,800	417,838	38
Licenses, Permits, and Fees	138,100	143,300	143,250	(50)
Other	300,800	351,100	375,168	24,068
Federal Grants	2,469,600	2,497,300	2,497,671	371
Transfer to the Resources of the General Fund	69,500	29,500	29,500	-
Refunds of Payments	(500)	(400)	(374)	26
Operating Transfers Out	(85,000)	(85,000)	(85,000)	-
Transfer out- Transportation Strategy Board	-	-	-	-
Total Revenues	13,159,700	13,915,700	14,062,875	147,175
Expenditures				
Budgeted:				
Legislative	69,820	69,820	63,220	6,600
General Government	458,390	495,886	409,139	86,747
Regulation and Protection	215,082	225,188	212,987	12,201
Conservation and Development	96,093	105,968	93,484	12,484
Health and Hospitals	1,272,186	1,303,673	1,283,011	20,662
Transportation	1,681	22,281	1,203	21,078
Human Services	3,986,701	4,063,011	3,908,030	154,981
Education, Libraries, and Museums	2,936,184	3,130,985	2,922,543	208,442
Corrections	1,205,045	1,268,907	1,239,564	29,343
Judicial	401,505	412,836	405,818	7,018
Non Functional	2,906,380	3,112,154	2,793,571	318,583
Total Expenditures	13,549,067	14,210,709	13,332,570	878,139
Appropriations Lapsed	109,850	123,900	-	(123,900)
Excess (Deficiency) of Revenues Over Expenditures	(279,517)	(171,109)	730,305	901,414
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	212,862	212,862	212,862	-
Appropriations Continued to Fiscal Year 2006	-		(694,422)	(694,422)
Transfer of 2004 Surplus	150,300	150,300	150,300	-
Miscellaneous Adjustments	-	(18,744)	(19,331)	(587)
Total Other Financing Sources (Uses)	363,162	344,418	(350,591)	(695,009)
Net Change in Fund Balance	$ 83,645	$ 173,309	379,714	$ 206,405
Budgetary Fund Balances (deficit) - July 1			666,313	
Changes in Reserves			29,080	
Budgetary Fund Balances - June 30			$ 1,075,107	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 545,300	$ 553,800	$ 558,188	$ 4,388
-	-	-	-
-	-	-	-
385,300	387,300	388,935	1,635
27,000	32,700	32,681	(19)
3,300	-	-	-
-	-	-	-
(2,800)	(2,800)	(2,779)	21
(8,500)	(8,500)	(8,500)	-
(5,000)	(31,000)	(28,727)	2,273
944,600	931,500	939,798	8,298
-	-	-	-
2,504	2,504	943	1,561
55,006	71,767	51,347	20,420
-	-	-	-
-	-	-	-
386,834	389,625	372,894	16,731
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
530,163	520,126	507,572	12,554
974,507	984,022	932,756	51,266
11,000	13,847	-	(13,847)
(18,907)	(38,675)	7,042	45,717
34,166	34,166	34,166	-
-	-	(37,418)	(37,418)
-	-	-	-
-	16	6	(10)
34,166	34,182	(3,246)	(37,428)
$ 15,259	$ (4,493)	3,796	$ 8,289
		163,439	
		3,250	
		$ 170,485	

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Proprietary Fund Financial Statements

Major Funds

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

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

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

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

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

Nonmajor Funds
Nonmajor proprietary funds are presented, by fund type beginning on page 110 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2005,* as issued by the State Comptroller.

Statement of Net Assets
Proprietary Funds

June 30, 2005

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 273,369	$ 79,345	$ 31,614	$ 26,767
Deposits with U.S. Treasury	-	-	-	-
Investments	5,109	111,117	-	45,408
Receivables:				
Accounts, Net of Allowances	112,187	102,020	5,784	45,314
Loans, Net of Allowances	2,347	2,520	-	-
Interest	-	-	-	12,473
From Other Governments	-	2,411	955	-
Due from Other Funds	51,663	48,150	-	-
Inventories	7,398	-	-	-
Restricted Assets	-	-	13,018	-
Other Current Assets	5,087	1,492	593	2,332
Total Current Assets	457,160	347,055	51,964	132,294
Noncurrent Assets:				
Cash and Cash Equivalents	1,444	99,483	-	-
Investments	-	-	-	288,894
Receivables:				
Accounts, Net of Allowances	-	-	-	-
Loans, Net of Allowances	9,217	8,562	-	-
Restricted Assets	26,402	-	112,386	-
Capital Assets, Net of Accumulated Depreciation	1,719,693	724,761	308,536	2,242
Other Noncurrent Assets	10,231	6,801	6,488	4,837
Total Noncurrent Assets	1,766,987	839,607	427,410	295,973
Total Assets	2,224,147	1,186,662	479,374	428,267
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	117,315	53,146	12,156	29,307
Due to Other Funds	13,341	2,020	1,514	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	57,041	17,906	10,140	48,108
Deferred Revenue	32,256	112,658	1,126	588
Other Current Liabilities	53,165	-	-	58,139
Total Current Liabilities	273,118	185,730	24,936	136,142
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	332,820	391,772	226,057	288,894
Total Noncurrent Liabilities	332,820	391,772	226,057	288,894
Total Liabilities	605,938	577,502	250,993	425,036
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,405,002	532,575	107,436	2,242
Restricted For:				
Debt Service	11,401	-	28,164	-
Unemployment Compensation	-	-	-	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	31,490	-	55,005	-
Nonexpendable Purposes	12,591	610	-	-
Other Purposes	19,897	38,578	3,488	3,231
Unrestricted	137,828	37,397	34,288	(2,242)
Total Net Assets	$ 1,618,209	$ 609,160	$ 228,381	$ 3,231

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
$ -	$ 4,360	$ 83,137	$ 498,592	$ 19,512
572,789	-	-	572,789	-
-	-	-	161,634	-
153,810	-	30,729	449,844	1,363
-	141,501	2,729	149,097	-
-	6,806	334	19,613	-
5,701	421	1,238	10,726	-
874	-	93,655	194,342	12,914
-	-	1,151	8,549	3,759
-	-	-	13,018	-
-	39	1,316	10,859	533
733,174	153,127	214,289	2,089,063	38,081
-	76,075	20,548	197,550	-
-	46,221	13,000	348,115	-
-	-	3,020	3,020	-
-	474,513	47,227	539,519	-
-	295,788	60,674	495,250	-
-	-	319,397	3,074,629	39,459
-	34,855	2,897	66,109	1,573
-	927,452	466,763	4,724,192	41,032
733,174	1,080,579	681,052	6,813,255	79,113
-	5,854	51,629	269,407	33,222
6,430	-	-	23,305	39,071
94	-	-	94	-
-	34,386	29,975	197,556	802
-	-	3,040	149,668	4,294
-	2,127	191	113,622	-
6,524	42,367	84,835	753,652	77,389
-	507,169	314,292	2,061,004	14,517
-	507,169	314,292	2,061,004	14,517
6,524	549,536	399,127	2,814,656	91,906
-	-	266,884	2,314,139	39,103
-	-	26,901	66,466	-
726,650	-	-	726,650	-
-	478,813	46,999	525,812	-
-	-	-	86,495	-
-	-	-	13,201	-
-	-	84,741	149,935	-
-	52,230	(143,600)	115,901	(51,896)
$ 726,650	$ 531,043	$ 281,925	$ 3,998,599	$ (12,793)

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

For The Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Operating Revenues				
Charges for Sales and Services	$ 643,468	$ 236,726	$ 41,618	$ 932,934
Assessments	-	-	-	-
Federal Grants and Contracts	156,465	25,698	-	-
State Grants and Contracts	16,879	9,032		
Private Gifts and Grants	30,494	2,155	-	-
Interest on Loans	-	-	-	-
Other	51,770	21,164	-	158
Total Operating Revenues	899,076	294,775	41,618	933,092
Operating Expenses				
Salaries, Wages and Administrative	1,165,211	443,649	31,246	86,508
Lottery Prize Awards	-	-	-	573,000
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	105,058	42,053	17,553	597
Other	85,854	21,291	1,403	5,157
Total Operating Expenses	1,356,123	506,993	50,202	665,262
Operating Income (Loss)	(457,047)	(212,218)	(8,584)	267,830
Nonoperating Revenue (Expenses)				
Interest and Investment Income	6,912	6,057	4,324	26,608
Interest and Fiscal Charges	(11,158)	-	(11,357)	(25,901)
Other	(19,046)	3,153	14,676	6
Total Nonoperating Revenues (Expenses)	(23,292)	9,210	7,643	713
Income (Loss) Before Capital Contributions, Grants, and Transfers	(480,339)	(203,008)	(941)	268,543
Capital Contributions	9,664	76,352	668	-
Federal Capitalization Grants	-	-	-	-
Transfers In	502,209	225,195	8,877	-
Transfers Out	-	-	-	(268,515)
Change in Net Assets	31,534	98,539	8,604	28
Total Net Assets - Beginning (as restated)	1,586,675	510,621	219,777	3,203
Total Net Assets - Ending	$ 1,618,209	$ 609,160	$ 228,381	$ 3,231

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

Business-Type Activities Enterprise Funds				Governmental Activities
Employment Security	Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ -	$ 117,342	$ 1,972,088	$ 80,264
636,125	-	93,570	729,695	-
6,235	-	29,520	217,918	-
5,453		8,462	39,826	-
-	-	1,045	33,694	-
-	12,243	1,423	13,666	-
1,606	-	6,203	80,901	931
649,419	12,243	257,565	3,087,788	81,195
-	755	313,496	2,040,865	65,338
-	-	-	573,000	-
580,549	-	-	580,549	-
-	-	34,713	34,713	-
-	-	14,889	180,150	19,520
-	-	15,273	128,978	-
580,549	755	378,371	3,538,255	84,858
68,870	11,488	(120,806)	(450,467)	(3,663)
26,511	18,263	5,204	93,879	86
-	(26,985)	(15,530)	(90,931)	(83)
-	1,785	(11,522)	(10,948)	-
26,511	(6,937)	(21,848)	(8,000)	3
95,381	4,551	(142,654)	(458,467)	(3,660)
-	-	-	86,684	-
-	15,148	2,482	17,630	-
-	5,715	233,595	975,591	-
(4,633)	(325)	(203,619)	(477,092)	-
90,748	25,089	(110,196)	144,346	(3,660)
635,902	505,954	392,121	3,854,253	(9,133)
$ 726,650	$ 531,043	$ 281,925	$ 3,998,599	$ (12,793)

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities				
Receipts from Customers	$ 642,364	$ 262,437	$ 40,819	$ 932,820
Payments to Suppliers	(364,019)	(8,622)	(18,852)	(20,177)
Payments to Employees	(809,979)	(305,191)	(12,386)	(11,190)
Other Receipts (Payments)	243,788	(112,299)	-	(630,086)
Net Cash Provided by (Used in) Operating Activities	(287,846)	(163,675)	9,581	271,367
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(50,544)
Interest on Bonds and Annuities Payable	-	-	-	(27,691)
Transfers In	342,694	196,521	8,877	-
Transfers Out	-	-	-	(268,515)
Other Receipts (Payments)	10,575	3,327	-	-
Net Cash Flows from Noncapital Financing Activities	353,269	199,848	8,877	(346,750)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(163,361)	(97,761)	(13,958)	(357)
Proceeds from Capital Debt	112,025	178,025	-	-
Principal Paid on Capital Debt	(57,666)	(63,673)	(8,780)	-
Interest Paid on Capital Debt	(43,632)	-	(12,267)	-
Transfer In	100,949	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	16,764	875	-
Other Receipts (Payments)	(2,815)	(1,050)	(23,620)	-
Net Cash Flows from Capital and Related Financing Activities	(54,500)	32,305	(57,750)	(357)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	-	1,085	50,308
Purchase of Investment Securities	(594)	(65,132)	-	-
Interest on Investments	6,220	5,609	4,130	28,397
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	(4,355)	-	-	-
Net Cash Flows from Investing Activities	1,271	(59,523)	5,215	78,705
Net Increase (Decrease) in Cash and Cash Equivalents	12,194	8,955	(34,077)	2,965
Cash and Cash Equivalents -Beginning of Year	274,462	169,873	143,246	23,802
Cash and Cash Equivalents -End of Year	$ 286,656	$ 178,828	$ 109,169	$ 26,767
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (457,047)	$ (212,218)	$ (8,584)	$ 267,830
Adjustments not Affecting Cash:				
Depreciation and Amortization	105,058	42,053	17,553	597
Other	72,204	737	-	42
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(13,501)	(6,380)	(799)	(35,554)
(Increase) Decrease in Due from Other Funds	(1,017)	-	-	-
(Increase) Decrease in Inventories and Other Assets	(2,790)	(74)	-	(354)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	6,244	12,207	1,411	38,806
Increase (Decrease) in Due to Other Funds	3,003	-	-	-
Total Adjustments	169,201	48,543	18,165	3,537
Net Cash Provided by (Used In) Operating Activities	$ (287,846)	$ (163,675)	$ 9,581	$ 271,367
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 273,369	$ 79,345	$ 31,614	
Cash and Cash Equivalents - Noncurrent	1,444	99,483	-	
Cash and Cash Equivalents - Restricted	11,843	-	77,555	
	$ 286,656	$ 178,828	$ 109,169	

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
$ 630,245	$ 51,436	$ 205,702	$ 2,765,823	$ 78,428
-	-	(55,339)	(467,009)	(34,471)
-	(659)	(249,380)	(1,388,785)	(34,764)
(652,123)	(39,782)	17,802	(1,172,700)	6,601
(21,878)	10,995	(81,215)	(262,671)	15,794
-	-	205,345	205,345	-
-	(38,207)	(68,373)	(157,124)	-
-	(23,743)	(23,063)	(74,497)	-
-	5,389	187,815	741,296	-
(4,633)	-	(202,933)	(476,081)	-
-	(462)	(10,238)	3,202	-
(4,633)	(57,023)	88,553	242,141	-
-	-	(5,550)	(280,987)	(15,031)
-	-	-	290,050	-
-	-	-	(130,119)	-
-	-	(3,518)	(59,417)	-
-	-	40,563	141,512	-
-	15,137	1,694	16,831	-
-	-	-	17,639	-
-	-	(6,719)	(34,204)	(83)
-	15,137	26,470	(38,695)	(15,114)
-	-	-	51,393	-
-	-	(25,812)	(91,538)	-
26,511	18,648	4,855	94,370	86
-	-	(3,308)	(3,308)	-
-	13,637	(174)	9,108	-
26,511	32,285	(24,439)	60,025	86
-	1,394	9,369	800	766
-	2,966	73,768	688,117	18,746
$ -	$ 4,360	$ 83,137	$ 688,917	$ 19,512
$ 68,870	$ 11,488	$ (120,806)	$ (450,467)	$ (3,663)
-	-	14,889	180,150	19,520
-	-	(30)	72,953	-
2,407	(493)	(595)	(54,915)	7,426
600	-	-	(417)	(7,181)
(95,592)	-	22,914	(75,896)	1,346
-	-	2,413	61,081	(1,654)
1,837	-	-	4,840	-
(90,748)	(493)	39,591	187,796	19,457
$ (21,878)	$ 10,995	$ (81,215)	$ (262,671)	$ 15,794

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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, 2005,* as issued by the State Comptroller:
Pension (and Other Employee Benefit) Trust Funds, page 123
Agency Funds, page 129

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(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	$ 13,668	$ -	$ -	$ 173,885	$ 187,553
Receivables:					
Accounts, Net of Allowances	14,827	-	-	3,544	18,371
From Other Governments	1,082	-	-	-	1,082
From Other Funds	1,715	-	-	5,104	6,819
Interest	1,030	837	-	215	2,082
Investments	21,206,864	732,496	-	-	21,939,360
Inventories	-	-	-	915	915
Securities Lending Collateral	2,547,012	-	-	-	2,547,012
Other Assets	5,460	9	43,684	555,263	604,416
Total Assets	23,791,658	733,342	43,684	$ 738,926	25,307,610
Liabilities					
Accounts Payable and Accrued Liabilities	-	1,784	-	$ 331	2,115
Securities Lending Obligation	2,547,012	-	-	-	2,547,012
Due to Other Funds	34,657	-	-	-	34,657
Other Liabilities	-	4	-	2,883	2,887
Funds Held for Others	-	-	-	735,712	735,712
Total Liabilities	2,581,669	1,788	-	$ 738,926	3,322,383
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	21,171,955	-	-		21,171,955
Other Employee Benefits	38,034	-	-		38,034
Individuals, Organizations, and Other Governments	-	731,554	43,684		775,238
Total Net Assets	$ 21,209,989	$ 731,554	$ 43,684		$ 21,985,227

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, 2005
(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	$ 337,297	$ -	$ -	$ 337,297
State	729,206	-	-	729,206
Municipalities	25,365	-	-	25,365
Total Contributions	1,091,868	-	-	1,091,868
Investment Income	2,161,144	26,001	-	2,187,145
Less: Investment Expense	(114,427)	(292)	-	(114,719)
Net Investment Income	2,046,717	25,709	-	2,072,426
Escheat Securities Received	-	-	31,057	31,057
Transfers In	2,556	-	-	2,556
Other	175	-	69	244
Total Additions	3,141,316	25,709	31,126	3,198,151
Deductions				
Administrative Expense	2,068	-	-	2,068
Benefit Payments and Refunds	2,007,279	-	-	2,007,279
Escheat Securities Returned or Sold	-	-	91,714	91,714
Pool's Share Transactions	-	59,949	-	59,949
Distributions to Pool Participants	-	25,709	-	25,709
Other	5,419	-	-	5,419
Total Deductions	2,014,766	85,658	91,714	2,192,138
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,126,550	-	-	1,126,550
Individuals, Organizations, and Other Governments	-	(59,949)	(60,588)	(120,537)
Net Assets - Beginning	20,083,439	791,503	104,272	20,979,214
Net Assets - Ending	$ 21,209,989	$ 731,554	$ 43,684	$ 21,985,227

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 Health and Educational Facilities Authority:
the Connecticut Health and Educational Facilities Authority is a public instrumentality and political subdivision of the State. The Authority was created 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.

Nonmajor
The nonmajor component units are presented beginning on page 133 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2005*, as issued by the State Comptroller.

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Statement of Net Assets
Component Units

June 30, 2005

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-04)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 21,135	$ 113,071	$ 134,206
Investments	-	103	298,833	298,936
Receivables:				
Accounts, Net of Allowances	-	337	31,581	31,918
Loans, Net of Allowances	-	-	29,602	29,602
Other	-	-	1,192	1,192
Due from Primary Government	-	-	13,196	13,196
Restricted Assets	500,269	183,305	68,718	752,292
Inventories	-	-	3,849	3,849
Other Current Assets	-	123	2,499	2,622
Total Current Assets	500,269	205,003	562,541	1,267,813
Noncurrent Assets:				
Investments	-	-	62,530	62,530
Accounts, Net of Allowances	-	-	15,574	15,574
Loans, Net of Allowances	-	-	120,696	120,696
Restricted Assets	3,505,969	-	132,957	3,638,926
Capital Assets, Net of Accumulated Depreciation	3,410	198	428,623	432,231
Other Noncurrent Assets	-	2,247	15,855	18,102
Total Noncurrent Assets	3,509,379	2,445	776,235	4,288,059
Total Assets	4,009,648	207,448	1,338,776	5,555,872
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	21,942	2,387	36,875	61,204
Current Portion of Long-Term Obligations	126,941	-	16,523	143,464
Amount Held for Institutions	-	183,287	-	183,287
Due to Primary Government	-	-	2,619	2,619
Other Liabilities	22,297	-	5,425	27,722
Total Current Liabilities	171,180	185,674	61,442	418,296
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,122,495	2,247	370,418	3,495,160
Total Noncurrent Liabilities	3,122,495	2,247	370,418	3,495,160
Total Liabilities	3,293,675	187,921	431,860	3,913,456
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,410	198	276,475	280,083
Restricted:				
Debt Service	-	-	34,332	34,332
Bond Indentures	712,563	-	-	712,563
Expendable Endowments	-	-	93,114	93,114
Nonexpendable Endowments	-	-	206,669	206,669
Other Purposes	-	-	55,299	55,299
Unrestricted	-	19,329	241,027	260,356
Total Net Assets	$ 715,973	$ 19,527	$ 906,916	$ 1,642,416

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/04)	$ 177,433	$ 162,794	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,503	4,287	-	-
Other Component Units	251,388	312,290	3,518	165,412
Total Component Units	$ 434,324	$ 479,371	$ 3,518	$ 165,412

General Revenues:
Investment Income (Loss)
Contributions to Endowments
Special Items:
Statutory Payment to State
Other
Total General Revenues,
Contributions, and Special Item
Change in Net Assets
Net Assets - Beginning
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 (12-31-04)	**Connecticut Health & Educational Facilities Authority**	**Other Component Units**	**Totals**
$ (14,639)	$ -	$ -	$ (14,639)
-	(1,216)	-	(1,216)
-	-	229,832	229,832
(14,639)	(1,216)	229,832	213,977
43,165	454	3,196	46,815
-	-	55,653	55,653
-	-	(15,000)	(15,000)
-	-	22,374	22,374
43,165	454	66,223	109,842
28,526	(762)	296,055	323,819
687,447	20,289	610,861	1,318,597
$ 715,973	$ 19,527	$ 906,916	$ 1,642,416

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Notes to the Financial Statements

June 30, 2005

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, 2004.

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 fuel taxes, vehicle registration and driver license fees, and other revenue 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 & Health Center – 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 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 unrestricted resources first, then restricted 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 2005 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)	$ 379,714	$ 3,796
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(131,749)	(5,763)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(60,332)	(3,950)
Salaries and Fringe Benefits Payable	61,044	3,403
Increase in Continuing Appropriations	481,560	3,251
Transfer of 2044 Surplus	(150,300)	-
Fund Reclassification-Bus Operations	-	6,519
Net change in fund balances (GAAP basis)	$ 579,937	$ 7,256

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 fund/net assets balances at June 30, 2005, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue Fund	
Consumer Counsel and Public Utility Control	$ 83
Enterprise	
Bradley Parking Garage	$ 6,673
Rate Reduction Bond Operations	$ 178,503
Internal Service	
Administrative Services	$ 33,777

Note 4 Cash Deposits and Investments

In 2005 the State implemented GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*". According to the Statement, the State needs to make certain disclosures about deposit and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed in this note:

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.
Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
Concentration of Credit Risk - the risk of loss attributed to the magnitude of an investment in a single issuer.
Custodial Credit Risk (deposits) - the risk that, in the event of a bank failure, the State's deposits may not be recovered.

Custodial Credit Risk (investments) - the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.
Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

Primary Government
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 and seven Combined Investment Funds, including one international investment fund.

Short-Term Investment Fund (STIF)
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.

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.

As of June 30, 2005, STIF had the following investments (amounts in thousands):

Short-Term Investment Fund

Investment Type	Amortized Cost
Commercial Paper	$ 450,000
Asset Backed Commercial Paper:	
Multi -Seller	138,926
Secured Liquidity Notes	1,475,438
Securities Backed	623,263
Floating Rate Bonds	147,874
Repurchase Agreements	283,915
Total Investments	$ 3,119,416

Interest Rate Risk
The STIF's policy for managing interest rate risk is to limit investment to a very short weighted average maturity, not to exceed 90 days, and to comply with Standard and Poor's requirement that the weighted average maturity not to exceed 60 days. As of June 30, 2005, the weighted average maturity of the STIF was 32 days. Additionally, STIF is allowed by policy to invest in floating-rate securities, and limit total exposure to 20 percent. For purposes of the weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprice frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2005, the amount of STIF's investments in variable-rate securities was $147.9 million.

Credit Risk
The STIF's policy for managing credit risk is to invest in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations. As of June 30, 2005, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Investment Fund

		Quality Ratings		
Investment Type	Amortized Cost	AAA	AA	A-1+
Commercial Paper	$ 450,000	$ -	$ -	$ 450,000
Asset Backed Commercial Paper:				
Multi-Seller	138,926	-	-	138,926
Secured Liquidity Notes	1,475,438	-	-	1,475,438
Securities Backed	623,263	-	-	623,263
Floating Rate Bonds	147,874	86,909	60,965	-
Repurchase Agreements	283,915	283,915	-	-
Total	$ 3,119,416	$ 370,824	$ 60,965	$ 2,687,627

Concentration of Credit Risk
STIF reduces its exposure to this risk by requiring that not more than 10% of its portfolio be invested in securities of a single bank or corporation. Policy limits are also set for industry concentration, floating rate investment concentration and sector concentration. As of June 30, 2005, STIF's investments in any one single issuer that represents more than 5% of total investments were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Albis Capital Corporation	$ 266,830
ASAP Funding	$ 259,905
Freedom Park	$ 267,336
GE Capital Corporation	$ 411,910

Custodial Credit Risk-Bank Deposits-Nonnegotiable Certificate of Deposits *(amounts in thousands):*
The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of assets. Further, the certificate of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whole long-term debt is rated at least A and its issuer rating is at least "C". As of June 30, 2005, $1,199,700 of the bank balance of STIF's deposits of $1,200,000 was exposed to custodial credit risk as follows

Uninsured and uncollateralized	$ 1,079,700
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	120,000
Total	$ 1,199,700

Combined Investment Funds (CIFS)

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 a broad range of fixed income and equity securities, as well as real estate properties, mortgages, and private equity. CIFS' investments are reported at fair value in each fund's statement of net assets.

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. As of June 30, 2005, the amount of equity in the CIFS reported as investments in the financial statements was as follows (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Fiduciary Funds
Equity in CIFS	$ 91,679	$ 608	$21,206,864
Other Investments	45,224	161,026	732,496
Total Investments-Current	$ 136,903	$ 161,634	$21,939,360

As of June 30, 2005, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Cash Equivalents	$ 708,309	$ 654,141	$ 54,168	$ -	$ -
Asset Backed Securities	550,401	-	397,158	152,552	691
Government Securities	1,694,411	104,220	712,476	379,632	498,083
Government Agency Securities	1,391,637	-	54,004	79,916	1,257,717
Mortgage Backed Securities	683,404	-	14,400	58,216	610,788
Corporate Debt	2,227,231	135,452	821,914	791,801	478,064
Convertible Securities	33,214	2,341	12,559	16,301	2,013
Mutual Fund	223,364	-	-	65,540	157,824
Total Debt Investments	7,511,971	$ 896,154	$ 2,066,679	$1,543,958	$3,005,180
Common Stock	12,080,219				
Preferred stock	77,336				
Real Estate Investment Trust	117,112				
Mutual Fund	104,007				
Limited liability Corporation	16,964				
Trusts	52,613				
Limited Partnerships	1,612,794				
Annuities	249				
Total Investments	$ 21,573,265				

Interest Rate Risk

CIFS' investment managers are given full discretion to manage their portion of CIFS' assets within their respective guidelines and constraints. The guidelines and constraints require each manager to maintain a diversified portfolio at all times. In addition, each core manager is required to maintain a target duration that is similar to its respective benchmark which is typically the Lehman Brother Aggregate-an intermediate duration index.

Credit Risk

As of June 30, 2005, CIFS' debt investments were rated by Moody's as follows (amounts in thousands):

Combined Investment Funds

Quality Ratings	Fair Value	Cash Equivalents	Asset Backed Securities	Government Securities	Government Agency Securities	Mortgage Baked Securities	Corporate Debt	Convertible Debt	Mutual Fund
Aaa	$4,088,153	$ 7,997	$ 540,415	$ 1,529,447	$ 1,345,159	$ 466,323	$ 195,306	$ 3,506	$ -
Aa	553,095	50,000	-	23,814	-	4,256	474,888	137	-
A	304,992	-	-	15,538	-	2,168	286,747	539	-
Baa	509,602	-	8,471	54,069	-	14,911	432,085	66	-
Ba	291,113	-	-	12,306	-	16,773	261,971	63	-
B	419,175	-	-	32,847	-	2,123	384,205	-	-
Caa	27,241	-	-	-	-	6,600	9,199	11,442	-
Ca	78,798	-	-	-	-	84	78,714	-	-
C	122	-	-	-	-	122	-	-	-
Prime-1	174,626	174,626	-	-	-	-	-	-	-
Not Rated	1,065,054	475,686	1,515	26,390	46,478	170,044	104,116	17,461	223,364
Total	$7,511,971	$ 708,309	$ 550,401	$ 1,694,411	$ 1,391,637	$ 683,404	$2,227,231	$ 33,214	$ 223,364

Foreign Currency Risk

The CIFS manage exposure to this risk by utilizing a strategic hedge ratio of 50% for the developed market portion of the International Stock Fund (a Combined Investment Fund). This strategic hedge ratio represents the neutral stance or desired long-term exposure to currency for the ISF. To implement this policy, currency specialists actively manage the currency portfolio as an overlay strategy to the equity investment managers. These specialists may manage the portfolio passively or actively depending on opportunities in the market place. While managers within the fixed income portion of the portfolio are allowed to invest in non-U.S. denominated securities, managers are required to limit that investment to a portion of their respective portfolios. As of June 30, 2005, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Combined Investment Funds

			Fixed Income Securities			Equities		
Foreign Currency	**Total**	**Cash**	**Government Securities**	**Corporate Debt**	**Convertible Securities**	**Common Stock**	**Preferred Stock**	**Real Estate Investment Trust**
Argentine Peso	$ 222	$ 17	$ -	$ -	$ -	$ 205	$ -	$ -
Australian Dollar	133,950	1,558	-	-	-	132,392	-	-
Brazilian Real	49,242	58	-	3,929	-	8,641	36,614	-
Canadian Dollar	24,627	27	-	989	-	23,611	-	-
Chilean Peso	653	19	-	-	-	398	236	-
Czsch Koruna	470	-	-	-	-	470	-	-
Danish Krone	35,872	381	-	-	-	35,491	-	-
Egyptian Pound	1,737	-	-	-	-	1,737	-	-
Euro Currency	1,195,787	4,401	5,045	2,958	63	1,171,926	11,394	-
Honk Kong Dollar	123,837	166	-	-	-	123,671	-	-
Hungarian Fornit	369	-	-	-	-	369	-	-
Indonesian Rupiah	12,110	1,074	-	-	-	11,036	-	-
Israeli Shekel	6,795	-	-	-	-	6,795	-	-
Japanese Yen	821,920	5,330	-	11,027	920	804,643	-	
Malaysian Ringgit	28,034	13	-	-	-	28,021	-	-
Mexican Peso	37,768	29	16,150	3,134	-	18,455	-	-
New Taiwan Dollar	63,459	1,348	-	-	-	62,111	-	-
New Turkish Dollar	16,690	-	-	-	-	16,690	-	-
New Zealand Dollar	25,619	2,400	3,019	4,885	-	15,315	-	-
Norwegian Krone	32,968	(150)	-	-	-	33,118	-	-
Pakistan Rupee	624	19	-	-	-	605	-	-
Philippine Peso	4,195	-	-	-	-	4,195	-	-
Polish Zloty	6,524	-	-	-		6,524	-	-
Pound Sterling	764,487	1,231	-	10,416	-	752,840	-	-
Singapore Dollar	56,963	388	7,481	7,126	-	41,886	-	82
South African Rand	64,286	84	-	5	-	64,197	-	-
South Korean Won	238,807	348	-	-	-	212,741	25,718	-
Swedish Krona	65,295	390	-	-	-	64,905	-	-
Swiss Franc	215,154	321	-	-	-	214,833	-	-
Thailand Baht	27,983	12	-	10,555	-	17,416	-	-
Total	$ 4,056,447	$ 19,464	$ 31,695	$ 55,024	$ 983	$ 3,875,237	$ 73,962	$ 82

Custodial Credit Risk-Bank Deposits

The CIFS minimize this risk by maintaining certain restrictions set forth in the Investment Policy Statement. The CIFS use a Cash Reserve Account which is a cash management pool investing in highly liquid money market securities. As of June 30, 2005, the CIFS had deposits with a bank balance of $21.8 million which was uninsured and uncollateralized.

Complete financial information about the STIF and the CIFS can be obtained from financial statements issued by the Office of the State Treasurer.

Other Investments

As of June 30, 2005, the State had other investments and maturities as follows (amounts in thousands):

Other Investments

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Repurchase Agreements	$ 71,252	$ 71,252	$ -	$ -	$ -
State/Municipal Bonds	75,601	152	1,839	19,362	54,248
U.S Government Sec.	104,980	87,851	694	135	16,300
U.S. Agency Sec.	360,469	27,996		332,473	-
Guaranteed Investment Contracts	450,544	-	49,660	206,949	193,935
Tax Exempt Proceeds Fund	38,141	38,141	-	-	-
Money Market Funds	9,439	9,439	-	-	-
Mortgage-Backed Securities	6,648	-	-	3,521	3,127
Mutual Funds	2,489	2,489	-	-	-
Corporate Bonds	7	2	5	-	-
Total Debt Investments	1,119,570	$ 237,322	$ 52,198	$ 562,440	$ 267,610
Annuity Contracts	334,302				
Endowment Pool	11,081				
Total Investments	$1,464,953				

Credit Risk

As of June 30, 2005, other investments were rated by rating agencies as follows (amounts in thousands):

Other Investments

Investment Type	Fair Value	Quality Ratings AAA	AA/Aa	A	Unrated
Repurchase Agreements	$ 71,252	$ 66,898	$ -	$ 4,354	$ -
State/Municipal Bonds	75,601	1,839	73,610	-	152
U.S. Agency Sec.	360,469	332,473	-	27,996	-
Guaranteed Investment Contracts	450,544	372,958	77,586	-	-
Tax Exempt Proceeds Fund	38,141	-	-	-	38,141
Money Market Funds	9,439	-	-	-	9,439
Mortgage-Backed Securities	6,648	6,648	-	-	-
Mutual Funds	2,489	2,489			-
Corporate Bonds	7	-	-	-	7
Total	$ 1,014,590	$ 783,305	$ 151,196	$ 32,350	$ 47,739

Custodial Credit Risk-Bank Deposits (amounts in thousands):

The State maintains its deposits at qualified financial institutions located in the state to reduce its exposure to this risk. These institutions are required to 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. 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. As of June 30, 2005, $33,453 of the bank balance of the Primary Government of $35,110 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 29,715
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	3,838
Total	$ 33,553

Component Units

As of June 30, 2005, the major component units had the following investments and maturities (amounts in thousands):

Major Component Units

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Collateralized Mortgage Obligations	$ 4,239	$ -	$ -	$ -	$ 4,239
Corporate Finance Bonds	8,316	-	2,357	5,959	-
Corporate Notes	8,480	-	7,046	-	1,434
Federated Funds	9,881	9,881	-	-	-
Fidelity Tax Exempt Fund	8,416	8,416	-	-	-
GNMA Program Assets	676,755	-	-	-	676,755
Guaranteed Investment Contracts	401,618	40,306	359,948	1,364	-
Investment Agreements	1,770	-	-	1,770	-
Mortgage Backed Securities	7,385	-	188	2,416	4,781
Repurchase Agreements	10,436	-	-	-	10,436
U.S. Government Securities	765	-	-	-	765
Structured Securities	468	-	-	-	468
Money Market Funds	117,394	117,394	-	-	-
Total	$ 1,255,923	$ 175,997	$ 369,539	$ 11,509	$ 698,878

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) own 87.4% and 12.6% of the above investments, respectively. GNMA Program Assets represent securitized home mortgage loans of CHFA which are guaranteed by the Government National Mortgage Association.

Interest Rate Risk

CHFA

Exposure to declines in fair value is substantially limited to GNMA Program Assets. The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets in a specific maturity.

CHEFA

The Authority manages its exposure to this risk by designing its portfolio of unrestricted investments with the objective of regularly exceeding the average return of 90 day U.S. Treasury Bills. This is considered to be a benchmark for riskless investment transactions and therefore represents a minimum standard for the portfolio's rate of return. The Authority's policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures, with the above policy and with applicable Connecticut State Law.

Credit Risk

CHFA

The Authority's investments are limited by state statues to United States Government obligations, including its agencies or instrumentalities, investments guaranteed by the state, investments in the CIFS, and other obligations which are legal investments for savings banks in the state. Repurchase agreements, investment agreements, and the Federated Funds are fully collateralized by obligations issued by the United States Government or its agencies. Mortgage Backed Securities and Collateralized Mortgage Obligations are fully collateralized by the Federal National Mortgage Association or the United States Department of Housing and Urban Development mortgage pools.

CHEFA

The Authority has an investment policy that would further limit its investment choices beyond those limited by state statutes for both unrestricted and restricted investments. For example, investments that may be purchased by the Authority with the written approval of an officer, provided that the investment has a maturity of one year or less, are obligations issued or guaranteed by the U.S. Government, the state's Short-Term Investment Fund (STIF), etc.

As of June 30, 2005, major component units' investments were rated by Standard and Poor's as follows (amounts in thousands):

Component Units

Investment Type	Fair Value	Quality Ratings AAA	A	BBB	C	Unrated
Collateralized Mortgage Obligations	$ 4,239	$ 755	$ -	$ -	$ -	$ 3,484
Corporate Finance Bonds	8,316	-	2,357	5,959	-	-
Corporate Notes	8,480	-	6,839	1,641	-	-
Fidelity Tax Exempt Fund	8,416	-	-	-	-	8,416
GIC's	401,618	401,618	-	-	-	-
Mortgage Backed Securities	7,385	877	-	-	-	6,508
Structured Securities	468	-	-	-	468	-
Money Market Funds	117,394	117,394	-	-	-	-

Concentration of Credit Risk

CHFA

The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets with a specific issuer. The Guaranteed Investment Contract with Rabobank International represents 24.6% of the Authority's portfolio at year end. If Rabobank's ratings fall below AA (S&P's) or Aa2 (Moody's), this Agreement requires Rabobank to collateralize it with direct obligations issued by the United States Government or its agencies, or assign it to an entity that has the required ratings.

CHEFA

For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the State's Short-Term Investment Fund shall constitute greater than 5 % of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of general fund investments. At year end, the Authority was in compliance with this policy. The Authority places no limit on the amount of investments in any one issuer for restricted investments. At year end, the Authority's guaranteed investment contracts with Trinity Funding, LLC represents 20% of the Authority's portfolio.

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. As of June 30, 2005, the funds had no credit exposure to the borrowers, because the value of collateral held and the market value securities on loan were $2,673.7 million and $2,595.3 million, respectively.

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 37 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables-Current

As of June 30, 2005, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,002,186	$ -	$ -
Accounts	1,150,518	532,384	32,068
Loans-Current Portion	-	149,097	31,902
Other Governments	719,907	10,726	-
Interest	5,929	19,613	1,192
Other (1)	39,416	-	-
Total Receivables	2,917,956	711,820	65,162
Allowance for Uncollectibles	(977,143)	(82,540)	(2,450)
Receivables, net	$ 1,940,813	$ 629,280	$ 62,712

(1) Includes a reconciling amount of $33,151 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2005 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 458,485	$ -	$ 458,485
Income Taxes	225,174	-	225,174
Corporations	86,180	-	86,180
Gasoline and Special Fuel	-	44,964	44,964
Various Other	187,383	-	187,383
Total Taxes Receivable	957,222	44,964	1,002,186
Allowance for Uncollectibles	(64,242)	(350)	(64,592)
Taxes Receivable, net	$ 892,980	$ 44,614	$ 937,594

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2005, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	$ -	$ 3,020	$ 15,574
Loans	198,791	547,236	131,644
Total Receivables	198,791	550,256	147,218
Allowance for Uncollectibles	(10,267)	(7,717)	(10,948)
Receivables, Net	$ 188,524	$ 542,539	$ 136,270

The Clean Water fund (business-type activities) 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. At year end, the noncurrent portion of loans receivable was $475 million.

The Connecticut Development Authority (a component unit) loans funds 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 proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 2.34 percent to 11.15 percent. As of June 30, 2005, the noncurrent portion of loans receivable was $63 million. In addition, loans in the amount of $9.3 million (including loans of $6.5 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $(142) thousand 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, 2005, 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	$ 208,541	$ 468,452	$ -	$ -	$ 676,993
Environmental	-	927	-	-	927
Total-Governmental Activities	$ 208,541	$ 469,379	$ -	$ -	$ 677,920
Business-Type Activities:					
Bradley International Airport	$ 77,555	$ 45,171	$ -	$ 2,678	$ 125,404
UConn/Health Center	11,843	14,559	-	-	26,402
Clean Water	-	295,788	-	-	295,788
Other Proprietary	-	60,674	-	-	60,674
Total-Business-Type Activities	$ 89,398	$ 416,192	$ -	$ 2,678	$ 508,268
Component Units:					
CHFA	$ 376,869	$ 1,151,098	$ 2,429,333	$ 48,938	$ 4,006,238
CHEFA	25,607	157,596	-	102	183,305
Other Component Units	136,353	64,995	-	327	201,675
Total-Component Units	$ 538,829	$ 1,373,689	$ 2,429,333	$ 49,367	$ 4,391,218

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2005, accounts payable and accrued liabilities consisted of the following (amounts in thousands):

	Vendors	Salaries and Benefits	Interest	Other	Total Payables & Accrued Liabilities
Governmental Activities:					
General	$ 106,438	$ 172,721	$ -	$ -	$ 279,159
Transportation	17,911	9,092	-	-	27,003
Other Governmental	169,346	17,534	-	1,125	188,005
Internal Service	2,657	2,539	-	28,026	33,222
Reconciling amount from fund financial statements to government-wide financial statements	-	-	95,658	5,313	100,971
Total-Governmental Activities	$ 296,352	$ 201,886	$ 95,658	$ 34,464	$ 628,360
Business-Type Activities:					
UConn/Health Center	$ 62,248	$ 55,067	$ -	$ -	$ 117,315
State Universities	23,367	27,866	1,913	-	53,146
Other Proprietary	53,277	22,240	23,429	-	98,946
Total-Business-Type Activities	$ 138,892	$ 105,173	$ 25,342	$ -	$ 269,407

Note 10 Capital Assets

Capital asset activity for the year was as follows (amounts in thousands):

	Beginning Balance	Additions		Retirements	Ending Balance
Governmental Activities					
Capital Assets not being Depreciated:					
Land (1)	$ 1,224,212	$ 44,306		$ 4,751	$ 1,263,767
Construction in Progress	1,671,935	410,931		701,749	1,381,117
Total Capital Assets not being Depreciated	2,896,147	455,237		706,500	2,644,884
Other Capital Assets:					
Buildings	2,757,050	79,443		42,936	2,793,557
Improvements Other than Buildings	402,069	88,069		810	489,328
Equipment	1,304,277	82,810		64,845	1,322,242
Infrastructure	9,542,114	386,982		-	9,929,096
Total Other Capital Assets at Historical Cost	14,005,510	637,304		108,591	14,534,223
Less: Accumulated Depreciation For:					
Buildings	1,720,740	69,839		42,936	1,747,643
Improvements Other than Buildings	268,226	24,643		810	292,059
Equipment	858,459	139,687		64,845	933,301
Infrastructure	4,146,112	419,673		-	4,565,785
Total Accumulated Depreciation	6,993,537	653,842	*	108,591	7,538,788
Other Capital Assets, Net	7,011,973	(16,538)		-	6,995,435
Governmental Activities, Capital Assets, Net	$ 9,908,120	$ 438,699		$ 706,500	$ 9,640,319

(1) Beginning balance adjusted (see Note 21).

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 4,896
General Government	31,763
Regulation and Protection	29,412
Conservation and Development	8,266
Health and Hospitals	11,700
Transportation	460,836
Human Services	2,530
Education, Libraries and Museums	33,735
Corrections	36,788
Judicial	14,397
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	19,519
Total Depreciation Expense	$ 653,842

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 51,909	$ 11,968	$ 25	$ 63,852
Construction in Progress	293,424	182,992	173,416	303,000
Total Capital Assets not being Depreciated	345,333	194,960	173,441	366,852
Capital Assets being Depreciated:				
Buildings	2,685,014	273,899	681	2,958,232
Improvements Other Than Buildings	393,200	35,007	4,769	423,438
Equipment	749,775	65,793	24,084	791,484
Infrastructure	-	281	-	281
Total Other Capital Assets at Historical Cost	3,827,989	374,980	29,534	4,173,435
Less: Accumulated Depreciation For:				
Buildings	768,722	92,387	400	860,709
Improvements Other Than Buildings	147,655	18,245	570	165,330
Equipment	399,988	59,753	20,122	439,619
Total Accumulated Depreciation	1,316,365	170,385	21,092	1,465,658
Other Capital Assets, Net	2,511,624	204,595	8,442	2,707,777
Business-Type Activities, Capital Assets, Net	$ 2,856,957	$ 399,555	$ 181,883	$ 3,074,629

Component Units

Capital assets of the component units consisted of the following as of June 30, 2005 (amounts in thousands):

Land	$ 28,625
Buildings	413,058
Improvements other than Buildings	2,658
Machinery and Equipment	249,179
Construction in Progress	71
Total Capital Assets	693,591
Accumulated Depreciation	(261,360)
Capital Assets, net	$ 432,231

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 2005, the annual required contribution (ARC) was $281.4 million; however, the State contributed $185.3 million to the plan, reflecting a reduction of $96.1 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	$ 518,764	$ 281,366	$ 12,236
Interest on net pension obligation	182,369	110,057	4
Adjustment to annual required contribution	(119,051)	(73,445)	(2)
Annual pension cost	582,082	317,978	12,238
Contributions made	518,764	185,348	12,236
Increase (decrease) in net pension obligation	63,318	132,630	2
Net pension obligation beginning of year	2,145,521	1,294,790	43
Net pension obligation end of year	$ 2,208,839	$ 1,427,420	$ 45

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2003	$ 485,527	86.8%	$ 2,081,663
	2004	534,191	88.0%	2,145,521
	2005	582,082	89.1%	2,208,839
TRS	2003	$ 254,996	70.6%	$ 1,174,893
	2004	305,243	60.7%	1,294,790
	2005	317,978	58.2%	1,427,420
JRS	2003	$ 10,127	100%	$ 41
	2004	11,600	100%	43
	2005	12,238	100%	45

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 $26.3 million and $41.4 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 6/30/2004	CPJERS 12/31/2004
Retirees and beneficiaries receiving benefits	4,876	255
Terminated plan members entitled to but not receiving benefits	550	29
Active plan members	8,403	383
Total	13,829	667
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) (amounts in thousands):

Statement of Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ -	$ -	$ 1,555	$ -	$ 84	$ 1,639
Receivables:							
Accounts, Net of Allowances	2,466	8,857	8	3,492	4	-	14,827
From Other Governments		1,082	-	-	-	-	1,082
From Other Funds	-	209	-	-	-	-	209
Interest	482	397	21	116	11	-	1,027
Investments	8,175,320	11,392,147	152,715	1,394,838	72,082	718	21,187,820
Securities Lending Collateral	981,044	1,367,007	18,626	169,138	8,606	104	2,544,525
Total Assets	9,159,312	12,769,699	171,370	1,569,139	80,703	906	23,751,129
Liabilities							
Securities Lending Obligation	981,044	1,367,007	18,626	169,138	8,606	104	2,544,525
Due to Other Funds	29,161	5,479	2	-	7	-	34,649
Total Liabilities	1,010,205	1,372,486	18,628	169,138	8,613	104	2,579,174
Net Assets							
Held in Trust For Employee Pension Benefits	8,149,107	11,397,213	152,742	1,400,001	72,090	802	21,171,955
Total Net Assets	$ 8,149,107	$ 11,397,213	$ 152,742	$ 1,400,001	$ 72,090	$ 802	$ 21,171,955

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	$ 51,722	$ 222,108	$ 1,430	$ 12,217	$ 250	$ 34	$ 287,761
State	518,764	185,348	12,236	-	-	-	716,348
Municipalities	-	3,539	-	21,809	-	-	25,348
Total Contributions	570,486	410,995	13,666	34,026	250	34	1,029,457
Investment Income	830,313	1,170,165	14,430	137,371	7,260	54	2,159,593
Less: Investment Expenses	(43,965)	(61,960)	(764)	(7,274)	(385)	(3)	(114,351)
Net Investment Income	786,348	1,108,205	13,666	130,097	6,875	51	2,045,242
Transfers In	-	-	-	-	2,556	-	2,556
Other	-	-	-	172	-	3	175
Total Additions	1,356,834	1,519,200	27,332	164,295	9,681	88	3,077,430
Deductions							
Administrative Expense	460	-	10	7	-	-	477
Benefit Payments and Refunds	887,561	972,887	15,085	71,191	2,568	82	1,949,374
Other	2,159	1,147	-	-	2,079	-	5,385
Total Deductions	890,180	974,034	15,095	71,198	4,647	82	1,955,236
Changes in Net Assets	466,654	545,166	12,237	93,097	5,034	6	1,122,194
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,682,453	10,852,047	140,505	1,306,904	67,056	796	20,049,761
End of Year	$ 8,149,107	$ 11,397,213	$ 152,742	$ 1,400,001	$ 72,090	$ 802	$ 21,171,955

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, 2005, 35,942 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, 2005, $377.3 million was paid in postretirement benefits.

Note 15 Capital and Operating Leases

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):

2006	$	35,552
2007		31,375
2008		32,601
2009		32,632
2010		27,803
Thereafter		20,163
Total	$	180,126

Contingent revenues for the year ended June 30, 2005, were $2.3 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2005, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2006	$ 34,186	$ 8,260
2007	21,130	7,961
2008	15,674	7,577
2009	13,089	7,484
2010	17,811	7,173
2011-2015	12,062	32,406
2016-2020	-	14,536
2021-2025	-	6,136
2026-2030	-	6,102
2031-2035	-	1,215
Total minimum lease payments	$ 113,952	98,850
Less: Amount representing interest costs		21,895
Present value of minimum lease payments		$ 76,955

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, 2005, totaled $27.0 million.

Lease/Lease Back Transaction

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.

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. 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, 2005.

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, 2005, (amounts in thousands):

Governmental Activities	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Bonds:					
General Obligation	$ 9,606,611	$ 1,435,407	$ 1,136,776	$ 9,905,242	$ 767,115
Transportation	3,153,949	290,722	330,796	3,113,875	270,950
	12,760,560	1,726,129	1,467,572	13,019,117	1,038,065
Plus/(Less) premiums and deferred amounts	181,367	67,313	19,612	229,068	-
Total Bonds	12,941,927	1,793,442	1,487,184	13,248,185	1,038,065
Economic Recovery Notes	273,215	-	63,655	209,560	63,470
Other Liabilities:					
Net Pension Obligation	3,440,354	912,298	716,348	3,636,304	-
Compensated Absences	370,916	50,282	6,029	415,169	12,989
Workers' Compensation	276,681	96,245	74,370	298,556	78,898
Capital Leases	53,761	27,627	4,433	76,955	3,044
Claims and Judgments	13,183	770	7,344	6,609	5,913
Contracts Payable & Other	5,561	4,816	5,561	4,816	-
Total Other Liabilities	4,160,456	1,092,038	814,085	4,438,409	100,844
Governmental Activities Long-Term Liabilities	$ 17,375,598	$ 2,885,480	$ 2,364,924	$ 17,896,154	$ 1,202,379

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

Business-Type Activities	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Revenue Bonds	$ 1,713,805	$ 130,025	$ 224,172	$ 1,619,658	$ 94,483
Plus/(Less) premiums, discounts and deferred amounts	36,349	1,739	4,205	33,883	-
Total Revenue Bonds	1,750,154	131,764	228,377	1,653,541	94,483
Lottery Prizes	385,229	-	48,227	337,002	48,108
Compensated Absences	104,229	9,409	11,490	102,148	30,387
Other	97,104	74,415	5,650	165,869	24,578
Total Other Liabilities	586,562	83,824	65,367	605,019	103,073
Business-Type Long-Term Liabilities	$ 2,336,716	$ 215,588	$ 293,744	$ 2,258,560	$ 197,556

b) As of June 30, 2005, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2005	Amounts due within year
Bonds Payable	$ 3,458,756	$ 114,342
Escrow Deposits	124,583	26,586
Closure of Landfills	26,477	1,529
State Loan	18,558	2,619
Deferred Revenue	6,160	853
Other	6,709	154
Total	$ 3,641,243	$ 146,083

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

As of June 30 2005, the amount of Economic Recovery Notes outstanding was $209.6 million. These notes, which were used to fund the 2002 and 2003 fiscal year deficits, mature on various dates through 2009 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, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 63,470	$ 6,921	$ 70,391
2007	63,270	4,532	67,802
2008	63,270	2,161	65,431
2009	19,550	712	20,262
Total	$ 209,560	$ 14,326	$ 223,886

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, 2005, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2005-2025	2-8%	$ 2,183,198	$ 329,013
School Construction	2005-2025	2-7.282%	1,790,608	72,001
Municipal & Other Grants & Loans	2005-2023	2-7.51%	1,559,884	576,132
Elderly Housing	2005-2011	7-7.5%	9,605	-
Elimination of Water Pollution	2005-2023	3-7.525%	279,172	303,517
General Obligation Refunding	2005-2020	2-6.14%	3,513,479	-
Miscellaneous	2005-2031	2.5-6.75%	79,194	11,506
			9,415,140	$ 1,292,169
Accretion-Various Capital Appreciation Bonds			490,102	
		Total	$ 9,905,242	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 767,115	$ 505,917	$ 1,273,032
2007	751,743	481,424	1,233,167
2008	750,789	456,191	1,206,980
2009	707,179	463,662	1,170,841
2010-2014	3,075,004	1,454,161	4,529,165
2015-2019	2,153,073	557,551	2,710,624
2020-2024	1,146,332	141,070	1,287,402
2025-2029	61,710	3,772	65,482
2030-2034	2,195	109	2,304
Total	$ 9,415,140	$ 4,063,857	$ 13,478,997

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, 2005, 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%	$ 2,123	$ 4,065
Infrastructure Improvements	2005-2024	2-8.0%	3,101,518	433,936
General Obligation Other	2008	7.513-7.525%	343	-
			3,103,984	$ 438,001
Accretion-Various Capital Appreciation Bonds			9,891	
		Total	$ 3,113,875	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 270,950	$ 144,287	$ 415,237
2007	259,873	136,419	396,292
2008	268,498	124,300	392,798
2009	266,698	106,072	372,770
2010	259,790	91,827	351,617
2011-2015	1,030,375	282,392	1,312,767
2016-2020	520,350	107,354	627,704
2021-2025	227,450	21,838	249,288
Total	$ 3,103,984	$ 1,014,489	$ 4,118,473

Variable-Rate Demand Bonds

As of June 30, 2005, 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	$ 113,900	1990	2010
General Obligation	90,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	416,035	2003	2022
General Obligation	300,000	2005	2023
Total	$ 1,119,935		

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 2010,
1997 GO expires in the year 2014,
2000 STO expires in the year 2014 and could be extended for another seven years,
2001 GO expires in the year 2008,
2003 STO expires in the year 2008 and could be extended for another five years, and
2005 GO expenses in the year 2015.

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 into eleven 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, three were executed in January 2003, and five were executed in March and April of 2005.

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2005, 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 CPI swaps, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the CPI swaps, the swap agreements and associated debt are non-amortizing and mature on the same date.

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	$ 68,400	12/19/1990	5.746%	65% of LIBOR (1)	$ (6,089)	12/1/2010	Aa2/AA/AA
1990 STO	45,500	12/19/1990	5.709%	65% of LIBOR (1)	(4,012)	12/1/2010	A1/A/NR
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	(411)	6/15/2012	Aa3/A+/AA-
2003 STO	118,645	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(4,070)	2/1/2022	Aa2/AA/AA-
2003 STO	98,600	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(3,288)	2/1/2022	Aa1/AA/AA+
2003 STO	198,790	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(6,834)	2/1/2022	Aa2/AA+/AA+
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR (1) plus 30bp	(4,422)	3/1/2023	AA+
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR (1) plus 30bp	(4,508)	3/1/2023	Aa1
2005 GO	15,620	4/27/2005	3.620%	CPI (3) plus .62%	(998)	6/1/2016	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	4.700%	CPI (3) plus 1.73%	(1,392)	6/1/2017	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	4.760%	CPI (3) plus 1.79%	(1,385)	6/1/2020	Aaa/AAA/AAA
Total	$ 885,555				$ (37,409)		

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

Fair value

Because interest rates have declined, all swaps have negative fair values as of June 30, 2005. 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, 2005, the State had no credit risk exposure on the 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. The 2003 and 2005 swap agreements 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 collateral provisions. No collateral was required to be posted for any of the swaps at June 30, 2005. The State is not required to post collateral for any of the swaps.

Master netting arrangements do not apply to these transactions because the state has only one derivative transaction with each counterparty.

Approximately 22 percent of the notional amount of swaps outstanding is held with one counterparty, rated Aa2/AA+. One of the December 1990 swaps, approximately 5% of the notional amount of swaps outstanding, is held with the lowest rated counterparty, rated A1/A. All other swaps are held with separate counterparties who are rated Aa3/A+ or better.

Basis Risk

The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI floating rate. 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, 2005, the BMA rate was 2.43 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 2.17 and 2.30 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2005, the budgeted amount for basis risk was $1,500,000.

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 and 2005 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, 2005, 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
2006	$ 19,135	$ 15,849	$ 10,803	$ 45,787
2007	20,350	15,388	10,170	45,908
2008	21,665	14,901	9,490	46,056
2009	22,985	14,381	8,780	46,146
2010-2014	238,090	70,340	24,088	332,518
2015-2019	418,885	97,100	28,171	544,156
2020-2024	144,445	74,366	5,940	224,751
Total	$ 885,555	$ 302,325	$ 97,442	$ 1,285,322

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, 2005, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2009-2035	2.1-7%	$ 566,950
Bradley International Airport	2012-2032	2.5-7.65%	236,515
Clean Water	2006-2026	2-10%	521,968
Bradley Parking Garage	2006-2024	6.125-8%	51,915
Drinking Water	2026	4-5.9%	49,572
Rate Reduction Bonds	2005-2011	2.5-5%	192,740
Total Revenue Bonds			1,619,660
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(317)
Clean Water			19,585
Other			14,613
Revenue Bonds, net			$ 1,653,541

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2005, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $30.6 million. These bonds were issued in July, 2004, to redeem the 1992 Airport Revenue Refunding 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) 2001 Bradley International Airport Revenue Bonds in the amount of $187.4 million and 2001 Bradley International Airport Refunding Bonds in the amount of $18.5 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 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.

In 2000, Bradley Parking Garage bonds were issued 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 needed to pay principal and interest on revenue bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 94,483	$ 62,144	$ 156,627
2007	98,450	67,794	166,244
2008	108,974	64,508	173,482
2009	103,253	58,855	162,108
2010-2014	406,458	227,971	634,429
2015-2019	310,024	151,710	461,734
2020-2024	250,524	86,435	336,959
2025-2029	156,510	40,100	196,610
2030-2034	56,680	13,141	69,821
2035	34,304	3,662	37,966
Total	$ 1,619,660	$ 776,320	$ 2,395,980

d. Component Units
Component units' revenue bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2005-2019	2.35-6%	$ 38,640
CT Housing Finance Authority	2005-2045	1.25-9.36%	3,124,853
CT Resources Recovery Authority	2005-2016	3.9-7.7%	86,575
CT Higher Education Supplemental Loan Authority	2005-2024	1.7-6.4%	130,645
Capital City Economics Development Authority	2005-2034	2.5-5%	72,500
UConn Foundation	2029	3.6-5.375%	7,350
Total Revenue Bonds			3,460,563
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			(23)
CRRA			(1,582)
CCEDA			(202)
Revenue Bonds, net			$ 3,458,756

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, 2005 were $3.2 million. Assets totaling $5.6 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 $35.4 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, 2004, bonds outstanding under the bond resolution and the indenture were $2,720.0 million and $404.9 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 ($230.6 million at 12/31/04) on all outstanding bonds. As of December 31, 2004, the Authority has entered into interest rate swap agreements for $756.9 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 $76.6 million.

The Capital City Economic Development Authority revenue bonds are issued to provide sufficient funds for carrying out its purposes. The bonds are not debt of the State of Connecticut. However, the Authority and the State have entered into a contract for financial assistance, pursuant to which the State will be obligated to pay principal and interest on the bonds in an amount not to exceed $6.7 million in any calendar year. The bonds are secured by energy fees from the central utility plant and by parking fees subject to the Travelers Indemnity Company parking agreement.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 114,342	$ 146,705	$ 261,047
2007	101,662	123,239	224,901
2008	111,610	119,721	231,331
2009	470,065	114,117	584,182
2010-2014	704,510	553,168	1,257,678
2015-2019	641,170	321,664	962,834
2020-2024	494,778	213,093	707,871
2025-2029	456,736	116,299	573,035
2030-2034	325,500	39,060	364,560
2035-2039	27,765	6,196	33,961
2040-2044	12,200	1,522	13,722
2045-2049	225	6	231
Total	$ 3,460,563	$ 1,754,790	$ 5,215,353

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, 2005 were $893.9 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, 2005 were $181.4 million. Of this amount, $57.7 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, 2005, were $4,727.2 million, of which $411.0 million was secured by special capital reserve funds.

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

e. Debt Refundings

During the year, the State issued $447.7 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.65% to advance refund $451.8 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.33%. 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 $25.7 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 $18.8 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $12.2 million. As of June 30, 2005, $3,595.8 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 6-30-03	$ 265,645	$ 8,500
Incurred claims	86,184	6,227
Paid claims	(75,148)	(4,387)
Balance 6-30-04	276,681	10,340
Incurred claims	96,245	4,937
Paid claims	(74,370)	(1,915)
Balance 6-30-05	$ 298,556	$ 13,362

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2005, were as follows (amounts in thousands):

	Balance due to fund(s)										
	General	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
Balance due from fund(s)											
General	$ -	$ -	$ 1,172	$ 45,899	$ 15,695	$ 14,853	$ 874	$ 11,800	$ 5,313	$ -	$ 95,606
Transportation	-	-	-	-	-	-	-	1,114	-	-	1,114
Other Governmental	5,275	6,798	5,086	5,764	32,455	78,802	-	-	-	13,196	147,376
UConn	13,341	-	-	-	-	-	-	-	-	-	13,341
State Universities	2,020	-	-	-	-	-	-	-	-	-	2,020
Employment Security	-	-	6,430	-	-	-	-	-	-	-	6,430
Other Proprietary	337	-	1,177	-	-	-	-	-	-	-	1,514
Internal Services	4,700	-	39,071	-	-	-	-	-	-	-	43,771
Fiduciary	-	-	33,151	-	-	-	-	-	1,506	-	34,657
Component Units	18,558	-	-	-	-	-	-	-	-	-	18,558
Total	$ 44,231	$ 6,798	$ 86,087	$ 51,663	$ 48,150	$ 93,655	$ 874	$ 12,914	$ 6,819	$ 13,196	$ 364,387

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end.

Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2005, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)								
	General	Debt Service	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Fiduciary	Total
Amount transferred from fund(s)									
General	$ -	$ -	$ -	$ 105,096	$ 397,666	$ 197,996	$ 190,677	$ -	$ 891,435
Debt Service	-	-	26,749	1,347	-	-	-	-	28,096
Transportation	-	410,954	-	35,228	-	-	-	-	446,182
Other Governmental	127,280	11,046	1,258	42,368	104,543	27,199	47,891	2,556	364,141
Connecticut Lottery	268,515	-	-	-	-	-	-	-	268,515
Other Proprietary	194,000	-	-	4,958	-	-	9,619	-	208,577
Total	$ 589,795	$ 422,000	$ 28,007	$ 188,997	$ 502,209	$ 225,195	$ 248,187	$ 2,556	$ 2,206,946

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. The $194,000 transfer to the General fund resulted from a timing difference in the reporting of the transfer by the Rate Reduction Bond Operations fund, whose reporting date was changed this year (see Note 21).

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2005, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-04 Previously Reported	Correction of Reported Assets/ Liabilities	Balance 6-30-04/12-31-04 as Restated
Governmental Activites			
Land	$ 934,959	$ 289,253	$ 1,224,212
Net Assets of Governmental Activites	$ (5,440,258)	$ 295,098	$ (5,151,005)
Proprietary Funds and Business-Type Activities			
Non-Major Funds:			
Rate Reduction Bond Operations	$ (194,336)	$ 194,336	$ -
Total Proprietary Funds	$ 3,659,917	$ 194,336	$ 3,854,253
Net Assets of Business-Type Activities	$ 3,659,917	$ 194,336	$ 3,854,253

During the year, the State adjusted the beginning balance of land to correct an understatement of $415 million and an overstatement of $126 million in the amount of State land reported by certain State agencies in prior years. This adjustment had no effect on the Statement of Activities.

In addition, the State changed the reporting date for the Rate Reduction Bond Operations fund from June 30th to December 31st. The change was made to reflect the reporting date used for this fund in the annual report of the State Treasurer.

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

Primary Government

Commitments are defined as "existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities." As of June 30, 2005, the Departments of Transportation and Public Works had contractual commitments of approximately $1,067 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program $3,760 million.
Clean and drinking water loan programs $166 million.
Economic and community development grant/loan programs $140 million.
Various programs and services $853 million.
All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

In addition, 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, 2005, the Authority had drawn $21.5 million on these funds.

Component Units
As of December 31, 2004, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately $92 million.

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.

Amounts received or receivable by the State from grant agencies are subject to audit and adjustment by grantor agencies, mainly the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal government cannot be determined at this time, although the State expects such amounts, if any, to be immaterial, except as discussed next.

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, 2005, 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 Items
Special items are significant transactions or other events within management's control that are either unusual in nature or infrequent in occurrence. As of June 30, 2005, the State reported the following special items:

Transfers to the General fund in the amount of $15 million from the following component units:

Connecticut Innovations, Incorporated	$5.0 million
Connecticut Development Authority	$10.0 million.

During the year, the State completed work on the Hartford Convention Center, which was placed into service in the month of June. At the same time, the State transferred control of the Convention Center to the Capital City Economic Development Authority (a component unit) which will be responsible for managing the facilities. The Authority recorded the Convention Center in its financial statements at a cost of $220.3 million, of which $165.4 million represents capital contributions from the State.

Other special items were reported by the Connecticut Resources Recovery Authority (a component unit) and consisted of a gain on sale of Enron claim of $28.5 million and a loss on early retirement of debt of $6.1 million.

Note 25 Subsequent Events
In November 2005, the state issued $300 million of general obligation bonds. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 4.0% to 5.0%.

In December 2005, $250 million of special tax obligation bonds for transportation infrastructure programs were issued. These bonds will mature in years 2006 through 2025 and bear interest rates ranging from 4.0% to 5.0%.

In February 2006, the State issued $290 million of general obligation bonds. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 3.17% to 4.21%.

In February 2006, the State issued $10 million of Bond Anticipation Notes. The notes will mature in years 2007 and bear an interest rate of 5.0%.

In March 2006, $138.2 million of University of Connecticut general obligation and general obligation refunding bonds were issued. The bonds will mature in years 2006 through 2026 and bear interest rates ranging from 3.20% to 4.22%.

In May 2006, the State issued $200 million of general obligation bonds. The bonds will mature in years 2007 through 2026 and bear interest rates ranging from 3.6% to 5.0%.

In June 2006, the State issued $235 million of general obligation bonds. The bonds will mature in years 2007 through 2026 and bear interest rates ranging from 3.5% to 5.0%.

In August 2006, the State issued $15 million of parking and energy fee revenue bonds. The bonds are special obligations of the Capital City Economic Development Authority, a component unit of the State. However, the State is contractually obligated to make debt service payments on the bonds in an amount not to exceed $6.7 million in any calendar year. The bonds will mature in years 2008 through 2029 and bear an interest rate of 5.0%.

In September 2006, the Connecticut Health and Educational Facilities Authority, a component unit of the State, determined it needed to retire approximately $15 million of outstanding revenue bonds by November 1, 2006 to preserve their tax-exempt status. The bonds were issued in 1996 to finance various projects of a nursing home facility, which went into receivership in 2005 and was recently sold. The Authority also determined that it had approximately $10 million available to retire the bonds, including $8 million it had received from the sale of the facility. Since the bonds are insured by a Special Capital Reserve Fund (as discussed previously in Note 17), the State is obligated to fund the deficiency of $5 million being faced by the Authority. The State decided, however, that instead of drawing on the Special Capital Reserve Fund to fund the deficiency, that it would advance the $5 million to the Authority from a 2007 budgeted appropriation, as allowed by the General Statutes.

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%
6/30/2005 *	-	-	-	-	-	-
*No actuarial valuations were performed.						
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%
6/30/2005 *	-	-	-	-	-	-
*No actuarial valuations were performed.						
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%
6/30/2005 *	-	-	-	-	-	-
*No actuarial valuation was performed.						
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)%
7/1/2004	$1,434.3	$1,393.4	$(40.9)	102.9%	$332.6	(12.3)%

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%	$-	-
2005	$518.8	100.0%	$281.4	65.8%	$12.2	100.0%	$21.8	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	7/1/2004	12/31/2004
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%	2.6-4.0%	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

STATE CAPITOL

KEVIN P JOHNSTON 210 CAPITOL AVENUE ROBERT G JAEKLE

HARTFORD, CONNECTICUT 06106-1559

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, 2005, and have issued our report thereon dated September 27, 2006. 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 Core-CT accounting system.
- II.A.3 The Core-CT accounting system was not designed to provide an efficient means of producing needed financial reports to system users.
- II.A.4 The Core-CT accounting system was not designed to provide a prompt and accurate reconciliation of cash activity.
- II.A.5 The Core-CT accounting system did not have adequate internal controls to ensure that interagency transfers were properly recorded.
- II.A.6 The Core-CT accounting system did not have adequate internal controls to ensure that account codes were properly recorded.
- II.A.7 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, 2005.

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, 2005.

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 and should not 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

September 27, 2006
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
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106 1559

KEVIN P JOHNSTON

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, 2005. 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 $80,378,911 in Federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2005. 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 *Eligibility* 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 these programs.

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, 2005. 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.5., III.A.7., III.A.8., III.A.10., III.A.14., III.A.15., III.A.20., III.A.21., III.A.22., III.A.26., III.B.1., III.D.1., III.D.2., III.D.5., III.D.6., III.F.1., III.G.3., III.H.1., III.I.2., III.J.1., III.J.2., and III.J.4..

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Connecticut's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items III.A.1., III.A.2., III.A.3., III.A.4., III.A.5., III.A.6., III.A.7., III.A.8., III.A.9., III.A.10., III.A.11., III.A.12., III.A.13., III.A.14, III.A.15.,

III.A.16., III.A.17., III.A.18., III.A.19., III.A.20., III.A.21., III.A.22., III.A.23., III.A.24., III.A.25., III.A.26., III.B.1., III.B.2., III.B.3., III.C.1., III.C.2., III.D.1., III.D.2., III.D.3., III.D.4., III.D.5., III.D.6., III.D.7., III.E.1., III.E.2., III.E.3., III.E.4., III.E.5., III.E.6., III.F.1., III.F.2., III.F.3., III.F.4., III.G.1., III.G.2., III.G.3., III.G.4., III.G.5., 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., III.H.10., III.I.1., III.I.2., III.J.1., III.J.2., III.J.3., and III.J.4..

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.5., III.A.22., III.B.1., III.D.1., III.D.6., III.E.3., III.E.4., III.F.1., and III.I.2. 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, 2005, and have issued our report thereon dated September 27, 2006. 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

Robert G. Jaekle
Auditor of Public Accounts

September 27, 2006
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, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
		$
Department of Agriculture		
Food Stamp Cluster:		
Food Stamps (See Note 3)	10.551	217,298,723
State Administrative Matching Grants for Food Stamp Program	10.561	19,464,428
Total Food Stamp Cluster		236,763,151
Child Nutrition Cluster:		
School Breakfast Program	10.553	12,095,716
National School Lunch Program	10.555	56,525,149
Special Milk Program for Children	10.556	390,386
Summer Food Service Program for Children	10.559	1,008,842
Total Child Nutrition Cluster		70,020,093
Miscellaneous Programs (See Note 12)	10.000	17,591
Agricultural Research - Basic and Applied Research	10.001	975,956
Plant and Animal Disease, Pest Control, and Animal Care	10.025	303,877
Federal-State Marketing Improvement Program	10.156	28,213
Inspection Grading and Standardization	10.162	3,429
Market Protection and Promotion	10.163	35,185
Grants for Agricultural Research, Special Research Grants	10.200	20,962
Cooperative Forestry Research	10.202	188,654
Payments to Agricultural Experiment Stations Under Hatch Act	10.203	909,535
Grants for Agricultural Research-Competitive Research Grants (See Note 12)	10.206	53,501
Biotechnology Risk Assessment Research	10.219	195,611
Higher Education Multicultural Scholars Program	10.220	17,000
Integrated Programs (See Note 12)	10.303	32,992
Crop Insurance	10.450	262,276
Cooperative Extension Service (See Note 12)	10.500	2,721,587
Food Donation (See Note 3)	10.550	13,383,652
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	53,366,849
Child and Adult Care Food Program	10.558	10,467,461
State Administrative Expenses for Child Nutrition	10.560	582,237
Emergency Food Assistance Program (Administrative Costs)	10.568	396,944
WIC Farmers' Market Nutrition Program	10.572	30,000
Team Nutrition Grants	10.574	207,151
Forestry Research	10.652	23,544
Cooperative Forestry Assistance	10.664	870,472
Forest Stewardship Program	10.678	55,174
Total Department of Agriculture		391,933,097
Department of Commerce		
Economic Adjustment Assistance (See Note 8 and 12)	11.307	2,115,536
Anadromous Fish Conservation Act Program	11.405	60,888
Interjurisdictional Fisheries Act of 1986	11.407	10,226
Coastal Zone Management Administration Awards	11.419	2,093,033
Atlantic Coastal Fisheries Cooperative Management Act	11.474	185,773

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Fisheries Disaster Relief	11.477	198,793
Total Department of Commerce		4,664,249
Department of Defense		
Miscellaneous Programs (See Note 12)	12.000	15,914
Procurement Technical Assistance For Business Firms (See Note 12)	12.002	55,672
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	41,530
Basic and Applied Scientific Research	12.300	19,296
Military Construction, National Guard	12.400	3,185,385
National Guard Military Operations and Maintenance (O&M) Projects	12.401	9,891,158
National Guard Civilian Youth Opportunities	12.404	246,328
Military Medical Research and Development	12.420	144,838
Research and Technology Development	12.910	271,051
Total Department of Defense		13,871,172
Department of Housing and Urban Development		
Section 8 Project-Based Cluster:		
Lower Income Housing Assistance Program - Section 8 New Const / Substantial Rehab.	14.182	11,084,285
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	255,050
Total Section 8 Project-Based Cluster		11,339,335
Multifamily Housing Service Coordinators	14.191	313,069
Community Development Block Grants/Entitlement Grants	14.218	12,489
Community Development Block Grants/State's Program	14.228	12,418,316
Emergency Shelter Grants Program	14.231	1,131,584
Supportive Housing Program	14.235	1,226,468
Shelter Plus Care	14.238	6,024,850
HOME Investment Partnerships Program	14.239	10,717,694
Housing Opportunities for Persons with AIDS	14.241	273,139
Empowerment Zones Program	14.244	437,358
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	199,281
Fair Housing Assistance Program-State and Local	14.401	28,921
Community Outreach Partnership Center Program	14.511	91,666
Section 8 Housing Choice Vouchers	14.871	52,088,538
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,397,807
Total Department of Housing and Urban Development		97,700,515
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	3,510,398
Wildlife Restoration	15.611	1,478,078
Total Fish and Wildlife Cluster		4,988,476
Miscellaneous Programs	15.000	-5,312
Coastal Wetlands Planning, Protection and Restoration Act	15.614	40,800

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Cooperative Endangered Species Conservation Fund	15.615	12,245
Clean Vessel Act	15.616	629,402
Sportfishing and Boating Safety Act	15.622	21,220
Wildlife Conservation and Restoration	15.625	35,233
Landowner Incentive	15.633	99,857
State Wildlife Grants	15.634	403,591
U.S. Geological Survey-Research and Data Acquisition	15.808	34,790
Historic Preservation Fund Grants-In-Aid	15.904	487,667
Outdoor Recreation-Acquisition, Development and Planning	15.916	2,246,052
Total Department of the Interior		8,994,021
Department of Justice		
Miscellaneous Programs	16.000	-53,654
Law Enforcement Assistance-Narcotics/Dangerous Drugs-State Legislation	16.002	31,467
Offender Reentry Program	16.202	490,013
Law Enforcement Assistance-FBI Crime Laboratory Support	16.301	1,041,737
Juvenile Accountability Incentive Block Grants	16.523	3,235,407
Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	130,000
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	593,667
Part D- Research., Evaluation, Technical, Assistance and Training	16.542	122,940
Title V-Delinquency Prevention Program	16.548	326,114
Part E-State Challenge Activities	16.549	314,676
State Justice Statistics Programs for Statistical Analysis Centers	16.550	-54,159
National Criminal History Improvement Program	16.554	481,878
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	286,046
Crime Victim Assistance	16.575	4,340,907
Crime Victim Compensation	16.576	829,239
Byrne Formula Grant Program	16.579	5,284,222
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	18,957
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	5,507,460
Violence Against Women Formula Grants	16.588	1,207,116
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	199,055
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	694,383
Local Law Enforcement Block Grants Program	16.592	387,943
Residential Substance Abuse Treatment for State Prisoners	16.593	595,363
State Criminal Alien Assistance Program	16.606	900,356
Community Prosecution and Project Safe Neighborhoods	16.609	177,397
Public Safety Partnership and Community Policing Grants	16.710	232,786
Police Corps	16.712	577,149
Enforcing Underage Drinking Laws Program	16.727	566,174
Total Department of Justice		28,464,639
Department of Labor		
Employment Services Cluster:		
Employment Service	17.207	10,169,326
Disabled Veterans' Outreach Program	17.801	957,541

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Local Veterans' Employment Representative Program	17.804	1,069,040
Total Employment Services Cluster		12,195,907
WIA Cluster:		
WIA Adult Program	17.258	5,977,645
WIA Youth Activities	17.259	7,348,453
WIA Dislocated Workers	17.260	10,525,623
Total WIA Cluster		23,851,721
Labor Force Statistics	17.002	1,776,608
Unemployment Insurance (See Note 1 and Note 9)	17.225	651,480,582
Senior Community Service Employment Program	17.235	965,507
Trade Adjustment Assistance-Workers	17.245	3,113,203
Workforce Investment Act	17.255	84,204
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	104,365
Occupational Safety and Health	17.500	133,772
Occupational Safety and Health-State Program	17.503	785,689
Consultation Agreements	17.504	1,377,945
Mine Health and Safety Grants	17.600	46,658
Employment Programs for People with Disabilities	17.720	84,434
Total Department of Labor		696,000,595
Department of State		
Miscellaneous Programs	19.000	116,952
Department of Transportation		
Federal Transit Cluster:		
Federal Transit-Capital Investment Grants	20.500	20,277,899
Federal Transit-Formula Grants	20.507	30,758,962
Total Federal Transit Cluster		51,036,861
Airport Improvement Program	20.106	5,150,917
Highway Planning and Construction	20.205	348,297,727
Highway Training and Education	20.215	83,981
National Motor Carrier Safety	20.218	2,369,179
Recreational Trails Program	20.219	291,976
Federal Transit-Metropolitan Planning Grants	20.505	760,002
Formula Grants for Other Than Urbanized Areas	20.509	1,313,931
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	865,532
State Planning and Research	20.515	-4,064
Job Access-Reverse Commute	20.516	2,707,096
State and Community Highway Safety	20.600	8,948,983
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	22,910
Pipeline Safety	20.700	50,000
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	54,045
Total Department of Transportation		421,949,076

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of the Treasury		
Low-Income Taxpayer Clinics	21.008	84,489
Equal Employment Opportunity Commission		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	1,097
National Aeronautics and Space Administration		
Miscellaneous Programs	43.000	81,081
National Endowment for the Arts		
Promotion of the Arts-Partnership Agreements	45.025	529,553
National Endowment for the Humanities		
Promotion of the Humanities-Fellowships and Stipends	45.160	20,000
State Library Program	45.310	2,275,587
Total National Endowment for the Humanities		2,295,587
Institute of Museum and Library Services		
Miscellaneous Programs	45.300	20,646
Museum Assessment Program	45.302	1,775
Total Institute of Museum and Library Services		22,421
National Science Foundation		
Engineering Grants	47.041	45,533
Mathematical and Physical Sciences	47.049	316,029
Geosciences (See Note 12)	47.050	85,364
Computer and Information Science and Engineering (See Note 12)	47.070	14,856
Biological Sciences (See Note 12)	47.074	67,488
Social, Behavioral, and Economic Sciences	47.075	12,807
Education and Human Resources (See Note 12)	47.076	837,906
Polar Programs	47.078	17,314
Total National Science Foundation		1,397,297
Small Business Administration		
Small Business Development Center	59.037	1,028,462
Department Of Veterans Affairs		
Veterans State Domiciliary Care	64.014	3,232,108
Veterans State Hospital Care	64.016	3,274,182
Burial Expenses Allowance for Veterans	64.101	61,800
All-Volunteer Force Educational Assistance	64.124	209,847
Total Department Of Veterans Affairs		6,777,937

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Environmental Protection Agency		
Miscellaneous Programs	66.000	100,818
Air Pollution Control Program Support	66.001	8,408
State Indoor Radon Grants	66.032	238,845
Ozone Transport	66.033	1,758
Surveys Studies, Investigations Demonstrations and Special Purpose Activities-Clean Air Act (See Note 12)	66.034	15,291
State Public Water System Supervision	66.432	1,297,174
Long Island Sound Program	66.437	782,567
Water Quality Management Planning	66.454	142,777
Nonpoint Source Implementation Grants	66.460	1,324,048
Regional Wetland Program Development Grants	66.461	29,148
Water Quality Cooperative Agreements	66.463	114,007
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	11,815
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	140,431
Beach Monitoring and Notification Program Implementation Grants	66.472	333,399
Water Protection Grants to the States	66.474	76,358
Environmental Protection-Consolidated Research (See Note 12)	66.500	392,963
Science To Achieve Results (STAR) Fellowship Program	66.514	14,528
Performance Partnership Grants	66.605	10,308,396
Surveys, Studies, Investigations and Special Purpose Grants	66.606	2,059,997
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	2,426
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	206,017
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	126,315
Pollution Prevention Grants Program	66.708	69,114
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	886,453
State and Tribal Underground Storage Tanks Program	66.804	15,307
Leaking Underground Storage Tank Trust Fund Program	66.805	639,079
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	62,902
Brownfield Pilots Cooperative Agreements	66.811	109,961
State and Tribal Response Program Grants	66.817	748,254
Brownfields Assessment and Cleanup Cooperative Agreement	66.818	166,681
Total Environmental Protection Agency		20,425,237
Nuclear Regulatory Commission		
Radiation Control-Training Assistance and Advisory Counseling	77.001	2,882
Department of Energy		
Petroleum Escrow Funds (See Note 12)	81.000	24,992
National Energy Information Center	81.039	19,044
State Energy Program	81.041	828,704
Weatherization Assistance for Low-Income Persons	81.042	2,901,698
Office of Science Financial Assistance Program	81.049	40,547
Regional Biomass Energy Programs	81.079	7,523
Conservation Research and Development	81.086	404,057
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	4,738
Energy Efficiency and Renewable Energy Info. Dissem., Outreach, Training and Tech. Analysis/Assistance	81.117	41,325

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
State Energy Program Special Projects	81.119	351,529
Total Department of Energy		4,624,157
Department of Education		
Special Education Cluster:		
Special Education-Grants to States	84.027	115,633,045
Special Education-Preschool Grants	84.173	5,304,275
Total Special Education Cluster		120,937,320
TRIO Cluster:		
TRIO-Student Support Services	84.042	851,629
TRIO-Talent Search	84.044	280,335
TRIO-Upward Bound	84.047	584,855
Total TRIO Cluster		1,716,819
Miscellaneous Programs	84.000	292,724
Adult Education-State Grant Program	84.002	5,501,530
Title 1 Grants to Local Educational Agencies	84.010	112,430,677
Migrant Education-State Grant Program	84.011	1,990,333
Title 1 Program for Neglected and Delinquent Children	84.013	1,259,970
Overseas-Group Projects Abroad	84.021	18,594
Higher Education-Institutional Aid	84.031	583,870
Vocational Education-Basic Grants to States	84.048	9,437,094
Leveraging Educational Assistance Partnership	84.069	50,165
Fund for Improvement of Postsecondary Education	84.116	480,996
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	18,321,791
Rehabilitation Services-Service Projects	84.128	102,735
Independent Living-State Grants	84.169	364,502
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	460,546
Special Education-Grants for Infants and Families with Disabilities	84.181	4,162,782
Safe and Drug-Free Schools and Communities -National Programs (See Note 12)	84.184	505,514
Byrd Honors Scholarships	84.185	465,600
Safe and Drug-Free Schools and Communities-State Grants	84.186	4,422,292
Supported Employment Services for Individuals with Severe Disabilities	84.187	130,383
Bilingual Education-Professional Development	84.195	712,807
Education for Homeless Children and Youth	84.196	453,258
Graduate Assistance in Areas of National Need	84.200	15,924
Javits Gifted and Talented Students Education Grant Program	84.206	303,903
Even Start-State Educational Agencies	84.213	1,793,517
Fund for the Improvement of Education	84.215	21,451
Assistive Technology	84.224	174,741
Program of Protection and Advocacy of Individual Rights	84.240	254,343
Tech-Prep Education	84.243	868,778
Literacy Programs for Prisoners	84.255	62,105
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	100,294
Eisenhower Professional Development State Grants	84.281	-11,628
Charter Schools	84.282	534,100

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Twenty-First Century Community Learning Centers (See Note 12)	84.287	7,683,273
State Grants for Programs	84.298	3,569,593
Education Technology State Grants (See Note 12)	84.318	6,584,710
Special Education-State Personnel Development	84.323	1,256,265
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	381,296
Special Education-Tech Assist/Dissemination to Impr Srvc/Results for Child w/ Disabilities	84.326	43,224
Advanced Placement Program	84.330	716,199
Grants to States for Incarcerated Youth Offenders	84.331	464,235
Comprehensive School Reform Demonstration	84.332	3,317,662
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,920,087
Teacher Quality Enhancement Grants	84.336	438
Reading Excellence	84.338	210,006
Vocational Education-Occupational and Employment Information State Grants	84.346	158,620
Title I Accountability Grants	84.348	-821
Early Childhood Educator Professional Development (See Note 12)	84.349	1,134,210
Transition to Teaching	84.350	194,783
School Renovation Grants	84.352	-54,893
Tech-Prep Demonstration Grants	84.353	122,766
Reading First State Grants	84.357	12,429,113
Rural Education	84.358	117,313
English Language Acquisition Grants	84.365	5,465,023
Mathematics and Science Partnerships	84.366	947,102
Improving Teacher Quality State Grants	84.367	26,873,349
Grants for State Assessments and Related Activities	84.369	6,491,218
Total Department of Education (See Also Student Financial Assistance Cluster)		368,944,601
Pension Benefit Guaranty Corp		
Miscellaneous Programs	86.000	149,200
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	25,429
Elections Assistance Commission		
Help American Vote College Pollworker Program	90.400	31,373
Department of Health and Human Services		
Medicaid Cluster:		
Medical Assistance Program	93.778	2,070,540,468
State Survey and Certification of Health Care Providers and Suppliers	93.777	4,559,081
State Medicaid Fraud Control Units	93.775	770,800
Total Medicaid Cluster		2,075,870,349
Child Care Cluster:		
Child Care and Development Block Grant	93.575	14,601,724
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	36,790,598
Total Child Care Cluster		51,392,322

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	5,108,879
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	7,470,094
Nutrition Services Incentive Program	93.053	2,053,783
Total Aging Cluster		14,632,756
Miscellaneous Programs	93.000	2,997,068
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	74,043
Special Programs for the Aging-Title III Part D-Disease Prevention and Health Promotion Services	93.043	266,616
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	93.048	160,679
Alzheimer's Disease Demonstration Grants to States	93.051	138,388
National Family Caregiver Support	93.052	2,172,621
Maternal and Child Health Federal Consolidated Programs	93.110	218,493
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,024,785
Grants for Technical Assistance Activities	93.119	328
Nurse Anesthetist Traineeships	93.124	8,024
Emergency Medical Services for Children	93.127	82,530
Primary Care Services-Resource Coordination and Development	93.130	58,948
Injury Prevention and Control Research and State and Community Based Programs	93.136	521
Cooperative Agreements for Collaborative Demonstration Program for Homeless Indiv.	93.148	122,346
Projects for Assistance in Transition from Homelessness (PATH)	93.150	615,216
Health Program for Toxic Substances and Disease Registry	93.161	322,739
Grants To States for Loan Repayment	93.165	55,517
Research Related to Deafness and Communication Disorders	93.173	110,543
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	984,510
Research on Healthcare Costs, Quality and Outcomes	93.226	11,551
Consolidated Knowledge Development and Application (KD&A) Program	93.230	4,989,154
Traumatic Brain Injury-State Demonstration Grant Program	93.234	37,265
Abstinence Education Program	93.235	180,631
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	60,155
Mental Health Research Grants	93.242	787,436
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	1,503,034
Universal Newborn Hearing Screening	93.251	13,621
State Planning Grant-Health Care Access for the Uninsured	93.256	58,302
Rural Access to Emergency Devices Grant	93.259	188,775
Occupational Safety and Health Programs	93.262	118,817
Immunization Grants (See Note 3)	93.268	14,741,097
Substance Abuse and Mental Health Services-Access to Recovery	93.275	728,627
Drug Abuse National Research Service Awards for Research Training	93.278	200,663
Drug Abuse and Addiction Research Programs	93.279	257,173
Mental Health National Research Service Awards for Research Training	93.282	55,975
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3 and 12)	93.283	21,993,638
Comparative Medicine (See Note 12)	93.306	9,293
Advanced Education Nursing Traineeships	93.358	54,412
Academic Research Enhancement Award	93.390	24,837
Abandoned Infants	93.551	174,662
Promoting Safe and Stable Families	93.556	4,921,937
Temporary Assistance for Needy Families	93.558	240,134,292

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Child Support Enforcement (See Note 10)	93.563	43,232,557
Refugee and Entrant Assistance-State Administered Programs	93.566	1,372,527
Low-Income Home Energy Assistance	93.568	39,936,500
Community Services Block Grant	93.569	8,869,523
Community Services Block Grant Formula and Discretionary Awards Community- Food & Nutrition	93.571	16,939
Refugee and Entrant Assistance-Discretionary Grants	93.576	433,255
Empowerment Zones Program	93.585	190,163
State Court Improvement Program	93.586	169,606
Community-Based Child Abuse Prevention Grants	93.590	454,398
Grants to States for Access and Visitation Programs	93.597	98,477
Chafee Education and Training Vouchers Program (ETV)	93.599	-13,411
Head Start	93.600	354,599
Adoption Incentive Payments	93.603	401,578
Voting Access for Individuals with Disabilities-Grants for Protect and Advocacy Systems	93.618	46,487
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,457,803
Developmental Disabilities Projects of National Significance	93.631	64,429
Children's Justice Grants to States	93.643	223,487
Child Welfare Services-State Grants	93.645	1,701,860
Adoption Opportunities	93.652	480,452
Foster Care-Title IV-E	93.658	81,035,945
Adoption Assistance	93.659	22,231,838
Social Services Block Grant	93.667	48,584,967
Child Abuse and Neglect State Grants (See Note 12)	93.669	405,620
Family Violence Prevention and Services/Grants for Battered Woman's Shelters Grants States, Ind. Tribes	93.671	926,575
Chafee Foster Care Independent Program	93.674	1,895,804
State Children's Insurance Program	93.767	20,272,415
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	637,708
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	843,022
State Pharmaceutical Assistance Program	93.786	465,273
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	28,593
Diabetes, Endocrinology and Metabolism Research	93.847	44,289
Allergy, Immunology and Transplantation Research	93.855	18,752
Microbiology and Infections Diseases Research	93.856	74,686
Child Health and Human Development Extramural Research	93.865	7,461
Medical Library Assistance	93.879	71,021
Health Care and Other Facilities	93.887	5,000
National Bioterrorism Hospital Preparedness Programs	93.889	6,202,359
Alcohol Research Center Grants	93.891	79,882
Grants to States for Operation of Offices of Rural Health	93.913	179,021
HIV Emergency Relief Project Grants	93.914	132,834
HIV Care Formula Grants (See Note 11)	93.917	20,018,506
Health Start Initiative	93.926	16,589
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	300,824
HIV Prevention Activities-Health Department Based	93.940	7,181,677
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	777,038
Human Immunodeficiency Virus /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	884,475
Assistance Programs for Chronic Disease Prevention and Control	93.945	340,813
Trauma Care System Planning and Development	93.952	43,089

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Block Grants for Community Mental Health Services	93.958	5,799,073
Block Grants for Prevention and Treatment of Substance Abuse	93.959	16,980,279
Geriatric Education Centers (See Note 12)	93.969	6,798
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	1,152,249
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	577,062
Preventive Health and Health Services Block Grant	93.991	1,933,808
Maternal and Child Health Services Block Grant to the States	93.994	5,276,842
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		2,787,478,105
Corporation for National and Community Service		
State Commissions	94.003	108,697
Learn and Serve America-School and Community Based Programs	94.004	209,069
AmeriCorps	94.006	1,201,947
Training and Technical Assistance	94.009	92,376
Total Corporation for National and Community Service		1,612,089
Social Security Administration		
Miscellaneous Programs	96.000	1,835
Social Security-Disability Insurance	96.001	18,878,339
Social Security-Benefits Planning, Assistance, and Outreach Program	96.008	275,729
Total Social Security Administration		19,155,903
Department of Homeland Security		
Miscellaneous Programs	97.000	34,494
State Domestic Preparedness Equipment Support Program	97.004	6,596,086
Boating Safety Financial Assistance	97.012	760,378
Hazardous Materials Assistance Program	97.021	19,500
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023	218,757
Flood Mitigation Assistance	97.029	114,826
Public Assistance Grants	97.036	12,679
Hazard Mitigation Grant	97.039	43,528
National Dam Safety Program	97.041	24,898
Emergency Management Performance Grants	97.042	2,920,629
Pre-Disaster Mitigation	97.047	202,758
State and Local All Hazards Emergency Operations Planning	97.051	242,963
Emergency Operations Centers	97.052	16,724
Citizen Corps	97.053	118,276
Community Emergency Response Teams	97.054	46,028
Total Department of Homeland Security		11,372,524
United States Agency For International Development		
Non-Governmental Organization Strengthening	98.004	55,288
USAID Development Partnership for University Cooperation and Development	98.012	39,912
Total United States Agency For International Development		95,200

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Miscellaneous Programs		
Other Federal Assistance (See Note 12)	99.125	3,661,387
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants	84.007	2,539,491
Federal Family Education Loans (See Note 6)	84.032	163,148,180
Federal Work-Study Program	84.033	3,172,615
Federal Perkins Loan Program-Federal Capital Contributions (See Note 4)	84.038	25,984,029
Federal Pell Grant Program	84.063	43,055,057
Federal Direct Student Loans	84.268	24,291,439
Total Department of Education		262,190,811
Department of Health and Human Services		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 5)	93.342	1,439,837
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		263,630,648
RESEARCH AND DEVELOPMENT CLUSTER:		
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 and NOTE 12)		
Department of Agriculture		
Agricultural Research Service	10.RD	2,236,287
Animal and Plant Health Inspection Service	10.RD	38,960
Cooperative State Research, Education, and Extension Service	10.RD	3,834,690
Food and Nutrition Service	10.RD	55,513
Foreign Agricultural Service	10.RD	23
Forest Service	10.RD	78,795
Natural Resource Conservation Service	10.RD	46,907
Miscellaneous Programs	10.RD	700,042
Total Department of Agriculture		6,991,217
Department of Commerce		
National Oceanic and Atmospheric Administration	11.RD	4,902,748
National Institute for Standards and Technology	11.RD	84,460
Economic Development Administration	11.RD	15,000
Miscellaneous Programs	11.RD	86,042
Total Department of Commerce		5,088,250
Department of Defense		
Department of the Navy, Office of the Chief of Naval Research	12.RD	1,604,449
U.S. Army Medical Command	12.RD	287,508
U.S. Army Materiel Command	12.RD	345,290
Department of the Air Force, Materiel Command	12.RD	457,830
Office of the Secretary of Defense	12.RD	32,327

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National Security Agency	12.RD	29,782
Advanced Research Projects Agency	12.RD	462,672
Miscellaneous Programs	12.RD	3,613,067
Total Department of Defense		6,832,925
Department of Housing and Urban Development		
Office of Community Planning and Development	14.RD	139,191
Office of Policy Development and Research	14.RD	23,894
Total Department of Housing and Urban Development		163,085
Department of the Interior		
Geological Survey	15.RD	151,670
Miscellaneous Programs	15.RD	1,796
Total Department of the Interior		153,466
Department of Justice		
National Institute of Justice	16.RD	954,103
Violence Against Women Office	16.RD	18,377
Total Department of Justice		972,480
Department of Labor		
Employment and Training Administration	17.RD	101,694
Total Department of Labor		101,694
Department of State		
Miscellaneous Programs	19.RD	29,637
Department of Transportation		
Federal Highway Administration	20.RD	47,637
Miscellaneous Programs	20.RD	68,253
Total Department of Transportation		115,890
National Aeronautics and Space Administration	43.RD	1,482,532
National Endowment for the Humanities	45.RD	76,724
Institute of Museum and Library Services	45.RD	136,404
National Science Foundation	47.RD	12,827,908
Department of Veterans Affair	64.RD	26,280
Environmental Protection Agency		
Office of Water	66.RD	262,289
Office of Administration	66.RD	103,366
Office of Enforcement and Compliance Assurance	66.RD	2,768
Office of Prevention, Pesticides and Toxic Substance	66.RD	6,561
Office of Research and Development	66.RD	2,230,323

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Miscellaneous Programs	66.RD	-600
Total Environmental Protection Agency		2,604,707
Department of Energy	81.RD	2,438,689
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	81,577
Office of Elementary and Secondary Education	84.RD	123,795
Office of Educational Research and Improvement	84.RD	3,783,154
Office of Postsecondary Education	84.RD	1,156,547
Miscellaneous Programs	84.RD	43,577
Total Department of Education		5,188,650
United States Institute of Peace	91.RD	-53
Department of Health and Human Services		
Substance Abuse and Mental Health Services Administration	93.RD	74,555
National Institutes of Health	93.RD	12,574,596
Centers for Disease Control	93.RD	452,988
Health Resources and Services Administration	93.RD	402,356
Miscellaneous Programs	93.RD	1,627,988
Total Department of Health and Human Services		15,132,483
Miscellaneous Programs	99.RD	1,162,519
TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT		61,525,487
UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2 and NOTE 12)		
Department of Agriculture		
Cooperative State Research, Education, and Extension Service	10.RD	92,410
Department of Defense		
U.S. Army Medical Command	12.RD	1,942,861
U.S. Army Materiel Command	12.RD	120,612
Miscellaneous Programs	12.RD	29,799
Total Department of Defense		2,093,272
Department of Justice		
Miscellaneous Programs	16.RD	4,468
National Institute of Justice	16.RD	1,094,007
Total Department of Justice		1,098,475
National Aeronautics and Space Administration	43.RD	334,822
National Science Foundation	47.RD	534,901

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Veterans Affairs		
Miscellaneous Programs	64.RD	6,382
Environmental Protection Agency		
Office of Air and Radiation	66.RD	21,452
Department of Energy	81.RD	-1,146
Department of Education		
Office of Educational Research and Improvement	84.RD	167,336
Office of Special Education and Rehabilitative Services	84.RD	1,149,185
Total Department of Education		1,316,521
Department of Health and Human Services		
Substance Abuse and Mental Health Services Administration	93.RD	-14,877
National Institutes of Health	93.RD	60,219,425
Health Resources and Services Administration	93.RD	1,760,417
Office of Population Affairs	93.RD	11,887
Centers for Disease Control	93.RD	575,505
Agency for Health Care Policy and Research	93.RD	448,289
Administration for Children and Families	93.RD	492,055
Miscellaneous Programs	93.RD	5,777,582
Total Department of Health and Human Services		69,270,283
TOTAL HEALTH CENTER RESEARCH GRANTS		74,767,372
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		136,292,859
TOTAL FEDERAL ASSISTANCE		**5,293,413,834**

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) *Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation* (CFDA #14.856); 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, 2004, the Connecticut Housing Finance Authority expended $61,349,970 and $1,398,292 in Federal awards under CFDA #14.856 and CFDA #14.103, respectively. During the fiscal year ended June 30, 2005, the State of Connecticut expended $15,148,470 and $2,482,179 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)	$217,298,723
Food Distribution (10.550)	13,225,821
Department of Health and Human Services:	
Childhood Immunization Grants (93.268)	11,088,204
Preventive Health Services - Sexually Transmitted Diseases Control (93.977)	686,658
Diabetes Reduction (93.988)	261,921
Bioterrorism (93.283)	724,593
General Services Administration:	
Donation of Federal Surplus Personal Property (39.003)	74,718

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, 2005, were $25,881,519

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, 2005, were $1,439,837.

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, 2005, totaled $163,148,180.

Note 7 – WIC Program Rebates and Use of Fines and Penalties

The total amount presented for the WIC Program includes cash rebates received from milk, infant formula and cereal manufacturers in the amount of $11,742,033 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. In addition, the WIC program collected $69,952 in fines and penalties that were subsequently used to increase WIC Program expenditures and is included in the total amount presented for the WIC program.

Note 8 – Economic Adjustment Assistance Program

The total amount presented for the Economic Adjustment Assistance program (11.307) includes the balance of the Revolving Loan Fund (RLF) loans outstanding at the end of the fiscal year in the amount of $245,800, cash and investment balance in the RLF at the end of the fiscal year in the amount of $1,733,045, and administrative expenses paid out of RLF income during the fiscal year in the amount of $112,491.

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 $575,144,995.06. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $12,417,434.37. The $63,918,152.78 in Unemployment Insurance program administrative expenditures was financed by the U.S. Department of Labor.

Note 10 – Child Support Enforcement Program

During the fiscal year ended June 30, 2005, the Department of Social Services expended a total of $43,232,557 (Federal share) to accomplish the goals of the Child Support Enforcement Program (93.563). However, the State received $16,256,922 of the $43,232,557 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $26,975,635 of the Federal share of expenditures is reimbursed to the State directly from the Federal government.

Note 11 - HIV Care Formula Grants

The expenditures presented for the HIV Care Formula Grants (CFDA 93.917) includes cash rebates in the amount of $4,421,835 received from drug manufacturers on the sales of prescription drugs to eligible participants. These rebates were used to expand the services provided under the program.

Note 12 – Pass - Through Grants

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

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
Department of Agriculture				
Cooperative State Research, Ed. & Ext. Service				
10.206	*ECSU*	Pennsylvania State University	SUB-2373-ECSU-USDA-225!	1,669
10.500	*UOC*	University of Vermont	LTR 9-23-02	19,861
10.500	*UOC*	Cornell University	02-41520-01498	8,716
10.500	*UOC*	National 4-H Council	02-4500000000.00	15,504
Total Cooperative State Research, Ed. & Ext. Service				45,750
Integrated Programs				
10.303	*UOC*	University of Massachusetts	04-002440 A 00	16,426
	Total Department of Agriculture			62,176
Department of Commerce				
11.307	*CCSU*	CT Economic Resource Center	01-79-07954	24,201
Department of Defense				
Defense Logistics Agency				
12.002	*CCSU*	South Eastern CT Enterprise Region	SP4800-01-2-0109	55,672
Miscellaneous Programs				
12.000	*UOC*	URS Corporation	DEN-G-40040	14,954
	Total Department of Defense			70,626
National Science Foundation				
47.074	*CCSU*	Wood Hole Oceanographic Institution	A100179	48,221
47.050	*ECSU*	University of Texas	N/A	4,741
47.050	*UOC*	Wood Hole Oceanographic Institution	A100179	5,198
47.050	*UOC*	Joint Oceanographic Ins	M209130	4,300
47.070	*CCSU*	University of Hartford	NSE# DUE-0409497	14,856
47.076	*UOC*	University of Massachusetts	02-522689 D 00	78,939
47.076	*UOC*	University of Massachusetts	05-003146 B 00	641
	Total National Science Foundation			156,896
Department of Environmental Protection				
66.034	*ECSU*	US Environmental Protection	N/A	15,291
66.500	*UOC*	John Hopkins University	OSP 05/095	27,065
	Total Department of Environmental Protection			42,356

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
Department of Energy				
81.000	*UOC*	Proton Energy Systems	111148	24,992
Department of Education				
Office of Elementary & Secondary Education				
84.184	*UOC*	Hartford Public Schools	OSP 05/205	25,448
84.318	*UOC*	Derby	OSP 04/07	4,424
84.318	*UOC*	Derby	OSP 04/51	296
84.318	*UOC*	East Hartford Public Schools	OSP 04/50	4,073
84.318	*UOC*	Killinglly School	OSP 04/52	2,742
84.318	*UOC*	Lebanon School	OSP 04/75	4,089
84.318	*UOC*	Mansfield School	OSP 04/104	3,264
84.318	*UOC*	Thomas Edison School	OSP 04/103	-468
84.318	*UOC*	Walsh Elementary School	CHK# 4809	601
84.349	*ECSU*	Project Stars 2003	S349A03030001	17,431
Total Office of Elementary & Secondary Education				61,900
Office of Educational Research & Improvement				
84.287	*UOC*	Danbury Public Schools	AGR-07-01-01	600
84.287	*UOC*	Danbury Public Schools	12/3/2003	1,400
Total Office of Educational Research & Improvement				2,000
	Total Department of Education			63,900
Department of Health and Human Services				
Centers For Disease Control				
93.283	*UOC*	Portland State University	OSP 05/184	1,786
Miscellaneous Programs				
93.306	*UOC*	Southwest Texas State	B223.2	9,293
Health Resources & Service Administration				
93.969	*UOC*	University of Rhode Island	032105/0000328	6,798
	Total Department of Health and Human Services			17,877
Miscellaneous Programs				
99.125	*CCSU*	The Eurasia Foundation	W01-0062	-2,871
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				460,153

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS: (SEE NOTE 2)				
Department of Agriculture				
Agriculture Research Service				
10.RD	*UOC*	Conservation Fund/Freshwater Inst	OSP 04/91	23,355
Cooperative State Research, Education, and Extension Service				
10.RD	*UOC*	University of Vermont	LNE01-144	4,461
10.RD	*UOC*	Cornell University	LNE01-143	62,553
10.RD	*UOC*	N.Eastern Regional Aquaculture Ctr	SUBCONT #557002	15,334
10.RD	*UOC*	N.Eastern Regional Aquaculture Ctr	OSP 05/107	1,650
10.RD	*UOC*	Department of Agriculture	Various537	17,459
10.RD	*UOC*	Department of Agriculture	2002-38420-11728	98,387
10.RD	*UOC*	University of Vermont	LNE03-177	72,556
10.RD	*UOC*	University of Vermont	OSP#44132-7129	704
10.RD	*UOC*	Yale University	USDA#00-35200-95793	-1,514
10.RD	*UOC*	Montana State University	426283/Z2527	52,907
10.RD	*UOC*	University of Rhode Island	AGMT#022603/535969	11,882
10.RD	*UOC*	University of Delaware	5351	2,536
10.RD	*UOC*	State University of New Jersey	1750	3,582
10.RD	*UOC*	North Carolina State University	00-1320-3YRP-15	3,591
10.RD	*UOC*	Hartford Food System	OSP 04/57	6,763
10.RD	*UOC*	Edwin O Smith High School	OSP 05/065	9,394
10.RD	*UOC*	University of Rhode Island	102600/535958	128,428
10.RD	*UOC*	University of Rhode Island	110700/535957	10,291
10.RD	*UOC*	University of Maine	PO#U189000	3,862
10.RD	*UOC*	University of Rhode Island	102103/0000003	6,657
10.RD	*UOC*	University of Rhode Island	100504/0000516	29,494
10.RD	*UOC*	University of Maine	UM-S569	732
10.RD	*UOC*	Cornell University	42681-7236	3,335
10.RD	*UOC*	University of Vermont	ONE 03-011	-478
10.RD	*UOC*	University of Massachusetts	04-002357 B 00	1,284
10.RD	*UOC*	University of Massachusetts	05-47001-03146	32,295
Total Cooperative State Research, Education, and Extension Service				578,145
Food and Nutrition				
10.RD	*UOC*	University of Rhode Island	020203/0000151	24,836
10.RD	*UOC*	University of Rhode Island	011005/0000547	30,677
Total Food and Nutrition				55,513
Miscellaneous Programs				
10.RD	*UOC*	New England Small Farm Institute	AGREEMENT No. 17A	2,362
10.RD	*UOC*	American Egg Board	OSP 05/026	25,471

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
10.RD	*UOC*	University of Massachusetts	UM#02-529029C00	27,513
Total Miscellaneous Programs				55,346
	Total Department of Agriculture			712,359
Department of Commerce				
Economic Development Administration				
11.RD	*UOC*	Connecticut Urban Legal Initiative	OSP 4/88	15,000
National Oceanic and Atmospheric Administration				
11.RD	*UOC*	University of Maine	UM-S550	2,358
11.RD	*UOC*	Pacific Shellfish Institute	OSP 05/093	19,714
11.RD	*UOC*	University of Mississippi	05-07-004	126,443
11.RD	*UOC*	University of Rhode Island	AGMT#11502/531516	2,602
Total National Oceanic and Atmospheric Administration				151,117
Miscellaneous Programs				
11.RD	*UOC*	Perot Systems Gov't Services	2004-S-012	32,019
11.RD	*UOC*	VKD Shoppe, Inc	OSP 05/004	15,485
Total Miscellaneous Programs				47,504
	Total Department of Commerce			213,621
Department of Defense				
Department of the Navy, Office of the Chief of Naval Research				
12.RD	*UOC*	Massachusetts Institute of Tech	5710001453	42,992
U.S Army Materiel Command				
12.RD	*UOC*	Purdue University	530-1617-04	59,419
12.RD	*UOC*	Yardney Technical Products, Inc	AGR 8-24-01	406
Total U.S Army Materiel Command				59,825
Department of the Air Force, Materiel Command				
12.RD	*UOC*	UTC- P&W	PO#F820048	7,153
12.RD	*UOC*	Purdue University	531-0275-01	62,147
Total Department of the Air Force, Materiel Command				69,300
Miscellaneous Programs				
12.RD	*UOC*	UTC- P&W	21153-TASK 16	48,040
12.RD	*UOC*	UTC- P&W	21153 TASK #18	3,963
12.RD	*UOC*	UTC- P&W	21153 TASK #19	31,078
12.RD	*UOC*	BOEING CO	PO#Z10661	129,779
12.RD	*UOC*	Securboration, Inc	OSP 4/56	19,817
12.RD	*UOC*	Securboration, Inc	AGR DTD 5/1/04	-357

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
12.RD	*UOC*	RJM Semiconductor, LLC	DAAD17-03-C-0122	51,294
12.RD	*UOC*	Triton Systems, Inc	TSI-2205-04-70711	61,932
12.RD	*UOC*	Infoscitex Corp	SUB1-00239	36,595
12.RD	*UOC*	Qualtech Systems, Inc	QSI-DSC-04-003	14,912
12.RD	*UOC*	Yardney Technical Products	586281	55,000
12.RD	*UOC*	Aptima Inc	0268-1174-300	6,211
12.RD	*UOC*	Aptima Inc	0173-1128	296,084
12.RD	*UOC*	Alphatech, Inc	04116-8772	48,398
12.RD	*UOC*	Lynntech Inc	HQ0006-04-C-7109	36,881
12.RD	*UOC*	Inframat Corporation	IMC10530001	29,000
12.RD	*UOC*	Sky Research Inc	SKY-ESTCP 03	9,778
12.RD	*UOC*	Battelle Memorial Institute	TCN 05078	120
12.RD	*UOC*	Dept. of Defense	AGR DTD 5/1/04	44,215
12.RD	*UOC*	DOD-APSI	AGR.12-05-02	57,666
12.RD	*UOC*	OPEL	8/23/2003	180,192
Total Miscellaneous Programs				1,160,598
	Total Department of Defense			1,332,715
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.RD	*UOC*	Town of Vernon	11/25/2003	139,191
	Total Department of Housing and Urban Development			139,191
Department of Labor				
Employment and Training Administration				
17.RD	*UOC*	WA - State Workforce Train & Ed	020 PXG (033)	101,694
	Total Department of Labor			101,694
Department of Transportation				
Federal Highway Administration				
20.RD	*UOC*	University of Vermont	UVM ID #FJ64	1,211
20.RD	*UOC*	Massachusetts Institute of Tech	5710001748	22,500
20.RD	*UOC*	Massachusetts Institute of Tech	5710001690	23,926
Total Federal Highway Administration				47,637
Miscellaneous Programs				
20.RD	*UOC*	Massachusetts Institute of Tech	5710001468	1,682
20.RD	*UOC*	Massachusetts Institute of Tech	AGR#5710001469	13,338
20.RD	*UOC*	Massachusetts Institute of Tech	5710001691	43,894
20.RD	*UOC*	Universities & Colleges	6.30-02(97) #96-2	-92,991

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
20.RD	*UOC*	N.England University Transportation	5710001746	26,421
20.RD	*UOC*	N.England University Transportation	5710001745	17,053
20.RD	*UOC*	Texas A & M Research Foundation	S040060	18,455
20.RD	*UOC*	Massachusetts Institute of Tech	5710001747	7,643
Total Miscellaneous Programs				35,495
	Total Department of Transportation			83,132
National Aeronautics and Space Administration				
43.RD	*UOC*	Arizona State University	99-122SC	1,789
43.RD	*UOC*	University of Hartford	OSP 05/132	157,834
43.RD	*UOC*	University of Hartford	SUB CONT #314803	-50
43.RD	*UOC*	University of Hartford	303113-SUB-UCONN	8,555
43.RD	*UOC*	University Of Florida	NCC9-110	19,986
43.RD	*UOC*	University of Hartford Space	303113-SUB-UCONN	197,776
43.RD	*UOC*	UT-Hamilton Sundstrand	2322388 07	32,828
43.RD	*UOC*	DOE/Thomas Jefferson Natl Accel.	SURA-02-C0006	4,971
43.RD	*UOC*	University of Hartford	OSP 05/080	9,524
43.RD	*UOC*	Georgia Institute of Technology	NNG04GB89G	2,699
	Total National Aeronautics and Space Administration			435,912
National Science Foundation				
47.RD	*UOC*	Ciencia Inc.	803210	25,407
47.RD	*UOC*	University of California at Riverside	8-Apr	67,891
47.RD	*UOC*	Physical Sciences, Inc	SC1239-2804	5,798
47.RD	*UOC*	University of Hartford	342970	20,585
47.RD	*UOC*	University of Miami	PO#P736886	48,898
47.RD	*UOC*	Joint Oceanographic Institutions	JSA-29	3,087
47.RD	*UOC*	National Science Foundation	OCE-0221137	490
47.RD	*UOC*	Massachusetts Institute of Tech	5710001373	90,705
47.RD	*UOC*	Syracuse University	AGR # 353-5847	2,847
47.RD	*UOC*	Syracuse University	353-5953-S01	21,203
47.RD	*UOC*	University of Florida	UF-EIES-0236001-Con	30,857
47.RD	*UOC*	Florida State University	R00283	34,612
47.RD	*UOC*	Duke University	01-SC-NSF-1008	9,162
47.RD	*UOC*	University of California at Davis	00RA2548	14,135
47.RD	*UOC*	University of California at Davis	RA 012679 UCT	33,489
47.RD	*UOC*	University of Puerto Rico	#534024/NSF#MCB01373	29,835
47.RD	*UOC*	Purdue University	501-0825-1	113,961
47.RD	*UOC*	Purdue University	501-0593-01	6,572
47.RD	*UOC*	University of Georgia	RR229-208/2000817	292,877
47.RD	*UOC*	New England Board of Higher Ed	LTR DATED 2/20/03	2,239
47.RD	*UOC*	New England Board of Higher Ed	LTR 9/24/03	18,820

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
47.RD	*UOC*	New England Board of Higher Ed	148H466	33,158
47.RD	*UOC*	Marquette University	3-Mar	61,949
47.RD	*UOC*	Woods Hole Oceanographic Inst	A100424	35,800
47.RD	*UOC*	University of Michigan	F011773	19,994
47.RD	*UOC*	US Nanocorp Inc	OSP 05/073	8,034
47.RD	*UOC*	Northeastern University	532460P20107	67,213
47.RD	*UOC*	University of Massachusetts	04-002653 A 01	41,063
47.RD	*UOC*	University of Massachusetts	04-002654 A 00	53,874
47.RD	*UOC*	Williams College	2005-01-ECON	31,394
	Total National Science Foundation			1,225,949
Department of Environmental Protection				
Office of Water				
66.RD	*UOC*	Cornell University	43193-7306	6,848
Office of Research and Development				
66.RD	*UOC*	John Hopkins University	8201-48276	131,023
66.RD	*UOC*	John Hopkins University	8112-48274	127,703
66.RD	*UOC*	John Hopkins University	8112-48273	1,998
66.RD	*UOC*	John Hopkins University	AGR #8210-17883	90,466
Total Office of Research and Development				351,190
	Total Department of Environmental Protection			358,038
Department of Energy				
81.RD	*UOC*	Oxford Performance Materials	4/1/2004	25,000
81.RD	*UOC*	University of Utah	2212032	17,478
81.RD	*UOC*	Solar Turbines, Inc	PO#HD0002206	3,408
81.RD	*UOC*	Worchester Technology Institute	02-218190-1-4	185,699
81.RD	*UOC*	Worchester Technology Institute	S/C 02-218190-1	2,811
81.RD	*UOC*	Consortium for Plant Biotech	GO12026-155	23,480
81.RD	*UOC*	United Technologies	4997	484,516
81.RD	*UOC*	Clemson University	02-01-SR097	181,977
81.RD	*UOC*	Clemson University	03-01-SR107	165,154
81.RD	*UOC*	Fuelcell Energy Inc	23215	19,997
81.RD	*UOC*	Fluent Inc.	FY00012UCT	36,519
81.RD	*UOC*	Specialized Technology Resources	PO 2417	34,254
81.RD	*UOC*	Corporations	4000033998	5,000
	Total Department of Energy			1,185,293
Department of Education				
Office of Special Education and Rehabilitation Services				
84.RD	*UOC*	Marquette University	H133E020729	27,814

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
84.RD	*UOC*	Mashentucket Pequot Tribal Nation	OSP 04/76	53,763
Total Special Education and Rehabilitation Services				81,577
Office of Elementary and Secondary Education				
84.RD	*UOC*	Hartford Public Schools	552472	81,679
84.RD	*UOC*	Hartford Public Schools	3/15/2003	24,153
84.RD	*UOC*	Eastconn	OSP 05/063	17,792
84.RD	*UOC*	Groton Public Schools	AGR 4/1/03	171
Total Office of Elementary and Secondary Education				123,795
Office of Educational Research and Improvement				
84.RD	*UOC*	Danbury School	AGR 10-21-98	105
Miscellaneous Programs				
84.RD	*UOC*	National Writing Project Corporation	92-CT01	39,883
Total Department of Education				245,360
Department of Health and Human Services				
Center For Disease Control				
93.RD	*UOC*	Sekos	OSP 05-141	26,921
Health Resources and Service Administration				
93.RD	*UOC*	NY/Health Resources Inc.	2124-01	130,454
93.RD	*UOC*	NY/Health Resources Inc.	2124-02	8,114
Total Health Resources and Service Administration				138,568
Substance Abuse and Mental Health Services Administration				
93.RD	*UOC*	NY/Mental Health	OSP 05/051	15,244
93.RD	*UOC*	PHS/ Mental Health Services Admin	OSP 05/049	13,256
93.RD	*UOC*	Health Resources and Services Admin	AGR 11/04/02	1,358
93.RD	*UOC*	PHS/ Mental Health Services Admin	AGR 4/29/03	30,572
93.RD	*UOC*	PHS/ Mental Health Services Admin	PO# SM9142855	1,087
Total Substance Abuse and Mental Health Services Administration				61,517
National Institutes of Health				
93.RD	*UOC*	Applied Biophysics	10/11/2001	-90
93.RD	*UOC*	University of Pennsylvania	536642 7R01DE115407	-136
93.RD	*UOC*	Mount Sinai	PO3 SM 9142855	3,405
93.RD	*UOC*	Mount Sinai	OSP 05/050	19,617
93.RD	*UOC*	Northeastern University	549503P523984	44,502
93.RD	*UOC*	University of Houston	R-04-0663	39,821
93.RD	*UOC*	University of North Carolina	5R01CA74015-07	11,193
93.RD	*UOC*	University of North Carolina	UNC-CH#5-31861	58,096

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*UOC*	Medical University of SC	9/30/2002	59,497
93.RD	*UOC*	National Institute of Environmental	#753103	2,985
93.RD	*UOC*	MGS Research, Inc	12/1/2003	44,884
93.RD	*UOC*	Children's Research Institute	PO#290699	124,849
93.RD	*UOC*	University of California	0845 GDC 664	3,182
93.RD	*UOC*	Texas A&M University	60851	103,768
93.RD	*UOC*	L2 Diagnostics, LLC	AGMT DTD 8/20/03	51,354
93.RD	*UOC*	L2 Diagnostics, LLC	OSP 05/078	72,157
93.RD	*UOC*	Dartmouth College	5-30063.5708	13,183
93.RD	*UOC*	University California	E01-HD-26939	184
93.RD	*UOC*	Haskins Laboratories	AGR 3-4-03	45,900
93.RD	*UOC*	Iowa State University	PROJ.#430-24-29	39,884
93.RD	*UOC*	Harvard Pilgrim Health Care, Inc	OSP 05/082	64,611
93.RD	*UOC*	Evergen Biotechnologies Inc	OSP 05/183	3,101
93.RD	*UOC*	Massachusetts General Hospital	1 R24 RR018934-01	26,032
93.RD	*UOC*	Pennsylvania State University	2629-UC-DHHS-8982	13,671
93.RD	*UOC*	Beth Israel Hospital	11/22/2002	196,270
93.RD	*UOC*	Beth Israel Hospital	AGR 11/22/02	158,943
93.RD	*UOC*	Beth Israel Hospital	11/22/2002	225,970
Total National Institutes of Health				1,426,833
Miscellaneous Programs				
93.RD	*UOC*	Assoc. of Teachers of Prevent Medicine	TS-0784	17,503
	Total Department of Health and Human Services			1,671,342
Miscellaneous Programs				
99.RD	*UOC*	Quinebaug -Heritage	AGR. 1-11-01	148,737
99.RD	*UOC*	Corporations	PO# FSG332075	33,901
99.RD	*UOC*	Laser Fare	PO#22603	-981
99.RD	*UOC*	American Egg Board	OSP 05/032	60,228
99.RD	*UOC*	Ciencia	1/1/2002	22,867
99.RD	*UOC*	RJM Semicond	PO #1066UCONN	12,658
99.RD	*UOC*	Qualtech Systems	QSI-DSC-02-005	-6,063
99.RD	*UOC*	American Egg Board	MOA 7/16/02	3,000
99.RD	*UOC*	UTC- P&W	21153 Task #15	111,408
99.RD	*UOC*	United Tech-Research Ctr	OSP 04/47	20,594
99.RD	*UOC*	Yardney Tech	P.O.#0284042	31,203
99.RD	*UOC*	University of Hartford	314803	-58
99.RD	*UOC*	Global Infotek	SC-2003*H265000*000-	80,434
99.RD	*UOC*	Northeastern University	P411063	4,736
99.RD	*UOC*	Fuel Cell	21366	5,371
99.RD	*UOC*	Mesoscopic Devices	2003-06	8,140
99.RD	*UOC*	University of Hartford	314804	22,187

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
99.RD	*UOC*	Opel Inc	5/1/2004	24,797
99.RD	*UOC*	Anteon Corp	00CG-005	236,174
99.RD	*UOC*	Learning Point Assoc.	ED-01-CO-0011	11,858
99.RD	*UOC*	University of Michigan	F012178	42,980
99.RD	*UOC*	University of Georgia	RC710-013/4092044	86,564
99.RD	*UOC*	American Council on Education	HNE-A-00-97-00059-00	112,167
99.RD	*UOC*	American Council on Education	OSP 4/15	65,788
99.RD	*UOC*	Shaw Environmental & Infrast	9517 OP	-761
99.RD	*UOC*	MedCases, Inc	OSP 04/27	4,328
99.RD	*UOC*	Navy-GA Tech	A-6489-S3	20,000
99.RD	*UOC*	MedCases, Inc	HHS-N278-2004-44090C	262
Total Miscellaneous Programs				1,162,519
TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS				8,867,125
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 Delaware	2003-35201-13553	25,972
Department of Defense				
Miscellaneous Programs				
12.RD	*UHC*	Science Applications International Corp.	DAAD 19-03-C-0051	29,799
Department of Defense				
U.S. Army Medical Command				
12.RD	*UHC*	Hospital	W81XWH-04-1-0553	12,950
Department of Energy				
81.RD	*UHC*	Brookhaven National Laboratory	53419	-1,146
Department of Education				
Office of Special Education and Rehabilitative Services				
84.RD	*UHC*	SRI International	51-000498	13,900
Department of Health and Human Services				
Agency for Health Care Policy and Research				
93.RD	*UHC*	Mass General Hospital	1 R01 AI42402-03	21,754
Office of Population Affairs				
93.RD	*UHC*	Hill Health Corp	HHCC 2003-0100	11,887
Administration for Children and Families				

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*UHC*	University of Illinois	02-208	30,302
Centers for Disease Control				
93.RD	*UHC*	Yale University	5 RO1 OH004182-03	6,091
93.RD	*UHC*	Assoc of Teachers Preventive Medicine	431-16/16	5,868
93.RD	*UHC*	Assoc of American Medical Colleges	U36/CCU319276	-1,518
93.RD	*UHC*	Worcester Memorial Hospital	U27/CCU116648-06	38,484
93.RD	*UHC*	Assoc of American Medical Colleges	U36/CCU319276	73,024
Total Centers for Disease Control				121,949
Health Resources and Services Administration				
93.RD	*UHC*	UMASS	6H30 MC00037-04	-1,246
93.RD	*UHC*	UMASS	H30-MC00037-07-01	39,710
93.RD	*UHC*	UMASS	H30-MC00037-07-02	1,508
93.RD	*UHC*	UMASS-Worcester	6 H4A HA 00050-01-01,02,03	56,139
93.RD	*UHC*	CT Primary Care Assoc	04/RWIV	16,662
93.RD	*UHC*	CT Primary Care Assoc	05/RWIV	148,413
93.RD	*UHC*	Yale University	T01HP01399-01-00	46,840
93.RD	*UHC*	Children's Hospital Medical Center	(DPH) 2003-020	9,963
93.RD	*UHC*	Children's Hospital Boston	5 H4BMC00934-02	12,172
93.RD	*UHC*	Yale University	1 D57 HP10171-02	4,219
93.RD	*UHC*	City of Hartford	RFP8217	419
Total Health Resources and Services Administration				334,799
Substance Abuse and Mental Health Services Administration				
93.RD	*UHC*	Yale University	2 U79SM54318-04	12,220
93.RD	*UHC*	CT Children's Medical Center	1 U79 SM553663-01	-4,488
Total Substance Abuse and Mental Health Services Administration				7,732
National Institutes of Health				
93.RD	*UHC*	Phil Amer. Medical School	1 R25 AT00529-01	8,478
93.RD	*UHC*	Uconn Foundation	5RO1 ES03154-18	1,788
93.RD	*UHC*	Suny-Buffalo	5 RO1 DEO9838-07	148,591
93.RD	*UHC*	University of Rochester	5 R37 DE008921-16	7,685
93.RD	*UHC*	UMASS-Lowell	S1118650S300008	11,741
93.RD	*UHC*	Vanderbuilt University	2 P01CA77839	112,944
93.RD	*UHC*	University of Rochester	411581-003-G	24,423
93.RD	*UHC*	University of Rochester	411649-004G	28,915
93.RD	*UHC*	University of Rochester	1 R43NS45418-01	7,407
93.RD	*UHC*	University of New Jersey	5 P50 DE10592	44
93.RD	*UHC*	Tufts University	1RO1 DE13405-01	-6,872
93.RD	*UHC*	University of California-Berkeley	SA2918PG	23,163
93.RD	*UHC*	Univ Med/Dent of New Jersey	1 RO1 DE14897-01	27,620
93.RD	*UHC*	University of Rochester	RO1 DE014730-02	16,653

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*UHC*	Child Hlth & Dvlpmnt Inst.of CT	R01-DA15844	117,760
93.RD	*UHC*	Medical University of South Carolina	R01 DA15844	11,723
93.RD	*UHC*	Yale University	2 R01 AA11330-04A2	187,780
93.RD	*UHC*	Yale University	2 R01 AA11197-05	77,827
93.RD	*UHC*	Yale University	DA12849-06	41,954
93.RD	*UHC*	Yale University	DA12690	94,592
93.RD	*UHC*	Yale University	DA12422	-13,967
93.RD	*UHC*	Yale University	DA13334	-2,706
93.RD	*UHC*	Yale University	5-R01 DA15215-01-02	36,843
93.RD	*UHC*	Yale University	5 P50 DA092410-10	119,608
93.RD	*UHC*	Yale University	message	220,379
93.RD	*UHC*	Yale University	R01 DA12849-05	-87,600
93.RD	*UHC*	University of Utah	P01 CA073992	147,742
93.RD	*UHC*	Northshore University Hospital	5U10-CA35279-14	562
93.RD	*UHC*	University of Wisconsin	1R01 GM072000-01	13,554
93.RD	*UHC*	Nanoprobes Inc.	1 R43 CA94495-01	13,905
93.RD	*UHC*	Nanoprobes Inc.	1 R43 CA94495-02	45,086
93.RD	*UHC*	Uconn Foundation	1 R01 CA94044-01	63,765
93.RD	*UHC*	Tufts University	CA39088	95,673
93.RD	*UHC*	University of Pittsburgh	P5400-5425	-8,283
93.RD	*UHC*	University of Pittsburgh	BC0107-185	43,904
93.RD	*UHC*	University of Pittsburgh	5 P01AG04390	23,812
93.RD	*UHC*	CTRC Research Foundation	S0000	19,554
93.RD	*UHC*	Duke University	SCD-HEFT 023	11,283
93.RD	*UHC*	Duke University	5 RO1 CA89053-03	24,391
93.RD	*UHC*	Duke University	5 RO1 CA89053-02	-16
93.RD	*UHC*	Temple University	HL45700	418
93.RD	*UHC*	Reliable Biopharmaceuticals Corp	1 R41 HL067498-01A1	4,091
93.RD	*UHC*	Suny-Syracuse	SUNY1031799/28503	265,016
93.RD	*UHC*	Nanoprobes Inc.	4 R44 HL076046-02	65,117
93.RD	*UHC*	Interhealth Nutraceuticals Inc	1 R43 HL 75665-01	25,776
93.RD	*UHC*	Harvard University	P01 GM47467-12	70,595
93.RD	*UHC*	John Hopkins University	8502-91909-X	21,567

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 12 - Pass-through Grants:				$
93.RD	*UHC*	Univ of Colorado Hlth Sciences Center	5 U01 HL064857-04	67,907
93.RD	*UHC*	CT Children's Medical Center	05-179046-01	22,604
93.RD	*UHC*	CT Children's Medical Center	04-179046-06	23,702
93.RD	*UHC*	Arizona University	5R01 AR46034-02	-4,501
93.RD	*UHC*	Children's Hospital Medical Center	R01 AR48347-01A1	159,823
93.RD	*UHC*	Yale University	1 RO1 AR049190-01A1	45,310
93.RD	*UHC*	Infratec Inc.	1 R43 DK064494-01	164,376
93.RD	*UHC*	Onconova	1 R43 NS45418-01	750
93.RD	*UHC*	Onconova	1 R43 NS45418-02	108,915
93.RD	*UHC*	University UCLA	1562-G-DC223	-7,337
93.RD	*UHC*	University of Oregon Health	5 R01 A1051507-03	93,477
93.RD	*UHC*	University of Nebraska-Lincoln	RHD044144A	16,459
93.RD	*UHC*	UMASS	5 U01 AI132907-13	56,195
93.RD	*UHC*	Yale University	5 P50 DA133334-05	4,611
93.RD	*UHC*	UMASS	5 U01 AI32907-12	124,971
93.RD	*UHC*	Brookside R&D	1 R43 AG21882-01	30,201
93.RD	*UHC*	Rsrch Foundation for Mental Hygiene	1 R01AG16381-01	21,257
93.RD	*UHC*	SUNY-Brooklyn	2U10 AA0840116	422,802
93.RD	*UHC*	SUNY-Brooklyn	5 U10AA08403-13	92
93.RD	*UHC*	SUNY-Brooklyn	5 U10AA08403-13	-1,964
93.RD	*UHC*	SUNY-Brooklyn	SUNY 1009189/30162	79,889
Total National Institutes of Health				3,593,824
Miscellaneous Programs				
93.RD	*UHC*	University of Tennessee	N01-AR-9-2242	8,985
93.RD	*UHC*	PHIL Population Council	5 R01 HD038807-04	13,149
93.RD	*UHC*	UMASS	N01-DK-9-2326	170,555
93.RD	*UHC*	Uconn Foundation	1 S07 RR18220-01	106,689
93.RD	*UHC*	Uconn Foundation	1 P20 GM65764-01	185,210
93.RD	*UHC*	University of Virginia	1R24 GM64437-01	127,307
93.RD	*UHC*	University of Virginia	GC10641	249,131
Total Miscellaneous Programs				861,026
Total Department of Health and Human Services				4,983,273
TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS				5,064,748
TOTAL PASS-THROUGH GRANTS				14,392,026

*	- **Identification of State Agencies:**
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, 2005
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STATUS

A. Material instances of non-compliance with Federal requirements
B. Reportable conditions of internal control process deficiencies
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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
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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, 2005
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
14.238	Shelter Plus Care
14.871	Section 8 Housing Choice Vouchers
17.225	Unemployment Insurance
17.258, 17.259 and 17.260	WIA Cluster
20.205	Highway Planning and Construction
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
84.357	Reading First State Grants
84.367	Improving Teach 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
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security-Disability Insurance
N/A	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $15,880,242

Auditee qualified as a low risk auditee? No

SECTION II

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

II.A.1. 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 in a much more automated method that would not require the extensive use of manual worksheets.

Condition: Our review found that the Core-CT system, although improved, did not provide financial information that would facilitate the timely preparation of year-end financial statements. Preparation of required reports was problematic and filled with delays.

The Comptroller did not prepare and issue audited financial statements for its CAFR until September 2006, some 15 months after the close of the fiscal year. This was some seven months after the date they were needed by the State Treasurer and six months after the date they were required by the Federal government.

Effect: The Comptroller was only able to provide <u>preliminary</u> and <u>unaudited</u> financial statements to meet the February 28, 2006, SEC continuing disclosure requirement. Credit rating agencies will consider this deficiency when assessing the creditworthiness of the State of Connecticut.

The State did not meet the deadline for complying with the reporting requirements for Federal financial assistance. The financial statement audit required by the Federal government could not be completed and reported on by the required date.

In March 2006, 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 1, 2006. The request for this extension was based on the Comptroller's projected date of providing a complete set of financial statements by the end of May 2006. Subsequently, after it became apparent that the completed financial statements would not be produced and available for audit in time to meet the September 1, deadline, on July 31, 2006, the Office of Policy and Management requested and subsequently received an additional extension to September 30, 2006.

Cause: As noted above, because of the extensive delay in reporting for the 2003-2004 fiscal year, the Budget and Financial Analysis Division of the State Comptroller was not able to begin the process of preparing the financial statements for the 2004-2005 fiscal year until January 2006.

As described above, there were delays in issuing the *Annual Report of the State Comptroller - Budgetary Basis* upon which the preparation and audit of the CAFR is based. By necessity, the preparation of CAFR financial statements is 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.

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

Agency Response: "The time required to produce audited annual financial statements was shortened considerably in Fiscal Year 2005. In Fiscal Year 2004, eighteen months was required to generate final audited financial statements. In Fiscal Year 2005, this timeframe was shortened to nine months.

It should also be noted that unaudited annual financial reports were produced in both Fiscal Year 2004 and Fiscal Year 2005 prior to the February 28th SEC continuing disclosure requirement. Both legal basis and GAAP based annual reports were provided prior to that date. These unaudited statements proved to be highly reliable for trending and comparative analysis purposes and were used by rating agencies.

As you note in your findings, delays in the finalization of Fiscal Year 2004 report necessitated postponing work on Fiscal Year 2005. This combined with significant manual corrections required to accurately post agency transactions explains the Fiscal Year 2005 timeline."

II.A.2. 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: Our previous audit found that the implementation of the Core-CT system decentralized many of the State's accounting functions and procedures and eliminated many of the controls the State Comptroller had previously maintained over postings onto Statewide accounting records. Internal controls over the posting of interagency transfers, correct account coding, and budgetary accounting, as well as the availability of needed financial reports to State agencies was significantly diminished with the implementation of the Core-CT system in July 2003.

Our current review found that some improvements have been implemented, as described below. A chartfield combination edit has been implemented over general ledger postings; State agencies are now required to perform a fiscal close out each month, controls were implemented over the recording of transaction dates and over the change or adjustment of past posted transactions. However, our current review found that staff members of the Budget and Financial Analysis Division were still required to expend a significant amount of their time working on Core-CT problems with user agencies, and identifying and correcting accounting errors, rather than being available to address the needs of statewide financial reporting.

In addition, the State Comptroller has still not provided user agencies with an updated version of its *State Accounting Manual*, some three years after the Core-CT conversion. The first revision, an online chart of accounts for the Core-CT system, was not made available to agency users until January 2006.

Our previous report noted that the Office of State Comptroller had relinquished a significant amount of the control it previously maintained over the accounting of the State's financial transactions. We also noted that the Budget and Financial Analysis Division was frequently in the position of accepting what the Core-CT project, and the consultants employed to install the system could provide, rather than the system meeting its needs.

In response, effective April 2006, the Core-CT Financials Team was placed as part of the Budget and Financial Analysis Division on the organizational charts of the Office of State Comptroller. At the time of our review (September 2006) it was too early to notice any improvements resulting from this change.

The implementation of Core-CT project itself was managed by a joint committee consisting of the Office of State Comptroller, the Department of Information Technology, the Department of Administrative Services, and the Office of Policy and Management; working with the software vendor PeopleSoft, and the Accenture and other consultants employed to install the system. Our previous audit concluded that the Office of State Comptroller, although statutorily given its responsibilities for Statewide financial reporting, did not maintain the role of primary participant in the project.

We still note that the Core-CT project is still under the administration of the joint committee responsible for the system's initial implementation. Because the Core-CT project has not yet met completion, and with consultants still completing significant work on the implementation of the projects and contracts modules for the 2007-2008 fiscal year, it will be some time before the Core-CT system could actually be "handed over" to the State Comptroller. Even after that point, the Core-CT system will remain an adaptation from the commercial accounting environment, and will not be able to close annual budgets, and maintain budget controls, appropriations, encumbrances, purchase orders and other transactions in an efficient manner within the decentralized environment of numerous State agencies.

In May 2006, a settlement agreement was reached between the software vendor Oracle/PeopleSoft and the Office of State Comptroller and Department of Administrative Services regarding certain quality, performance, and functionality features of the Core-CT system. In exchange for $1,625,000 in technical support credits, the Office of State Comptroller and Department of Administrative Services agreed to release Oracle/PeopleSoft from any or all claims for damages arising from the dispute.

Effect: With the decentralization inherent in the Core-CT system, the State Comptroller has relinquished a significant amount of the control it previously maintained over accounting of the State's financial transactions. State agencies can enter data onto statewide accounting ledgers without the review and authorization of the State Comptroller. 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. It has now become established practice for the Budget and Financial Analysis Division to spend an inordinate amount of time on review and cleanup of agency posted transactions before any financial reporting can be accomplished.

Cause: Following our previous audit, we observed that the Core-CT system, although improved, has not met the needs of the State Comptroller, the State Treasurer 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 the most basic "edit checks" to prevent erroneous transactions from being entered to the wrong account and fund combinations was not implemented until January 2006, two and one half years after the Core-CT system was brought online.

Recommendation: The State Comptroller should reemphasize its role as the agency responsible for maintaining the accounts of the State, and apply adequate controls and direction over 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, DAS, OPM, and the Department of Information and Technology (DOIT). It was essential to receive input and guidance from these other three agencies during the design and configuration phase of the Core-CT module implementations. The final module addition to Core-CT, which is referred to as Projects and Contracts, will be implemented in Fiscal Year 2008. Throughout this collaborative 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 and accountable to the State Comptroller. As noted in your findings, effective April 2006, the Core-CT financial team was placed within the organizational structure of the Comptroller's Budget and Financial Analysis Division to further integrate the Comptroller's central financial and accounting operations with Core-CT system operations.

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.

Substantial progress has been made in strengthening internal controls and system monitoring. To better monitor and control 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 and control posting dates. Incremental improvements have been made in reporting functionality to provide added reconciliation tools. Edits added to the system in January 2006 ensure that certain invalid coding combinations cannot be processed. Also in January, the Core-CT chart of accounts with usage guidance was placed on-line for agencies. The Comptroller's Office reviews all direct journal entries (spreadsheet and online journals) entered by agencies prior to posting. The Comptroller's Office recently implemented a process for the review of journal vouchers on a monthly basis to ensure that proper cash lines are added and that the vouchers are using acceptable account coding. Agency training in the form of on-line assistance, access to help desk functionality, transaction specific labs and general informational sessions are ongoing tools designed to limit agency errors. You cite many of these improvements within this report.

The Comptroller's Office plans to implement additional system edits subsequent to the upgrade to version 8.9 software in November 2006. System edits can impact the overall performance of Core-CT. Therefore, it is essential to fully test edits and to weigh the benefits of the edit against the potential negative impact on system performance."

II.A.3. 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 meets their needs and provides 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: Our previous audit cited the failure of the Core-CT system to provide reports detailing agency cash receipts and available cash, as well as the detail of Federal grant expenditures, and other reporting deficiencies. Our current review noted some corrective action taken. Existing reports have been made functional or otherwise improved; and a "flexible ledger analysis" feature was introduced for system users to obtain reports that can be sorted and subtotaled by chartfield. However, as noted in our previous report, the manual manipulation of data is still required to "roll up" accounts among the numerous department codes. The solution for many problems encountered by the Budget and Financial Analysis Division has been manual "work arounds" rather than Core-CT system changes.

Our previous audit noted that 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 particularly difficult for management to budget and account for those positions funded by Federal grants. We also noted that the distribution of personal services costs among accounts by the Core-CT financials component would not match actual employee time distributions. The distribution of payroll costs required the use of separately maintained worksheets and ledgers, requiring additional time and labor. This condition continued throughout the audited period.

The management advisory letter issued in connection with the Independent Public Auditor report for the Special Transportation Fund for the fiscal year ended June 30, 2005, states that "…none of the agencies of the Special Transportation Fund could readily determine from the Core-CT system the amounts for grant expenditures, grant receipts and related grants receivable and deferred grant revenue." The Independent Public Auditor report contained a reportable condition that "…grant and contract revenues for the year ended June 30, 2005, and related grants and contracts receivable and deferred revenue as of June 30, 2005, could not be fully substantiated." In addition, the Independent Public Auditor report stated that, as of June 30, 2005, billings to grants and contracts for payroll expenditures were not current.

Our prior audit noted that, because of Core-CT reporting difficulties, the Department of Transportation failed to bill and collect from the Federal government over $100,000,000 in payroll charges that originated since the implementation of Core-CT. At the time of this review (September 2006) the Department of Transportation, by employing additional resources and developing its own computer program, was able to bill over $94,000,000 of these charges, collecting approximately $75,000,000 at the 80 percent reimbursement rate.

From the time that the Core-CT system has been operational, reports detailing agency cash receipts and available cash, as well as the detail of

Federal grant expenditures and the estimated revenues commitment control ledger, were not available for use or provided erroneous information.

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: 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. Proper accounting for grant expenditures related to personal services remains problematic.

Our previous audit noted that the Core-CT system would allow continual changes of previously posted transactions. Adjustments and corrections entered by user agencies would affect totals for past periods, change previously reconciled amounts and reported totals. To eliminate this problem and to improve the accuracy of information reported from the Core-CT system, the State Comptroller established monthly close outs of the accounts payable, accounts receivable and general ledgers. Beginning in November 2004, State departments and agencies were required to review the month's activity, close out pending, open or unmatched items, and reconcile data and correct errors on the various ledgers. This monthly close out has been successful in improving financial reporting accuracy, but at the cost of additional manual time and labor that should not be required of Core-CT users.

Cause: The Core-CT system is based on PeopleSoft computer software that is an adaptation from the commercial accounting environment. That adaptation to the State's accounting needs of budgetary and modified cash basis accounting resulted in certain deficiencies in financial reporting. Although significant improvements have been made, the basic system design has left system users with certain reports and features that still do not function properly.

Recommendation: The State Comptroller should seek continued improvements in financial reporting from the Core-CT system.

Agency Response: "The Comptroller's Office disagrees with the substance of this finding. Since implementation of Core-CT, the Comptroller has been leading the effort to improve Core-CT financial reporting. The Comptroller's Office and designated Core-CT project staff have enhanced numerous reports including the Expenditure Detail Report, the Available Cash Trial Balance, the Detail & Summary Revenue Report, the Trial Balance of Appropriations, and the

Grant Appropriation Trial Balance. In addition, most reports have been enhanced to allow them to be easily downloaded into Excel.

At the direction of the Comptroller, a 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 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 flexible analysis report was 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. Initially, 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 and is being expanded upon. 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.

All information essential to financial reporting is available in either delivered report format or through custom extracts. The flexible analysis report provides chartfield roll-up capabilities and allows customized reporting from the general ledger."

Auditors' Concluding Comments:

It has been the experience of our audit staff, and that of numerous Core-CT users at State agencies and departments that further improvements in financial reporting are necessary in the Core-CT system. The difficulty in preparing financial statements in a timely manner, and time and resources spent to identify and correct accounting problems attest to the need. To locate a problem transaction can require the search of hundreds of lines of journal entries; to "drill down" and research the specific entry requires the navigation of a succession of data screens, all of which is time consuming. Because the Core-CT system requires users to prepare their own reports, system users that fail to initiate a report with the correct information entered in all fields on a consistent basis will receive differing results. As such it can be difficult to obtain reliable and repeatable totals that can be reconciled to other records. With the previous accounting system (CAS), an accurate and consistent hard copy report was made available to State agencies.

II.A.4. Inability to Promptly and Accurately Reconcile Cash Activity:

Criteria: 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 meets their needs and provides 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."

The Cash Management Division of the Office of State Treasurer is responsible to maintain proper internal control over cash and complete bank reconciliations in a timely manner.

Condition: Our previous audit cited the failure of the Core-CT system to process online data on cleared and outstanding checks to allow for the prompt reconciliation of the State's checking accounts. As a result of this deficiency, the Office of State Treasurer could not reconcile its cash accounts promptly after year-end, which caused delays in preparation of both the State Comptroller's Annual and CAFR financial reports and the State Treasurer's Annual Report for that year.

Our current audit observed that the Budget and Financial Analysis Division has still encountered problems with adjustments resulting from the bank reconciliation process performed by the State Treasurer. In its preparation of financial statements for the 2004-2005 fiscal year, the Budget and Financial Analysis Division of the State Comptroller was required to use information on cash accounts that were not fully reconciled to the bank. In July 2006, when the financial statements for the 2004-2005 fiscal year were being prepared, the Office of State Treasurer had not completed its bank reconciliations of vendor and payroll accounts to the Core-CT general ledger.

An Interagency Transfer Account (10436) was established in the Core-CT system as a clearing account to process transfers between State agencies. This account should, after all pending items have been processed, maintain a net zero balance. Our review found that this account has not been reconciled since the inception of the Core-CT system in July 2003. Outstanding billings and payments are not researched and resolved in a timely manner.

In addition, there were continued problems with the communication between the Offices of State Comptroller and Treasurer regarding the entry of corrections to the Core-CT general ledger. Adjustments entered by the State Treasurer would reflect corrections to the proper bank account without utilizing the proper fund and account designations required by the State Comptroller. Adjustments entered by personnel of the State Comptroller would affect totals for past periods in previously reconciled accounts, complicating the Treasurer's monthly bank reconciliations.

Effect: Because the Core-CT system cannot provide information on cleared and outstanding checks on an automated basis, the Office of State Treasurer was unable to reconcile its cash accounts promptly, which resulted in delays in preparation of the *Annual Report of the State Treasurer for the Fiscal Year Ended June 30, 2005,* and the failure to meet the statutory requirement for submission of that report by October 15, 2005. The inability to reconcile cash accounts also contributed to difficulties in the preparation of the State Comptroller's Annual and CAFR financial reports as noted earlier in this report.

The reconciliation of the Treasurer's payroll and vendor cash accounts for the fiscal year ended June 30, 2005, was not fully completed until July 2006.

The failure to promptly reconcile outstanding items in the Interagency Transfer Account created problems in correctly reporting interagency activity, particularly with respect to grant transfers.

Personnel of the Office of State Treasurer are required to maintain a manual ledger to reconcile from the bank account and adjust the Core-CT general ledger to reflect bank activity.

Cause: 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. During the 2005-2006 fiscal year the State Treasurer and the State Comptroller had considered jointly purchasing and implementing that module, but due to projected costs, rejected the proposal. At the time of our review (September 2006) the State Treasurer was investigating the possibility of writing its own program for this function. A projected date for implementation of such a program could not be provided. Arrangements were also being made to utilize a daily file of cleared checks supplied by the bank to provide data to facilitate the timely reconciliation of the payroll and vendor accounts.

In addition, a general failure of communication between the Offices of State Comptroller and Treasurer was the cause of significant difficulties in reconciling cash accounts. We noted that neither agency assumed the responsibility of reconciling the Interagency Transfer Account.

Recommendation: The State Comptroller, working with the Office of the State Treasurer, should provide a system to reconcile cash activity and post necessary cash adjustments in a timely manner that provides adequate internal control over ledger adjustments. It should also address the need to review and reconcile the Interagency Transfer Account.

Agency Response: "Additional controls have been added to improve cash reconciliation activities. Two transaction types that create cash reconciliation problems—journal vouchers and on-account receipts—have undergone business process changes to better control cash activity. With respect to journal vouchers, effective for Fiscal Year 2007 agencies will no longer add cash lines to these transactions. Instead, the Comptroller's Office will centrally add cash lines to such transactions on a monthly basis. Online account transactions will be automatically coded to Funds Awaiting Distribution (Pending Receipts) and tracked monthly to ensure that operations reflect these changes in cash.

During the course of Fiscal Year 2006, the Treasurer's Office evaluated the benefits of adding the Treasury Module to Core-CT. The Comptroller's Office extended an offer to share in the cost of this additional module implementation. At this writing, the Treasurer's Office had not opted to add this functionality and was pursuing other options to speed the reconciliation of cash to bank accounts.

The high volume of interdepartmental accounting transactions has made it difficult to maintain a net zero balance within the interagency cash account. Subsequent to the implementation of the upgrade of Core-CT financial software to version 8.9, the Comptroller's Office will pursue hard edits to limit the use of the interagency cash account.

Communication between the Treasurer's Office and the Comptroller's Office occur daily with respect to cash reconciliation and both agencies share the common goal of expediting accurate cash reconciliation."

II.A.5. 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: Our previous audit found the decentralized controls in the Core-CT system allowed agency personnel to directly enter interagency transfers onto the State's general ledger coded to the incorrect accounts of its own or the recipient agency.

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 coded.

Effect: 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.

We also found that State agencies will at times not approve interagency transfers that were posted to their accounts by billing agencies. This would leave the transaction uncompleted, resulting in outstanding charges and incomplete or incorrect transactions posted to accounts.

Cause: 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 was not until February 2005, with the implementation of the billing module of Core-CT that interagency transfers were assigned specific default codes. However, our audit found that even after this change, user agencies were still improperly coding interagency transfers. At the time of our review (September 2006) no system controls had been implemented to prevent system users from miscoding interagency transfers.

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. Recentralizing this activity within the Comptroller's Office would require an increased staffing level and additional agency work."

II.A.6. Failure to Consistently and Properly Record Account Codes:

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: Our previous audit, and our current review, encountered problems with the manner that revenue and expenditure transactions were processed in the Core-CT accounting system. Because of the decentralized control environment in the Core-CT system State agencies have had the ability to easily enter erroneously coded transactions onto the State's general ledger.

In a limited solution to this condition, the State Comptroller, in January 2006, implemented combination editing for certain fund and special identification (s.i.d.) codes. Transactions entered by State agencies will have the fund and s.i.d. codes validated; those transactions with improper codes will be rejected by the Core-CT system. This control only ensures that, in general, the proper appropriation code was selected for a particular fund group, it does not apply to revenue, expenditure, asset or liability account codes or to whether the correct code in a combination was selected.

At the time of our review (September 2006) there were still only limited controls in place to ensure that department and agency users code transactions to the proper accounts, and significant numbers of transactions are still miscoded. The State Comptroller has emphasized continued training of agency users in order to address the problem; however, it has still not made the necessary changes to address the new decentralized environment.

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 devote significant resources to review and correct numerous improperly coded transactions.

To eliminate the problem of State agencies entering journal vouchers with improperly coded cash accounts, the State Comptroller is centralizing this function by requesting user agencies not to enter these transactions. The State Comptroller's Office will code the cash accounts itself and post the journal voucher for the user agency. However, hard edits have not been implemented to prevent user agencies from continuing to enter their own coding.

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 information.

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

Agency Response: "It is impossible to fully guard against human input error in any accounting system. The Comptroller's Office has taken the following steps to minimize the types of errors discussed in this finding. In November 2004, a monthly closing process for the financial modules was implemented to allow for review of static transaction postings. This has assisted in identifying coding errors in a timely manner. A monthly reconciliation of the general ledger to budget ledgers is performed to identify aberrant transaction postings. In January 2006, additional combination editing for invalid chartfield coding was implemented eliminating many of the most common coding errors. Beginning in Fiscal Year 2007, the Comptroller's Office began to centrally code cash lines on journal vouchers on a monthly basis to reduce cash reconciliation coding errors. The Comptroller's Office makes contact with agencies that have repeatedly processed coding errors to assist them in rectifying these problems. Comptroller memoranda, electronic daily mailings, on-line job aids, ongoing training sessions, transaction specific labs, and help desk availability are some of the methods used to educate agency users to utilize proper account codes."

II.A.7. Failure of System Controls Over Budgetary Accounting:

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: Our previous audit noted 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 budgetary controls 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 or causing other problems.

This condition has continued. During the month of October 2005, a system error resulted in many entries that bypassed budget check and were never entered into the commitment control ledger. This resulted in the expense never being charged to agency appropriations, although the vendors received payments. This condition lasted the entire month, until the software vendor produced a patch for the system, and the entries could be reprocessed.

More recently, in April 2006 a payment was processed by the Department of Transportation that, because of a data entry error, totaled $671,534,249.14. The correct posting was intended to be to account 167153 in the amount of $4,249.14. Although the payment greatly exceeded the available budget balance of $10,609,097, the transaction bypassed the budget check control and was posted. The actual payment was never issued, however. Neither Core-CT system administrators nor personnel of the State Comptroller could explain this failure of internal controls. It is possible that errors of a similar type, in lesser amounts, were made on the system and never discovered.

We also found that State agencies and departments frequently miscoded expenditures to balance sheet accounts, which would cause budget check controls to be bypassed. Other than the combination edits for fund and s.i.d. coding that was implemented in January 2006, there are no internal controls in the Core-CT system to prevent this type of error.

When certain journal vouchers were entered, the Core-CT system did not automatically generate the proper entries to the cash accounts. User departments and agencies were required to prepare them manually, which resulted in numerous errors and omissions.

When user departments and agencies issued a change order to an existing purchase order that had already been fully expended, as the expenditures pertaining to the change order were processed, the Core-CT system duplicated the original encumbrance. Also, when system users mixed individual online and batched budget checking on a group of scheduled payments, a doubling of encumbrances would result.

Effect: Accounting records were not accurate and were unreliable. The staff of 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, and manually adjust the commitment control ledger to equal the balances in the general ledger.

For the month of October 2005, the State Comptroller was unable to produce a set of monthly financial statements.

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. The State Comptroller has assessed the feasibility of building hard edits into various module applications to minimize the ability of agencies to enter errant coding; however, action to do this has not been taken.

As a partial corrective action, in November 2004, the State Comptroller implemented a monthly close out and reconciliation process for the accounts payable, accounts receivable and general ledgers. State departments and agencies are 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. The monthly close out also includes a process to reconcile the commitment control ledger to the general ledger in order to detect posting and system errors and keep the separate ledgers in balance.

Recommendation: The State Comptroller should correct deficiencies in the internal controls of the Core-CT system to eliminate "budget check" problems, and the bypassing of the commitment control ledger.

Agency Response: "The Comptroller's Office has been concerned about the automated budget checking features of PeopleSoft version 8.4, and it has been the source of multiple cases opened with PeopleSoft for resolution. Many aspects of the budget checking process have become manual in order to strengthen the internal controls. The budget checking problem of October 2005 that you cite related to the upload of an upgrade bundle. After the upgrade, the volume of budget checking became a problem. That problem has since been resolved.

With respect to the budget check error on the DOT voucher that you cite, a PeopleSoft case was filed. No resolution was obtained from PeopleSoft as the problem could not be duplicated. It appears that the transaction may have been erroneously overridden."

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SECTION III

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. DEPARTMENT OF SOCIAL SERVICES

III.A.1. 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 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

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.

Title 42 Code of Federal Regulations Part 455 Section 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 ten of the 38 complaints received during the fiscal year ending June 30, 2005. Our review of ten complaints revealed that in two instances the complaints were not investigated.

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

Cause: The Department overlooked the complaints.

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 State Medicaid Fraud Control Unit.

Agency's Response: "The Department agrees with this finding. The Medical Audit Division has instituted a monthly review of all open complaints. This process will identify the status of complaints and ensure that all open complaints are investigated and referred to the State's Medicaid Fraud Control Unit, if appropriate."

III.A.2. Allowable Costs/Cost Principles – Third Party Liability

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

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:

- Out of a sample size of 60 transactions selected to test Medicaid eligibility, we found that four clients indicated that they had TPL. However, we found that the third party information for two clients was not properly entered into the Department’s TPL database. Claims totaling $2,475 were paid during the State fiscal year ended June 30, 2005, on behalf of one of these two clients. We could not determine if there would be any questioned costs related to the claims paid because we could not verify whether the third party insurance company would have paid these claims. There were no claims paid on behalf of the other client.

- In addition, to the four transactions mentioned above we also selected another six transactions from the W-1685 TPL submissions for fiscal year ended June 30, 2005, for testing the identification and incorporation of third party information into the TPL database. The Department's Regional Offices are required to forward a Form W-1685, TPL Routing Slip, to the Department's TPL unit for entry into the Department's TPL database. We found that in one instance the client's TPL information was not updated from EMS to MMIS. However, there were no claims paid on behalf of the client that should have been covered by third parties.

Effect: The Department could be paying for Medicaid claims that are the legal obligation of third parties.

Cause: The Department's Regional Offices did not always forward the TPL Routing Slips to the TPL unit so that the TPL information could be entered into the database. In addition, 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's Response: "The Department agrees with this finding. The Regional Offices have subsequently submitted the TPL information to the TPL unit and it has been entered into the TPL database for the two clients in question. In addition, in order to prevent this from occurring in the future, a notice has been issued to the Regional Offices as a reminder that TPL referrals must be made in all instances where clients indicate that there is third party insurance.

Concerning the one instance where the TPL information was not updated from EMS to MMIS, the Department is aware of this problem and it will be addressed in the new CT interChange MMIS System that is being developed."

III.A.3. 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 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

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's Response: "The Department agrees with this finding. The Department has selected a vendor and a new ADP system will be implemented in October 2007. There is a contract provision requiring the contractor to provide independent system audits attesting to the adequacy of security and processing controls. An audit schedule will be developed effective with the new system implementation date."

III.A.4. 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 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

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 June 2005 for the six-month review period April – September 2003. This report should have been submitted in June 2004. The reports for the six-month review period October 2003 – March 2004 and April 2004 – September 2004, which should have been submitted in December 2004 and June 2005, respectively, have not been submitted as of December 2005.

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's Response: "The Department agrees with this finding. The two MEQC reports cited as being late were completed on August 2, 2005, and February 20, 2006, respectively."

III.A.5. Reporting – CMS-64 Financial Reports

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

Background: Title 42 of the Code of Federal Regulations Part 430 Section 30 provides that the Centers for Medicare and Medicaid Services (CMS) makes quarterly grant awards to the State to cover the Federal share of expenditures for services, training, and administration. The amount of the quarterly grant is determined on the basis of information submitted by the State agency (in quarterly estimate and quarterly expenditure reports) and other pertinent documents.

The Federal Financial Participation rates for allowable expenditures are 50 percent, 75 percent or 90 percent depending on the type of expenditure. The 75 percent and 90 percent rates are used for specific types of expenditure; for example, installation of mechanized claims processing systems and skilled nurses are reimbursed at the 75 percent rate and 90 percent rate, respectively. The 50 percent rate, which is used for the majority of the expenditures, is for all other activities that are necessary for proper and efficient administration of the State plan.

Criteria: Title 42 Code of Federal Regulations Part 430 Section 30 provides that the Department must submit Form CMS-37 (Medicaid Program Budget Report State Estimate of Quarterly Grant Awards) and Form CMS-64 (Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program) to CMS. The Form CMS-64 is the State's accounting of actual recorded expenditures. CMS computes the Medicaid grant award based on the estimate of expenditures for the ensuing quarter, and the amounts by which that estimate is increased or decreased because of an underestimate or overestimate for prior quarters. The grant award authorizes the State to draw Federal funds as needed to pay the Federal share of Medicaid disbursements.

Title 42 of the CFR Part 433 Section 320 provides that the Department must refund the Federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64). In most cases, the State must refund overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected. This refund should be reported as a credit on the Form CMS-64. If the amount of an overpayment is adjusted downward after the agency has credited CMS with the Federal share, the agency may reclaim the amount of the downward adjustment on the Form CMS-64.

Condition: We reconciled the Form CMS-64 submitted for the quarter ended September 30, 2004, to supporting documentation. We performed analytical procedures for the subsequent three Financial Reports submitted during the State fiscal year ended June 30, 2005. Our review disclosed numerous errors on three of the four Forms submitted to CMS. The net effect of the errors is a $30,609,962 overstatement of expenditures. This net amount is based on an overstatement of expenditures totaling $35,812,821 and an understatement of expenditures totaling $5,202,859. The following is a summary of the errors noted during our review of the CMS-64 reports.

Our review of the Form CMS-64 submitted for the quarter ended September 30, 2004, disclosed that the Department understated gross expenditures by $259,786 ($128,834 at the applicable Federal financial participation rates). We noted the following:

- The Department deducted refunds of Medicaid expenditures twice on the Form, which resulted in a $287,847 understatement of the amount the State requested for reimbursement from the Federal government.

- A prior period adjustment that was reported to correct an understatement of expenditures made during the quarter ended March 31, 2004, was incorrectly reported as $827,061. The correct amount of the adjustment was $799,000. This resulted in a $28,061 overstatement of the amount the State requested for reimbursement from the Federal government.

Our review of the Form CMS-64 submitted for the quarter ended March 31, 2005, disclosed that the Department understated gross expenditures by

$4,857,374 ($2,428,689 at the applicable Federal financial participation rates). We noted the following:

- On a prior quarter Form CMS-64 submitted to CMS, the Department reduced its Medicaid expenditures for refunds by $2,589. However, the Department subsequently determined that the Medicaid expenditures should not have been reduced because these refunds were not related to the Medicaid program. However, rather than increasing the total Medicaid expenditures by the refunds, the Department reduced the Form CMS-64 submitted for the quarter ended March 31, 2005. As a result of incorrectly reducing the expenditures twice, the Department understated the amount the State requested for reimbursement from the Federal government by $5,178.

- Medicare Part A and B premiums paid on behalf of individuals who were not United States citizens or qualified aliens were not reduced from the expenditures reported on the CMS-64. This resulted in a $6,028 overstatement of expenditures.

- Payments made in February 2005 and March 2005 for psychiatric services not covered under managed care were not claimed. This resulted in a $4,858,224 understatement of the amount the State requested for reimbursement from the Federal government.

Our review of the Form CMS-64 submitted for the quarter ended June 30, 2005, disclosed that the Department overstated gross expenditures by $35,727,122 ($17,863,569 at the applicable Federal financial participation rates). We noted the following:

- The Department did not correctly reclaim the downward adjustment of the overpayments that were previously credited on Form CMS-64. The total overpayment balance as of March 31, 2005, was $38,985,393, and the total overpayment balance as of June 30, 2005, was $35,772,602. This would result in a downward adjustment of $3,212,791. That is, the Medicaid expenditures should be increased by $3,212,791. However, when the Department determined what the adjustment to the overpayment balances should be, the Department did not take into account the $35,772,602 June 30, 2005, balance. As a result the Department incorrectly reported $38,985,393 as its downward adjustment, which resulted in an overstatement of the amount the State requested for reimbursement from the Federal government by $35,772,602.

- The amount of third party liability payments were incorrectly reported as $4,790. The correct amount was $13,609. This resulted in an $8,819 understatement of expenditures.

- On a prior quarter Form CMS-64 submitted to CMS, the Department reduced its Medicaid expenditures for refunds by $5,273. However, the Department subsequently determined that the Medicaid expenditures should not have been reduced because these refunds were not related to the Medicaid program. However, rather than increasing the total Medicaid expenditures by the refunds, the Department reduced the Form CMS-64 submitted for the quarter ended June 30, 2005. As a result of incorrectly reducing the expenditures twice, the Department understated the amount the State requested for reimbursement from the Federal government by $10,546.

- Total medical payments were reduced for payments totaling $3,404,877 made on behalf of individuals who were not United States citizens or qualified aliens; however, the correct amount was $3,372,632. This resulted in a $32,245 understatement of expenditures.

- Medicare Part A and B premiums paid on behalf of individuals who were not United States citizens or qualified aliens were not reduced from the expenditures reported on the CMS-64. This resulted in a $6,130 overstatement of expenditures.

Effect: The Department overstated Medicaid gross expenditures by $30,609,962. Based on applying the applicable Federal financial participation rates to the above errors, the Department overstated its Federal share of Medicaid by $15,306,046. As a result, CMS would have incorrectly computed the grant award, which authorizes the State to draw Federal funds as needed to pay its Federal share of Medicaid disbursements.

Cause: The above conditions were caused by clerical errors that went unnoticed during the supervisory review process.

Recommendation: The Department of Social Services should report the correct expenditures on the Form CMS-64 to ensure that the Centers for Medicare and Medicaid Services (CMS) computes the correct Medicaid grant award.

Agency's Response: "The Department agrees with this finding. The Department will be processing prior period adjustments to address the issues concerning the claim for the quarter ending December 31, 2005."

III.A.6. Allowable Cost/Cost Principles – School Based Child Health Program

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

Background: The Department of Social Services is responsible for administering the School-Based Child Health Program (SBCHP). The SBCHP services are reimbursable under the Medicaid program in accordance with the approved Medicaid State Plan and are provided by or through a local education agency (LEA) to students with special health related service needs identified in their Individual Education Plan (IEP). SBCHP services are only claimed for Medicaid eligible children. Services provided include speech, occupational, and physical therapy. In April 2002, the Department set interim rates for treatment services and evaluations, which were the rates used during the State fiscal year ended June 30, 2005. The Department calculated a fixed rate of $275 for treatment services and a fixed rate of $2000 for evaluations. Those rates are paid monthly on behalf of a child that was provided any of these services during the month. Those rates included using a 35 percent indirect cost rate factor that was applied against the base of total Medicaid eligible costs incurred by the schools. During the fiscal year ended June 30, 2005, the Department claimed for Federal reimbursement $20,316,102 in SBCHP costs.

The Department of Health and Human Services Office of the Inspector General issued an audit in May 2003 entitled "Review of Rate Setting Methodology – Medicaid School-Based Child Health Program Costs Claimed by the Connecticut Department of Social Services – July 1997 through June 2001." One of the conditions noted in this report was that the LEA indirect costs used in calculating the rates did not take into account that a SBCHP student's normal school day includes regular education and non-SBCHP special education services, as well as SBCHP services. The allocation of these indirect costs was based on the LEA cost of operating the school district, including costs related to the superintendent and school principals' offices, maintenance and other operating costs of the school districts, costs related to building and land acquisitions, and debt service costs. The State agency determined the percentage of SBCHP students to total students in the LEAs' districts and applied that percentage to the indirect costs of the school districts.

Criteria: The Office of Management and Budget (OMB) Circular A-87 states that 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. The OMB Circular A-87 also states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

The Centers of Medicare and Medicaid Services (CMS) issued the Medicaid and School Health: A Technical Assistance Guide, in August 1997. The purpose of this guide is to provide information and technical assistance regarding the specific Federal Medicaid requirements associated with implementing a school health services program and seeking Medicaid funding for school health services. CMS issued the Medicaid School-Based Administrative Claiming Guide in May 2003. The purpose of this guide is to inform schools and State Medicaid agencies of the appropriate methods for claiming Federal reimbursement for the costs of Medicaid administrative activities performed in the school setting.

The Medicaid State Plan provides that rates for rehabilitation services provided in accordance with an Individual Education Program on behalf of Local Education Agencies will be based upon annual audited cost and audited utilization filings made by Local Education Agencies.

Condition: Our review of rates used to claim school-based costs under the Medicaid program disclosed the following:

- The Department did not have adequate documentation to support the indirect cost rate that was used as part of this calculation of its SBCHP rates. As a result we cannot determine whether the indirect costs included in the total costs used to calculate the SBCHP rates are allowable.

- The Department did make an adjustment to its SBCHP rates as a result of the audit report issued by the Office of the Inspector General. However, based on the limited documentation that the Department provided to us and the amount of indirect costs used by the Department to calculate the SBCHP rates, it still appears that the Department's SBCHP rates do not account for the fact that a SBCHP student's normal school day includes regular education and non-SBCHP special education services, as well as SBCHP services. According to Medicaid regulations, funds are intended to reimburse LEAs for costs of providing health care services to eligible recipients and not for costs associated with their basic education. Thus, the rate setting process should recognize only those costs related to the provision of Medicaid eligible services. Consequently, we believe that an additional allocation step down is needed to account for only the time that an eligible recipient receives SBCHP services during the school day.

- Our review also disclosed that the rates developed by the Department were based on 1998-1999 cost reports submitted by seven LEAs. The Department has not updated these rates in accordance with the Medicaid State Plan. The State Plan requires the rates to be based upon annual audited cost and audited utilization filings made by Local Education Agencies.

Effect: The Department could be including in its SBCHP rates costs that are not allowable for Federal reimbursement. We did not determine total questioned costs because of the amount of time and effort that would be needed to review the documentation that would be necessary to calculate an appropriate amount of questioned costs.

Cause: The Department did not fully agree with the audit issued by the Office of the Inspector General. In addition, the Department informed us that the calculation of its SBCHP rates was submitted to CMS in June 2003. However, there has been no feedback from CMS.

Recommendation: The Department of Social Services should develop new rates for claiming school-based health costs under the Medicaid program in accordance with the Medicaid State Plan. In addition, the costs used to calculate the rates should be allowable in accordance with the Office of Management and Budget Circular A-87 and guidance provided by CMS.

Agency's Response: "The Department agrees with this finding in part. The Department does not agree that the indirect cost rate used to develop the interim service rate is unsupported. The Department's position is that the rate represents a conservative estimate of the indirect costs incurred by a typical school system. The Department does agree, however, that ultimately the rates must be finalized since they were developed for use on an interim basis.

The Department has used temporary interim rates for all periods since July 1, 2000. These rates have not been finalized based upon cost reports and time studies because the Department has not yet received a formal response from the Center for Medicare and Medicaid Services (CMS) concerning our revised rate setting methodology. The Department is continuing to pursue this issue with CMS.

The Department will issue revised rates for the past periods by December 31, 2006 based upon the indirect cost allocation methodology we have submitted to CMS. This revised rate setting methodology is in compliance with applicable Medicaid guidelines."

Auditors' Concluding Comments:

The Department did not provide us with adequate documentation to determine whether the interim rate does represent a conservative estimate of the indirect costs incurred by a typical school system. In addition, without documentation to support the rate, we were not able to determine whether costs used to calculate the interim rate did not include direct costs incurred by schools for children's normal school day. Further, we were not able to verify whether costs were allocable to the Medicaid program in accordance with relative benefits received, as provided in OMB Circular A-87.

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

Criteria: Title 42 United States Code Section 602 provides that a family must meet the State's eligibility requirements as provided in the TANF State Plan. Section B Part III of the TANF 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 requires that at least one face-to-face redetermination must be conducted for each TANF case once every twelve months.

Title 45 Code of Federal Regulations Part 263 Section 2 provides that TANF benefits or services count only if they have been provided to, or on behalf of, eligible families. An "eligible family," as defined by the State, must include a child living with a custodial parent or other adult caretaker relative (or consist of a pregnant individual). The TANF State Plan provides that a caretaker relative may be a parent or other person related by blood.

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.

Condition: We randomly selected 40 benefit payments totaling $16,022 made on behalf of TANF recipients from a total of 244,404 claims totaling $102,905,230. These payments consisted of commingled Federal TANF funds and State funds. Of this $102,905,230, $7,203,366 (or seven percent) was claimed as direct Federal expenditures and $95,701,864 (or 93 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 disclosed the following:

- Four payments totaling $1,684 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. In addition, for two of these four cases, the Department did not have documentation to support the age of the children. We did note that the Department Eligibility Management System did indicate that the age of the children had been verified.

- The Department did not perform the annual eligibility redeterminations for two recipients prior to the benefit issuance dates.

- Thirteen instances in which the cases did not contain documentation from clients 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.

Effect: The first condition resulted in payments totaling $1,684 that did not meet the TANF eligibility requirements. Based on the Department claiming for Federal reimbursement only seven percent of total assistance payments, the errors resulted in questioned costs totaling $118. 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: The Department is not following established procedures to obtain the necessary information to substantiate the recipients eligibility for TANF benefits.

The 13 instances of not having proper documentation occurred because, prior to April 1, 2003, the Department required each individual applying for assistance, during the application process, to sign a W-1129 Law Enforcement Information form indicating whether the individual, or any member of the household of the individual, has been convicted of a Federal or State felony, has been convicted of a drug felony, is running to avoid prosecution or custody or confinement, or is violating a condition of parole or probation. Effective April 1, 2003, this information is included on the application for assistance prepared by the client. 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 program are eligible.

Agency's Response: "The Department agrees with this finding in part. The Department agrees that proper documentation may not have been in the case record to support the blood relationship of the children and the fleeing felon status of household members. Furthermore the Department agrees that the redeterminations may not have been completed when due. However, the Department does not agree that there are necessarily errors in the benefit issuances because of the lack of support of the blood relationship. Nevertheless, the Department will remind staff to ensure that adequate documentation is obtained and maintained in the case record to support TANF eligibility decisions and that eligibility is redetermined on a timely basis."

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

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 three instances in which TANF recipients were not cooperating with child support requirements and the caseworkers failed to comply with the penalty requirement for child support non-cooperation as set forth in the Department's UPM.

Effect: We determined that $6,701 in benefit payments made during the State fiscal year ended June 30, 2005, should not have been paid to the recipients because the recipients were not cooperating with child support requirements at the time the payments were made. Of this $6,701, $469 is considered to be questioned costs. The questioned costs amount is based on the Department claiming for Federal reimbursement only seven 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.

In addition, we determined benefit payments totaling $1,917 made subsequent to State fiscal year ended June 30, 2005, should not have been paid to the recipients for not cooperating with child support requirements. Of this amount, $134 is considered to be questioned costs.

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's Response: "The Department agrees with this finding. The Department will remind eligibility staff to ensure that penalties are applied to TANF recipients who are not cooperating with child support requirements. In addition the Department is setting up internal processes for managers to track and monitor compliance."

III.A.9. 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 2003-2004
Federal Award Number: G0401CTTANF

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 2003-2004. We noted the following exceptions:

1. The amounts recorded on Line 7 (Total State Expenditures for the Child Care Assistance Program for the Fiscal Year) and Line 6 (Total State Expenditures Claimed as MOE under the Program for the Fiscal Year) of Section 11 of the report were $71,691,526 and $12,028,766, respectively. The correct amount for both of these lines should have been $15,879,175.

2. The amounts recorded on Line 7 (Total State Expenditures for the Child Care Assistance for Unemployed individuals for the Fiscal Year) and Line 6 (Total State Expenditures Claimed as MOE under the Program for the Fiscal Year) of Section 12 of the report were $5,629,027 and $5,629,027, respectively. The correct the amount for both of these lines should have been $1,778,618.

3. The Department did not have adequate documentation to support the amount recorded on Line 8 (Total Number of Families Served under the State Funded Medicaid for Non-Citizens Program with MOE Funds) of Section 7 of the report.

4. The Department did not have adequate documentation to support the amount recorded on Line 8 (Total Number of Families Served under the Jobs First Employment Services Program with MOE Funds) of Section 8 of the report.

Effect: The Federal Government cannot ascertain whether funds are being used as required. The Department has subsequently revised the report to correct the errors noted in Conditions 1 and 2.

Cause: Clerical errors were noted.

Recommendation: The Department of Social Services should institute procedures to ensure that all of the required information on the TANF Annual Report and the Annual Report on State Maintenance of Effort Programs (ACF-204) is reported correctly.

Agency's Response: "The Department agrees with this finding. The TANF Annual Report and the Annual Report on State MOE are prepared jointly by financial and program staff in the Department. The Department will work on improving communication among staff responsible for preparing the reports to ensure that information is reported correctly. It should be noted that the Department has corrected condition items 1 and 2. In addition the Department has now been provided documentation to support condition items 3 and 4."

III.A.10. 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 2004-2005
Federal Award Number: 05-0505CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2004-2005
Federal Award Number: G0501CTTANF

Food Stamps (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)

Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Number: 4CT400400

Criteria: 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, TANF and Food Stamps 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: Our review of three alert codes displayed on the Department's Eligibility Management System (EMS) between October 1, 2004, and December 31, 2004, 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 10, 2005, 4,924 out of 5,390 total alerts for the Medicaid, TANF and Food Stamps programs had not been dispositioned. Our review also disclosed that out of a test sample of 30 alerts that were dispositioned, 12 alerts were not properly investigated, updates were not made to EMS, and apparently the alerts were simply removed from the system. In addition, seven out of the 30 alerts should not have been generated.

Effect: Conditions exist that allow Department determinations of eligibility and benefit amounts for applicants and beneficiaries of public assistance programs to be completed without an adequate and thorough review of all available income and eligibility information. An overpayment of $330 was made under the TANF program in one case because the alert had not been properly dispositioned.

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 occurred because the system does not filter the matches that it obtains to eliminate invalid information.

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's Response: "The Department agrees with this finding. The Department has established a workgroup to address problems associated with "alerts" processing. The workgroup is in process of developing recommendations and training for appropriate staff."

III.A.11. 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 2004-2005
Federal Award Number: G0501CTTANF

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 2004-2005
Federal Award Number: G0501CTCCDF

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 a 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 December 31, 2004, relative to the Federal fiscal year 2004-2005, disclosed that the amount reported on Line 5c – "Other Supportive Services" was $2,586,312. The correct amount should have been $2,054,542. The Department has corrected this error on the ACF-196 Financial Report submitted for the quarter ended June 30, 2005.

Our review of the ACF-696 Financial Report for the quarter ended September 30, 2004, relative to the Federal fiscal year 2003-2004, submitted on December 30, 2004, disclosed that the Department reported the amount that it transferred to other State agencies to administer programs claimed under the Child Care program both at the time that the funds were transferred to the State agencies and again when the State agencies reported expending the transferred funds. This resulted in the Department reporting $399,863 twice.

Our review of the ACF-696 Financial Reports submitted during the State fiscal year ended June 30, 2005, disclosed that the Department did not reduce the total amount reported on the ACF-696 Financial Report for collections that it received for the Child Care program. These collections resulted in the Department overstating the amount of expenditures for the Child Care program by $231,488.

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. In the case of the overreporting of CCDF expenditures, the Department did expend additional State funds that could be claimed for Federal reimbursement and used for its MOE. As a result there are no questioned costs related to these exceptions.

Cause: The Department did not consider the effects of collections that it received for the Child Care program in calculating the total amount expended for the Child Care program. 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, 2004 and September 30, 2005, as applicable.

Agency's Response: "The Department agrees with this finding. The FFY 2004 Financial Report will be resubmitted to reflect corrections to "Other Supportive Services" and to the double claiming of amounts transferred to other State Agencies to administer programs claimed under the Child Care program. It should be noted that this will not reduce our federally claimable CCDF expenditures for this area since our eligible expenditures greatly exceed the amount needed to fully claim available funds.

In addition, the Department will reduce reported CCDF expenditures to reflect collections in the CCDF program in FFY 2006 and will do so going forward. It should be noted that since the Department has excess State MOE expenditures that cover the amount of the collections for past periods, there is no need to revise the prior year reports for this finding."

III.A.12. 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 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CTTANF and G-0501CTTANF

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G05401CTCCDF

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 or 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's Response: "The Department agrees with this finding. The Department will coordinate with the Office of Policy and Management and the agencies affected to institute procedures to ensure that they are notified of the Federal funds associated with the grant awards and to ensure that compliance with subrecipient audit requirements is achieved."

III.A.13. Subrecipient Monitoring

Temporary Assistance to Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CTTANF and G-0501CTTANF

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-040CTCOSR and G-0501CTSOSR

Criteria: Title 45 Code of Federal Regulations (CFR) Part 92 Section 26, which applies to the Temporary Assistance for Needy Families (TANF) program and the Child Care and Development Block Grant and the Child Care Mandatory and Matching Funds of the CCDF program, 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 under TANF, CCDF, or SSBG 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. We noted that five out of the five TANF contracts tested, 24 out of the 30 SSBG contracts tested, and ten out of ten Child Care contracts tested did not include the required information.

For the TANF program, financial audit reports were also not on hand for five out of the five subrecipients tested. Required programmatic reports required by the contracts were not on file for two subrecipients.

For the Child Care programs, our test of ten subrecipients also disclosed that desk reviews were not performed for two audit reports.

For the SSBG program, we tested 30 contracts which were awarded to 28 subrecipients. We noted that some financial status, programmatic and statistical, or monitoring reports, required by the contracts, were not on file or were not submitted to the Department within the time allotted by the provisions of the contracts for four (four subrecipients) out of the 30 SSBG contracts tested. Our review disclosed that the Department did not have financial statements audit reports for four of the 28 subrecipients, and one of these four subrecipients did not submit a required Federal Single Audit Report.

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 in a timely manner.

Cause: The Department does not have adequate 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's Response: "The Department agrees with this finding. The Department has taken measures to address this finding. The Department now communicates such information in contract letters to respective contractors who will receive funds that are claimed as CCDF, SSBG or TANF. The Department will amend all relevant Memorandums of Agreement with State agencies for the purpose of claiming TANF and/or CCDF funds. The Department will also follow-up on the submissions of all program, financial, and audit reports.

Concerning the review of audit reports, the Department routinely places phone calls to subrecipients to obtain a copy of financial audit reports that have not been submitted in a timely manner. In order to determine which subrecipients must submit an audit report, the Department relies on a listing of contracts that contains the associated Federal award information. If such listing fails to identify that a Federal award is associated with the contract, and the subrecipient did not voluntarily submit an audit report, it is possible that the Department did not follow-up with the subrecipient since the records would indicate that an audit report is not warranted. This will be remedied when the Federal award information is, without exception, listed with each contract.

In addition, concerning the instances where desk reviews were not performed on two sampled audits reports, it should be noted that desk reviews are performed on all audit reports. In the instances cited, the reviews were scheduled to be done but were not initiated at the time of the State Auditors' review.

It should be noted that the Department has followed-up on and received the cited missing audit reports and will complete the desk reviews of the two (2) audit reports."

III.A.14. 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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

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 calculate the amount of the benefit payments for the Department's Care 4 Kids Program, which is claimed under CCDF.

During the fiscal year ended June 30, 2005, child care payments totaled $59,602,631. 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 $59,602,631, $36,174,160 (or 60.70 percent) was claimed as direct Federal expenditures and $23,428,471 (or 39.3 percent) was provided with State expenditures. The $36,174,160 provided 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 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 45 Code of Federal Regulations Part 98 Section 20, provides that in order to be eligible for services a child shall be under 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.

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.

Condition: We randomly sampled 40 child care payments totaling $11,840 made to child care providers from the total population. Our test of these payments disclosed the following:

- The child's last day of care with a provider was December 10, 2004; however, the Department continued paying for child care services for the child until December 19, 2004. This resulted in an overpayment in the amount of $77 ($47 Federal financial participation based on 60.7 percent of the total Federal expenditures).

- For four of the 40 transactions tested, benefits were not discontinued when the eligibility period of the families expired prior to the service month tested. These families were properly determined to be eligible when the applications were originally reviewed. However, subsequent to the eligibility determination, an event had occurred during the clients' eligibility period to make the clients no longer eligible under the Child Care and Development Fund. As a result the Department claimed expenditures for child care services provided to families who no longer met the eligibility requirements of the Child Care and Development Fund. Provided below is a summary of the four exceptions:

    - Three clients did not work or attend job training or educational programs during the service months tested. This resulted in overpayments totaling $838 ($508 Federal financial participation based on 60.6 percent of the total Federal expenditures).

    - One child turned 13 on September 5, 2004; however the payment amount was for the entire service month. This resulted in a $269 overpayment ($163 Federal financial participation based on 60.7 percent of the total Federal expenditures).

- For two cases the Department did not have documentation to support the children's ages prior to the service months tested. However, we subsequently verified that these children were eligible to receive benefits under the Child Care and Development Fund.

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 totaling $718, we noted that the Department 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: For the first condition, the Department's contractor entered the incorrect ending date into the system. For the second condition, the three clients did not notify the contractor that they were no longer working or attending a job training or educational program and the Department's policy is to pay for a child's services until the end of the month for children that turn 13 during the month. For the third condition, the contractor did not request the documentation from the children's parents.

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 programs.

Agency's Response: "The Department agrees with this finding in part. The Department does not dispute that payment errors were made by the contractor. However, the Department already has an extensive monitoring process in place to review the work of the contractor and to prevent and detect errors. It should be noted that the clients caused some of the errors cited and the Department has designated childcare fraud investigators to identify these errors and pursue collection. Nevertheless, to further improve controls, the Department has reinstituted a quality control review process effective January 1, 2006. This process will help identify areas where controls may need improvement and determine the type of corrective action that needs to be taken."

III.A.15. 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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

Background: See the Background section in finding III.A.14.

Criteria: Title 45 Code of Federal Regulations (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 40 child care payments totaling $11,840 made to child care providers from the total population. The fees contributed by the 40 families represented by our sample totaled $3,281. The population of fees contributed during the State fiscal year ended June 30, 2005, by the families provided child care services totaled $9,168,133.

Our review disclosed that the fees were not calculated correctly for two of the 40 families tested because the families' income information was not entered into the Department's Child Care Management Information System (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. Below is a summary of the errors:

- One family fee for the service month July 2004 was understated by $8 ($5 based on 60.7 percent of the total Federal expenditures). This caused the family to underpay its share of the child care costs.

- One family fee for the service month November 2004 was understated by $39 ($24 based on 60.7 percent of the total Federal expenditures). This caused the family to underpay its share of the child care costs.

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 totaling $29, we noted that the Department 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 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 programs are paying their share of the costs as required by Federal regulations.

Agency's Response: "The Department agrees with this finding in part. The Department does not dispute that family fee calculation errors were made by the contractor. However, as indicated in "Item III.A.14", the Department does have an extensive monitoring process in place to review the work of the contractor. Nevertheless, to further improve controls, the Department has reinstituted a quality control review process effective January 1, 2006. This process will help identify areas where controls may need improvement and determine the type of corrective action that needs to be taken."

III.A.16. Matching – 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 2004-2005
Federal Award Number: G0501CTCCDF

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 allowable 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 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 $1,119,536 made under the Child Care Facilities Loan Distribution program were used as the portion of State funds expended under the Matching program for the Federal fiscal year 2004-2005. We could not determine how much of the $1,119,536 in expenditures was provided as loans for construction or substantial renovation of any building or facility.

Effect: The Department might have used unallowable expenditures as its State match. However, the Department of Social Services did expend additional State funds that could be used for its State match.

Cause: The Department thought that it could use the expenditures incurred under the Child Care Facilities Loan Distribution program as part of its State match

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

Agency's Response: "The Department does not agree with this finding. In response to concerns raised in the prior audit, the Department switched funding for the CHEFA loans from Federal to State matching funds. It is our interpretation of the Federal regulations that we are only prohibited from using Federal funds for the construction or permanent improvement of buildings or facilities. OMB Circular A-87 indicates that no federal TANF [Temporary Assistance for Needy Families] funds may be used for construction purposes. Section 98.51 of the CCDF final regulations allow for Federal CCDF funds to be used for minor renovations. However, nowhere in either the TANF or CCDF final regulations are there specific references to use or disallowance of State funds for construction purposes. Our interpretation of the regulations is that the use of the word "funds" means "Federal funds", therefore, Connecticut has the right to claim the CHEFA funds as CCDF State matching funds."

Auditors' Concluding Comments:

Title 45 Code of Federal Regulations Part 92 Section 24 includes basic rules for satisfying a matching requirement. This regulation provides that a matching or cost sharing requirement may be satisfied by allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by other cash donations from non-Federal third parties. As provided by Title 42 USC Section 9858d(b)(1), funds 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 are not allowable under the Child Care and Development Block Grant. Therefore, construction costs, which are not allowable under Child Care, should not be used to meet the match requirement.

III.A.17. Procurement – Bidding of Contracts

Temporary Assistance to Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CTTANF and G-0501CTTANF

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

Background: The Department of Social Services has been designated the Lead Agency to administer the Temporary Assistance to Needy Families (TANF) program and the Child Care programs 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 client eligibility for the Department's Care 4 Kids Program, which is claimed under CCDF. The Department also entered into another contract with this vendor for administration of the Department information phone line, for which the majority of the expenditures are claimed under TANF.

Criteria: Title 45 Code of Federal Regulations (CFR) Part 92 includes Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments. Section 36 of this part provides that when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.

Connecticut General Statute Chapter 55a, Part II provides that all personal service agreements costing more than fifty thousand dollars or a term or more than one year shall be based on competitive negotiations or competitive quotations.

Condition: The Department entered into a contract with a vendor to determine client eligibility for the Care 4 Kids program. The contract was not the result of a competitive procurement. The total amount of the contract was $20,640,032. The Department paid $3,807,611 of this contract during the State fiscal year ended June 30, 2005. A portion of this amount was claimed for Federal reimbursement and the remaining portion was claimed as State maintenance of effort under CCDF.

The Department also entered into another contract with this vendor for administration of the Department information phone line. This contract also was not the result of a competitive procurement. The total amount of the contract was $4,082,273. The Department paid the entire contract amount during the State fiscal year ended June 30, 2005.

Effect: Since the contracts were not the result of a competitive procurements, the Department might not be receiving services from the lowest cost vendor.

Cause: The Department determined that getting competitive bids was not necessary because the State Office of Policy and Management guidelines provides that competitive bidding for purchase of service contracts, which are contracts that provide direct client services, was suggested and not required. However, the services included in the contracts are for the vendor to provide an administrative function for the Department and not direct client services. The vendor determines client eligibility under CCDF and submits to the Department a list of providers in which payments should be made on behalf of eligible clients. The vendor also administers the information phone line for the Department, which should not be considered a grant payment to the vendor.

Recommendation: The Department of Social Services should ensure that it complies with Federal and State regulations concerning the procuring of administrative services.

Agency's Response: "The Department does not agree with this finding. It is the Department's position that the contractor is providing direct client services and therefore competitive bidding was not required per OPM guidelines."

Auditors' Concluding Comments:

The contractor is not providing direct services to clients. The contractor is providing an administrative function on behalf of the Department. The majority of the administrative function is to determine whether clients meet the eligibility requirements of the program and to determine the child care payment amount. Further, the Department was aware of an opinion issued by the State Office of the Attorney General prior to approving this contract, which provides that contracts for providing direct services to clients are also subject to the competitive procurement provisions of the Connecticut General Statutes.

III.A.18. 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 2003-2004 and 2004-2005
Federal Award Numbers: G-040CTCOSR and G-0501CTSOSR

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, 2004, TANF funds totaling $26,178,810 were expended to carry out programs under SSBG.

Criteria: Title 42 United States Code Sections 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 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's 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.19. Cash Management – Subrecipient Cash Balances

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-040CTCOSR and G-0501CTSOSR

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G04B1CTLIEA and G05B1CTLIEA

Background: The Department of Social Services provides a majority of its SSBG and LIHEAP funding to subrecipients. The subrecipients of the SSBG program report their cash balances quarterly to the Department, and the subrecipients of the LIHEAP program report their cash balances monthly to the Department. Our review disclosed that the Department of Social Services did not have procedures in place to provide reasonable assurance that funds advanced to some of the subrecipients of these programs were made in a timely manner.

Criteria: Title 45 Code of Federal Regulations (CFR) Part 92 Section 20 provides that procedures for minimizing the time elapsing between the transfer of funds from the Department of Treasury and disbursement by grantees and subgrantees must be followed. 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.

Condition: We tested advances made to six of the Department's subrecipients that received SSBG funds and advances made to six of the Department's subrecipients which received LIHEAP funds. We determined whether the cash balances exceeded the weekly average of expenditures incurred by these subrecipients. Our review disclosed three SSBG subrecipients and four LIHEAP subrecipients had cash on hand that exceeded their average weekly disbursements.

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 and Social Services Block Grant programs are made in accordance with the Department of Treasury Title 31 Part 205 of the Code of Federal Regulations.

Agency's Response: "The Department agrees with this finding in part. While the Department agrees that cash balances may have exceeded the subrecipients' average weekly disbursements on several occasions, the Department does have payment procedures in place to help prevent this from occurring. The Department makes payments to the Community Action Agencies (CAAs) on a frequent (weekly) basis using expenditure reports submitted by the CAAs to minimize excessive balances. The CAAs also have been notified that they must pay vendors within 72 hours of the receipt of the LIHEAP funds - this requirement is included in Part III of the Community Action Agency contracts with the Department."

III.A.20. 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 2003-2004 and 2004-2005
Federal Award Numbers: H126A040007 and H126A050007

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, 2005, relative to Federal fiscal year 2004-2005, disclosed that expenditures that were incurred for the same purpose were reported as an indirect cost and a direct cost of the Vocational Rehabilitation program. The report reviewed represented cumulative expenditures incurred for the period October 1, 2004, to June 30, 2005. Our review disclosed that the Department reported accrued leave expenditures totaling $3,395 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, 2004, and March 31, 2005. However, we also noted that the cumulative total expenditures reported on the quarter ending June 30, 2005, report included accrued leave expenditures totaling $4,989 that were directly charged to the Vocational Rehabilitation program.

Our review also disclosed an additional $16,966 in direct accrued leave costs incurred during the State fiscal year ended June 30, 2005, that were charged to the program relative to Federal fiscal year 2003-2004.

Effect: The accrued leave costs totaling $21,955 directly charged to the program during the State fiscal year ended June 30, 2005, 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's Response: "The Department agrees with this finding. The Department will refund to the U.S. Department of Education the amount of $21,955 for accrued leave costs directly charged to the Vocational Rehabilitation program for the SFY ended June 30, 2005. This will be done through an adjustment to the indirect costs charged for FY 2005 on the next Reimbursable Cost Recovery Report, Form CO-826. It should be noted that adequate reporting procedures are now in place so that this cost will be accounted for properly in the future. The Department has created an additional Core-CT project code to use exclusively for coding accrued leave costs in order to correctly account for such costs in both Core-CT and Maxcars, the program used to execute the Department's Cost Allocation Plan."

III.A.21. Special Tests and Provisions

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, 2005
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. During the fiscal year ended June 30, 2005, housing assistance payments paid to landlords totaled $42,952,744.

Criteria: Housing Quality Standards Inspections

Title 24 Code of Federal Regulations (CFR) Part 982 Sections 158(d) and 405(a) provide that the public housing agency (PHA) must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS). The PHA must prepare a unit inspection report.

Housing Quality Control Reinspections

Title 24 CFR Part 982 Section 405(b) provides that the public housing agency (PHA) must conduct quality control reinspections.

Chapter 10 of the *Housing Choice Voucher Program Guidebook* provides that quality control reinspections must be scheduled to comply with the Section 8 Management Assessment Program (SEMAP) requirements. SEMAP was designed by the Department of Housing and Urban Development (HUD) as a tool to measure the performance of PHAs administering the housing choice voucher program. The PHA must perform a quality control reinspection of HQS inspections for a sample of units under contract during the last PHA fiscal year. Completed HQS inspections included in the sample must be no older than three months at the time of the quality control reinspection.

HQS Enforcement
Title 24 CFR Part 982 Sections 158(d) and 404 provide that for units under housing assistance payment (HAP) contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Condition:

Housing Quality Standards Inspections
We selected 10 housing assistance payments to determine whether housing quality standard (HQS) inspections were performed within a year of payment. We found that HQS inspections were performed in all ten cases. However, in one case we noted that one unit failed the inspection on August 17, 2004, and subsequently passed the inspection on October 24, 2004. The housing assistance payments made to the owner were not stopped effective October 1, 2004, which was the stop date required by HUD policy. The payment selected for testing was appropriate because the service month (November 1, 2004) tested was after the corrections were made. However, the delay in correcting the deficiency did result in an improper payment of $640 to be made on October 1, 2004.

Quality Control Reinspections
The Department provided to us a list of 355 quality control reinspections that were performed during the State fiscal year ended June 30, 2005. We selected a sample of 10 quality control reinspections from this list to determine whether the quality control reinspections were actually performed. Our review disclosed one quality control reinspection was not actually performed. In addition, two quality control reviews were performed on HQS inspections that were older than three months.

HQS Enforcement
We reviewed a sample of ten failed inspections of housing units out of 833 failed inspections that occurred during the State fiscal year ended June 30, 2005. Corrective action was not taken in a timely manner for four of these ten failed inspections, and the housing assistance payments totaling $2,722 were not stopped as required by HUD policy.

Effect: The State did not comply with the requirements of the Section 8 Housing Choice Vouchers program, which resulted in questioned costs totaling $3,362.

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 noncompliances identified, the vendor did not perform its contracted duties.

Recommendation: The Department should ensure that the vendor has established adequate procedures to ensure compliance with the requirements of the Section 8 Housing Choice Vouchers program. In addition, the Department should recover the housing assistance payments improperly paid to the landlords.

Agency's Response: "The Department agrees with this finding. The Department will pursue recovery of the housing assistance payments from the vendor. In addition the Department will work with the vendor to ensure compliance with the requirements of the Section 8 Housing Choice Voucher Program. It should be noted that the QC reinspection could not be performed on the case originally selected because the client moved the following month; therefore, another tenant file was substituted to meet the QC reinspection requirement."

III.A.22. Cash Management

HIV Care Formula Grant (CFDA#93.917)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 2 X07H00022-14-00 and 2 X07HA00022-15-00

Background: The Department of Social Services receives HIV Care Formula Grant funds from the State Department of Public Health. The Department of Social Services prepares transfer invoices to process the transfer of the funds from the Department of Public Health. The transfer invoices are based on an estimate of future program expenditures.

Criteria: Title 31 Code of Federal Regulations Part 205 Section 33 provides that the State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition: The Department is not minimizing the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes.

For the fiscal year ending June 30, 2005, we reviewed each month to determine whether the Department had excessive Federal funds on hand. Our review disclosed that the Department had excessive Federal funds on hand for all twelve months, ranging from $1,060,294 in August 2004 to $4,316,427 in May of 2005. As of June 30, 2005, the cash balance was $2,123,339. The Department makes bimonthly disbursements to providers in which these disbursements averaged $467,392 during the fiscal year.

Effect: The Federal Government incurs interest costs because the funds are advanced to the Department of Social Services prior to the Department needing the funds to support program expenditures.

Cause: The Department of Social Services prepares a transfer invoice to process the transfer of funds from the Department of Public Health on a monthly basis. The amount of the transfer invoice is based on anticipated program expenditures for the following month rather than to support an immediate cash outlay, which is based on bimonthly disbursements.

Recommendation: The Department of Social Services should develop and implement controls to minimize the time between when Federal funds of the HIV Care Formula Grant are requested and their disbursement for Federal program purposes.

Agency's Response: "The Department does not agree with this finding. The Department does not process any Federal drawdowns for this grant. Therefore, the Department cannot be out of compliance with the Federal regulation concerning the timing of Federal drawdowns. The Department processes transfers invoices to obtain funds from the Department of Public Health (DPH) to support expenditures for the CADAP [Connecticut AIDS Drug Assistance Program] program. An SID [Special Identification Code] account is established under which the Comptroller authorizes the Department to incur expenditures. As expenses are made against the account, DPH is responsible for the drawdown of Federal funds to replenish the State receivable that is created when the expenditures are incurred. The Department reports expenditures to DPH monthly. It appears that the Federal expenditure reports must be reconciled with the drawdowns to ensure that the proper amounts are drawn, however, this is not within the Department's authority."

Auditors' Concluding Comments:

Since the Department of Social Services (DSS) is not considered to be a subrecipient of the Department of Public Health (DPH), DSS has the responsibility to request funds so that the State has minimal Federal cash on hand to administer DSS' portion of the program. The DSS prepares transfer requests on a monthly basis but disbursements are made to clients on a bimonthly basis. The DPH is providing Federal funds to DSS based on the amount requested by DSS. There were three instances in which DPH provided more than the amount requested by DSS. However, since the majority of the noncompliance pertains to DSS requesting funds monthly, which does not coincide to DSS' disbursement cycle, DSS should request funds to minimize the time between when DPH draws down the Federal funds and when DSS disburses the funds.

III.A.23. Reporting

State Child Health Insurance Program (CFDA # 93.767)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0405CT5021 and 05-0505CT5021

Background: Title 45 of the Code of Federal Regulations Part 457 Section 630 provides that the Centers for Medicare and Medicaid Services (CMS) makes quarterly grant awards to the State to cover the Federal share of expenditures for services, training, and administration. The amount of the quarterly grant is determined on the basis of information submitted by the State agency (in quarterly estimate and quarterly expenditure reports) and other pertinent documents.

Criteria: Title 42 Code of Federal Regulations Part 457 Section 630 provides that the Department must submit Form CMS-21B (Children's Health Insurance Program Budget Report for State Children's Health Insurance Program State expenditures) and Form CMS-21 (Quarterly State Children's Health Insurance Program Statement of Expenditures for Title XXI) to CMS. The Form CMS-21 is the State's accounting of actual recorded expenditures. CMS computes the SCHIP grant award based on the estimate of expenditures for the ensuing quarter and the amounts by which that estimate is increased or decreased because of an underestimate or overestimate for prior quarters. The grant award authorizes the State to draw Federal funds as needed to pay the Federal share of SCHIP disbursements.

Condition: We reconciled the Forms CMS-21 submitted during the fiscal year ended June 30, 2005, to supporting documentation. We noted errors on two of the four reports submitted. The net effect of the errors is a $218,514 overstatement of expenditures. The following is a summary of the two errors noted during our review of the CMS-21 reports.

- On the CMS-21 submitted for the quarter ended September 30, 2004, the Department reported on Line 25 expenditures totaling $351,788. However, based on supporting documentation, the Department should have reported $405,702. This resulted in a $53,914 understatement of the amount the State requested for reimbursement from the Federal government.

- On the CMS-21 submitted for the quarter ended December 31, 2004, the Department reported on Line 25 expenditures totaling $449,648. However, based on supporting documentation, the Department should have reported $177,220. This resulted in a $272,428 overstatement of the amount the State requested for reimbursement from the Federal government.

Effect: The Department overstated SCHIP gross expenditures by $218,514. Based on applying the Federal financial participation rate (65 percent) to the above errors, the Department overstated its Federal share of SCHIP by $142,034. As a result, CMS would have incorrectly computed the grant award, which authorizes the State to draw Federal funds as needed to pay its Federal share of SCHIP disbursements.

Cause: The above conditions were caused by clerical errors that went unnoticed during the supervisory review process.

Recommendation: The Department of Social Services should report the correct expenditures on the Form CMS-21 to ensure that the Centers for Medicare and Medicaid Services (CMS) compute the correct State Child Health Insurance Program grant award.

Agency's Response: "The Department agrees with this finding. During SFY 2005 this function was taken over by a new staff person and some items were overlooked during this period. The Department is confident that such situations are not likely to recur in the future based upon the additional expertise gained by the staff person over the past year. The Department has processed prior period adjustments to correct the items identified in this finding in the Federal claim for the quarter ending September 30, 2005."

III.A.24. Allowable Costs/Cost Principles – Fringe Benefit Costs

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 0404CT4004 and 0504CT4004

Background: The Department of Social Services has been designated the lead agency for administering the Medicaid, TANF, CCDF, and Child Support programs. The Department of Social Services claimed for Federal reimbursement under these programs personal services expenditures incurred by other State agencies. Our review disclosed that the Department did not have adequate procedures to recover the proper fringe benefit costs for Federal reimbursement.

Criteria: Attachment B of the Office of Management and Budget Circular A-87 provides that fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. The costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit employee agreement, or an established policy of the governmental unit.

Condition: The Department is not claiming the actual fringe benefit costs for Federal reimbursement in accordance with the policy established by the Office of the State Comptroller. The Office of the State Comptroller issued a memorandum concerning fringe benefit recovery rates on July 1, 2004, to all State agencies. This memorandum provides that with the implementation of the Core-CT, the State accounting system, in November 2003, the State share of certain fringe benefits has been charged to agencies on an actual cost basis. This includes group life insurance and medical insurance, which are calculated based on the actual cost of the State's share of insurance premiums. The actual cost method will continue to be used in fiscal year

2004-2005. In addition, this memorandum stated that there will no longer be composite rates encompassing all fringe benefit components.

We noted that the Department is not recovering the actual fringe benefit costs related to some personal costs incurred by other State agencies on behalf of Federal programs. The Department is improperly applying a composite fringe benefit rate to the other State agencies' personal service costs.

Effect: The Department could be claiming unallowable fringe benefit costs for Federal reimbursement.

Cause: The Department did not adjust its procedures to start recovering for Federal reimbursement actual fringe benefit costs. The Department used a composite rate, which it should not have used, to calculate the fringe benefit costs. The rate used by the Department was provided by the Office of the State Comptroller for budgeting and planning purposes.

Recommendation: The Department should correct its procedures to ensure that actual fringe benefit expenditures are being claimed for Federal reimbursement as required by the Office of the State Comptroller.

Agency's Response: "The Department agrees with this finding. The Department will work with the State agencies that provide the cost reports to ensure that actual fringe benefit costs incurred under the State accounting system are included in our Federal claim reports."

III.A.25. Allowable Costs/Cost Principles – Cost Allocation Plan

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 0404CT4004 and 0504CT4004

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5021 and 05-0505CT5021

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 2003-2004 and 2004-2005
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 2003-2004 and 2004-2005
Federal Award Numbers: H126A040007 and H126A050007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 04-0404CTDI00 and 04-0504CTDI00

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 "Department Allocation" method 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 are 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 "Department Allocation Modified" method is similar to the Department Allocation method referred to above except that the hours related to the Rehabilitation Services unit are not included in the ratio.

- The "Data Processing Time Log Allocation" method 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 "Region Allocation" method is used to allocate costs identified to specific functions supporting the Department's Regional Offices. The statistic used to allocate the costs assigned to the Region Allocation method is based on the employee hour ratio calculated for each program. The ratio is determined by identifying the total number of hours of Regional Office staff attributable to each organization unit or grant divided by the total number of hours.

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.
- 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 Part 95 Section 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 reconciliation of the data used to allocate costs to supporting documentation disclosed the following:

   - The allocation statistics used in the "Data Processing Time Log Allocation" method did not agree with supporting documentation. This statistic should be based on employees working on the Department's Management Information Systems. Our test disclosed that 70 hours worked by an employee on the Department's Eligibility Management System was not included in the "Data Processing Time Log Allocation" method.

   - The expenditure amounts were pooled to ten Department codes differently than the hours used in some allocation methods. All expenditures are assigned codes which are used to accumulate the expenditures in different Department units. The Department accumulates employee hours for each unit, which are used in some allocation methods to allocate various costs to Federal and State programs. We noted that expenditures were accumulated in some units with no assigned employee hours, and we noted that employee hours were accumulated in some units with no corresponding expenditures.

   - The total expenditure amount that was used to allocate costs did not agree with the total expenditures incurred by the Department. We noted that expenditures incurred by the Department were $38,041 more than the expenditures used to allocate costs.

2. Our review of the some of the allocation bases used in the Department's Cost Allocation Plan disclosed the following:

   - The Department's Public Assistance Cost Allocation Plan provides that the statistic used to allocate costs assigned to the allocation method "Department Allocation Modified" is based on the ratio of employee hours accumulated in all Department units excluding the hours accumulated under the Rehabilitation Services Unit. However, we noted that three Department units, which were not part of the Rehabilitation Services Unit, were incorrectly excluded from the "Department Allocation Modified" method.

- The Department's Public Assistance Cost Allocation Plan provides that the statistic used to allocate costs assigned to the allocation method "Regional Allocation" is based on the ratio of employee hours accumulated in the units located at the Regional Offices. We noted that a unit located at a Regional Office was improperly excluded from the "Regional Allocation" method.

- The administrative overhead costs (for example, utilities and office lease) accumulated by some of the Department's Regional Offices were not being allocated to all benefiting Federal and State programs. The Department has employees working under the Ombudsman Unit and the Rehabilitation Services Unit at some of the Regional Offices. The administrative overhead costs related to these Regional Offices are not being allocated to the Ombudsman Unit or the Rehabilitation Unit. Costs accumulated in these units would be subsequently allocated to Federal and State programs based on these units respective assigned allocation bases.

- Costs accumulated in the HIPAA (Health Insurance Portability and Accountability Act) Compliance cost pool are being allocated only to the Medicaid program. However, costs related to HIPAA would benefit all programs administered by the Department that have medical information.

3. As required in the Cost Allocation Plan, 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 to Federal awards in accordance with the relative benefits received. The above errors did not have a significant effect to the gross expenditures made under the Federal programs administered by the Department. The effect, for the most part, is a reassignment of costs from one Federal program to another. In addition, the Department did not comply in all respects with its approved Cost Allocation Plan.

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 programs 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's Response: "The Department agrees with this finding in part. The Department disagrees with the condition that Regional Office costs should be allocated to the Ombudsman and Rehabilitation Services Units.

Concerning the shortage of 70 hours in the MIS allocation pool; one employee did not submit their time log timely and it was not entered into the system database. The MIS time data entry will be proofed more diligently to prevent this from occurring in the future.

Concerning the accumulation of expenditures into allocation pools where no staff time was incurred; the Department will review the details of this finding to determine what corrective action needs to be taken.

Concerning the $38,041 variance between the expenditures allocated and the expenditures incurred; the Department will review the details of this finding to determine what corrective action needs to be taken.

Concerning the exclusion of certain units in the Public Assistance allocation bases in both the Central and Regional Offices; the Department has a procedure in place to detect this type of error. A review of Import Rules and Allocation Basis is conducted periodically to ensure the integrity of MAXCARS. The last update was completed for the quarter ended September 30, 2005.

Concerning the allocation of Regional Office costs to the Ombudsman Unit and Rehabilitation Services Unit; these offices do not have a reporting relationship to the Regional Office administration, therefore it is proper to exclude them from the allocation.
Concerning the HIPAA compliance cost pool being only allocated to Medicaid; the Department is considering changing the allocation basis to Medical Case Counts versus Medicaid. The Department will review this further and make appropriate adjustments to the CAP if necessary."

Auditors' Concluding Comments:

Although there is no reporting relationship between the Ombudsman Unit and the Rehabilitation Services Unit and the Regional Office, OMB Circular A-87 provides that costs should be 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. We noted that the staff of the Ombudsman Unit and Rehabilitation Services Unit are physically located at some of the Regional Offices. Administrative costs (for example, rent and utilities) for operating these Regional Offices are not being allocated to the two units. As a result the programs administered by these two units are not receiving all applicable administrative costs in accordance with the relative benefits received.

III.A.26. Allowable Costs/Cost Principles – Expenditure Transactions

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

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 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTCCDF and G0501CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 0404CT4004 and 0504CT4004

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5021 and 05-0505CT5021

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 2003-2004 and 2004-2005
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 2003-2004 and 2004-2005
Federal Award Numbers: H126A040007 and H126A050007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 04-0404CTDI00 and 04-0504CTDI00

Maternal and Child Health Federal Consolidated Programs (CFDA# 93.110) - Non Major Program
Federal Awarding Agency: Social Security Administration
Award Year: Federal Fiscal Year 2004-2005
Federal Award Number: 5H24MC00065-06-00

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 $327,068. This sample was randomly selected from expenditure transactions totaling $78,688,232 made during the fiscal year ended June 30, 2005. These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of payments disclosed the following three conditions:

1) Five expenditures were not assigned the proper expenditure codes. We noted the following:

   - Two expenditures totaling $1,676 were coded to Administrative/Support Services Unit. Expenditures coded to Administrative/Support Services would be allocated to all programs on a Department-wide basis. However, one expenditure was for the payment of a phone bill for a Department Regional Office and should have been coded as an expenditure of the Regional Office. The costs charged to the Regional Offices are allocated differently than the costs charged to the Administrative/Support Services Unit. The other expenditure was for the payment to repair the security system of a suboffice of the Bureau of Rehabilitation Services. Therefore this expenditure should have been a direct charge of the Bureau of Rehabilitation Services.

   - One expenditure for $78 was paid for the translation of a Managed Care notice from English to Spanish. The expenditure was assigned an improper expenditure code, which resulted in the expenditure being allocated to the incorrect cost pool. This transaction was allocated to the Medicaid 75 percent cost pool. However it does not appear that the expenditure is eligible to be reimbursed under Medicaid at 75 percent. It should have been reimbursed at 50 percent.

   - One expenditure for $755 for annual maintenance fee was for software used exclusively for the Child Support computer system. However, the transaction was assigned an expenditure code that resulted in the expenditure being improperly allocated to multiple programs rather than being a direct charge to Child Support.

   - One expenditure for $365 was for background checks performed on medical providers. The transaction was assigned an expenditure code that resulted in the expenditure being improperly allocated entirely to Medicaid. However, the expenditure was for services that would effect all medical programs provided by the Department.

   Based on processing the above exceptions through the Department's Cost Allocation Plan, we determined questioned costs were charged to Federal programs as follows:

Program	Net Improper Allocation	Questioned /(Unclaimed) Costs
TANF	$ 13	$ 0
Child Support Enforcement	(733)	(484)
Medicaid	414	227
CCDF	9	0
SCHIP	(7)	0
Vocational Rehabilitation	(4)	(4)
Food Stamps	104	52
Disability Insurance	106	106
Miscellaneous State and Federal Grants	98	NA
Net Total	$ 0	$ (103)

The questioned costs and unclaimed Federal reimbursements are based on the Federal programs' financial participation rates. There were no questioned costs to CCDF and TANF because the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement under these two programs. There were no unclaimed costs under SCHIP because the Department met its limitation on how much administrative costs could be claimed under SCHIP. The costs included under Miscellaneous State and Federal Grants is the net amount of the remaining errors. We did not determine the amount of questioned costs claimed under the non major Federal programs because the costs would not be material.

2) Two expenditures claimed for Federal reimbursement were not reasonable or necessary to administer Federal programs. We noted the following:
   - One expenditure for $216 was for the purchase of two crystal hemispheres which were given to paid contractors that worked with the State to thank the contractors for the work that they performed on the Federal grant. This expenditure was charged to the Maternal and Child Health Grant, a non-major program.

   - One transaction for $2,589 was for a payment made to a consultant. The amount paid was based on a $95 hourly rate; however, the approved contract provides that the hourly rate should have been $92. As a result the Department overpaid the contractor $82. This overpayment was directly charged to Medicaid and resulted in questioned costs totaling $41 (based on the Medicaid Federal reimbursement rate of 50 percent).

3) The Department did not have adequate documentation to support the charge of costs to Federal programs for one transaction sampled. We noted that one payment in the amount of $1,219 was for the payment of fuel. The Department did not have any documentation to support the expenditure code assigned to this expenditure which represents a weakness in internal controls. The expenditure was charged to a regional office of the Department.

Effect: The Department's controls are not always providing reasonable assurance that allowable costs are being claimed under the proper Federal programs. We determined that questioned costs in the amounts of $268, $52 and $104 were charged to the Medicaid, Food Stamps, and Social Security-Disability Insurance programs, respectively. We also determined that the Department underclaimed $484 and $4 under the Child Support Enforcement and Vocational Rehabilitation programs, respectively.

Cause: The Department did not have adequate procedures in place to ensure that expenditure transactions are properly coded and that only allowable expenditures are charged to Federal awards.

Recommendation: The Department of Social Services should ensure that expenditures claimed under Federal awards are only allocated to benefiting Federal programs in accordance with the provisions of Office of Management and Budget Circular A-87.

Agency's Response: "The Department agrees with this finding. The issues cited primarily relate to the proper coding of expenditure transactions and not the cost allocation plan. The responsibility for coding resides with the staff processing payment requests. Therefore, the Department will review the errors cited to determine if there are systemic issues that can be proposed which will minimize the types of issues cited."

B. DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

III.B.1. Level of Effort – Maintenance of Effort

Substance Abuse Prevention and Treatment Block Grants (CFDA #93.959)
Federal Award Agency: Department of Health and Human Services
Award Years: 2003, 2004 and 2005
Federal Award Numbers: 03B1CTSAPT, 04B1CTSAPT, 05B1CTSAPT

Criteria: Title 45 Code of Federal Regulations (CFR) Part 96 Subpart L Section 96.134 requires that, for the Substance Abuse Prevention and Treatment Block Grants (SAPT), "the State shall for each fiscal year, maintain aggregate State expenditures for authorized activities by the principal agency at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year for which the State is applying for the grant."

Condition: The maintenance of effort (MOE) level reported for substance abuse costs by the Department of Mental Health and Addiction Services (DMHAS) for the State fiscal year ended June 30, 2005, could not be supported or reconciled to the State's Core-CT accounting records. In addition, the basis and method used to allocate administrative costs were questionable and not adequately documented.

Effect: Inadequate documentation of costs and the methodology used for calculating substance abuse costs results in the inability to substantiate compliance with MOE requirements.

Cause: DMHAS personnel attributed this matter to the recent implementation of Core-CT, timing differences and State Comptroller adjustments.

Recommendation: The Department of Mental Health and Addiction Services should improve maintenance of effort calculations for the Substance Abuse Prevention and Treatment Block Grant to ensure that costs reported and the methodologies used are properly supported.

Agency Response: "The Department of Mental Health and Addiction Services has secured the services of an outside consultant to work with the Department in reviewing the MOE requirements as they relate to the grant programs and the funding used for the MOE. This consultant will assist the Department in developing policies and procedures to assure consistent methodology is used in reporting MOE on the block grant programs. In addition, DMHAS staff will maintain dated information retrieved from the Core-CT system to address timing differences for the expenditure information in Core-CT used in the SAPT Block Grant reporting."

III.B.2. Subrecipient Monitoring

Substance Abuse Prevention and Treatment Block Grants (CFDA #93.959)
Federal Award Agency: Department of Health and Human Services
Award Years: 2003, 2004 and 2005
Federal Award Numbers: 03B1CTSAPT, 04B1CTSAPT, 05B1CTSAPT

Background: Federal regulations require grant subrecipients to submit audit reports within nine months of the end of their fiscal year. Our review of subrecipient monitoring for the Substance Abuse Prevention and Treatment Block Grants (SAPT) was based on audit reports submitted for the State fiscal year ended June 30, 2004, the most recent filing cycle available for review.

Criteria: OMB Circular A-133, Subpart D, requires that pass-through entities:

- Monitor subrecipient activities,
- Ensure subrecipient compliance with Federal audit requirements, and
- Issue management decisions on audit findings within six months after the receipt of the subrecipient's audit and ensure appropriate and timely subrecipient corrective action.

Condition: As of December 1, 2005, only 11 desk reviews were performed for the 58 audit reports that were received from subrecipients that had SAPT Block Grant funding during the State fiscal year ended June 30, 2004.

Effect: Audit reports were not reviewed in a timely manner which also resulted in audit findings not being addressed within six months of the receipt of the subrecipient's audit report.

Cause: Staffing shortages and organizational changes transferring the responsibility for subrecipient monitoring contributed to delays in the review of subrecipient audit reports.

Recommendation: Audit reports of subrecipients receiving Substance Abuse Prevention and Treatment Block Grant funds should be reviewed in a timely manner by the Department of Mental Health and Addiction Services to ensure compliance with Federal subrecipient monitoring requirements.

Agency Response: "Audit Unit personnel are currently assisting the Purchased Services Unit (PSU) Staff in reviewing the FY 2004 audit reports.

For the FY 2005 audits, an initial review of all audits with federal funds will be conducted by the Audit Unit to identify findings related to federal dollars. Audits with findings will then undergo full review by PSU and/or Audit Unit staff within the time frame noted by Federal regulation.

Concurrently, the PSU has requested an additional position to increase staff levels to expedite the review of the private non-profit providers audit reports."

III.B.3. Matching, Level of Effort, Earmarking

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: CT26C94-0060, CT26C93-1103, CT26C93-1106

Background: Grant awards expenditures are required to be matched with at least equal value on a cumulative basis. Grant expenditures are allocated to a budget that is established as part of the grant award process. Fiscal services sets up and monitors "projects" for funding limits that includes the specific level of effort or earmarking requirements. Prior audits disclosed that matching requirements could not be substantiated for some grants. Management has developed a corrective action plan that is scheduled to be implemented on July 1, 2006.

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: 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 December 29, 2004, when housing assistance payments amounted to $5,449,549.
- Match of $4,057,183 was reported for Hartford contract CT26C93-1103 at December 29, 2004, when housing assistance payments amounted to $4,442,386.
- Match of $708,842 was reported for Stamford contract CT26C94-0060 at October 29, 2004 when housing assistance payments amounted to $2,116,914.

Effect:	Minimum Federal matching requirements for three grants could not be substantiated for a total of $2,065,084.
Cause:	There was inadequate monitoring for the accumulation of costs used to ensure that Federal matching requirements was being met.
Recommendation:	The Department of Mental Health and Addiction Services should implement their corrective action plan to ensure that matching requirements are being met.
Agency Response:	"The Department's plan, that was developed as a result of this finding being reported from a prior fiscal year, is on target for a July 1, 2006 implementation date. Current implementation actions include the following:

*Negotiations are underway, with the Department of Social Services, to secure access to the State Medicaid Utilization Data, which will enable the Shelter Plus Care program to document service utilization and cost incurred by program participants. This will ensure a proper match of housing and service data. Negotiations are scheduled for completion by April 1, 2006 with access to the Medication Utilization Data to commence July 1.

*A feasibility study was performed to confirm that the Department's new Shelter Plus Care data system will be compatible with the DMHAS main database system for capturing all necessary data for accurately reporting "match" information. This study confirmed its' compatibility."

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 2004-2005
Federal Award Numbers: UI14425QD

Criteria: The UI Reports Handbook No. 401, ETA 227 Overpayment Detection and Recovery Activities, Section D. General Reporting Instructions states that all applicable data on the ETA 227 report should be traceable to the data regarding overpayments and recoveries in the State's financial accounting system.

Condition: The ETA 227 report for the quarter ended June 30, 2005, was prepared using the same type of supporting documentation used in preparing previous ETA 227 reports. As previously reported not all amounts could be traced to the Department's financial accounting system using this documentation.

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

Cause: The Department'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 ETA 227 has been automated to both eliminate extensive preparation time and accurately report the collection of overpayments greater than four years old. We are currently in the process of testing and making any needed adjustments to the report. We expect to have the report in production and running for the fourth calendar quarter of 2005, which will be completed in the first week of January 2006."

III.C.2. Earmarking – Low-income Disadvantaged Youth

Workforce Investment Act Cluster – WIA (CFDA #s 17.258, 17.259 and 17.260)
Federal Award Agency – Department of Labor
Award Year: Program Year 2004 and Fiscal Year 2005
Federal Award Number: AA-13789-04-50

Criteria: Title 20 CFR Section 664.200 requires that a minimum of 95 percent of eligible Workforce Investment Act participants in youth activities must meet the criteria of disadvantaged low-income youth.

Condition: Our review disclosed that less than 95 percent of youth participants, who enrolled during the fiscal years ended June 30, 2004 and 2005, were disadvantaged and low-income.

Effect: The Department of Labor is not in compliance with the earmarking requirement.

Cause: The Department of Labor did not regularly monitor the youth participants to ensure compliance with the requirement.

Recommendation: The Department of Labor should adhere to earmarking requirements.

Agency Response: "We do not agree with the stated cause of the finding. Reviewing the 5 percent non-disadvantaged threshold is conducted during our annual monitoring of local Workforce Development Boards. The detection of any non-compliance would occur during this review and would be cited. However, it still remains a local board responsibility to comply with this requirement and to keep accurate counts. At the time the Connecticut Labor Department conducted its annual on-site monitoring, local boards were in compliance. Non-compliance occurred at years end and detected through our management information system. Findings were issued to the boards advising them that they were out of compliance and we are currently in the resolution phase. As a result we anticipate that each finding will be resolved satisfactorily.

The Connecticut Department of Labor has the capability to run special reports by each local board, to inform this Department and local boards on a quarterly basis the status of compliance with this requirement.

We are considering implementing safeguards into our policy that will further ensure that compliance is met."

Auditors' Concluding Comments:

As the grantee, it is the Department of Labor's responsibility for the oversight of the Workforce Development Boards' compliance with this requirement. Although the Department conducts annual monitoring reviews of the Boards, more frequent review would identify the compliance or non-compliance with this requirement in a timely manner.

D. DEPARTMENT OF PUBLIC HEALTH

III.D.1. Cash Management – Monitoring of Subrecipient Cash Balances

HIV Care Formula Grants (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Award 2004-2005
Federal Award Number: XO7HA000-22-14

Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC) (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: U58/CCU119326-03, U90/CCU116996-05, and U90/CCU116996-04

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 2003-2004
Federal Award Number: 4CT700700

Criteria: 31 CFR 205 specifies that States should time the transfer of funds to subrecipients, to the maximum extent practicable, with the subrecipients' actual immediate funding requirements to carry out the program or project. 45 CFR 92.20(b)(7) requires that grantees 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 their 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: In response to our prior Statewide Single Audit Report's findings regarding cash management, the Department of Public Health implemented a policy that requires payments to subrecipients with contracts over $300,000 to comply with Federal cash management requirements. This policy does not fully comply with Federal cash management requirements because it excludes contracts under $300,000.

The Department typically provides advance funding for those contracts under $300,000, and subsequent payments are based on contractually established benchmarks, without considering the subrecipients' actual cash needs. For example, the Department had received expenditure reports that presented total expenditures, and a cash deficit, of $41,188 at the end of the third quarter from one of its contractors. The Department subsequently made three payments for the full amount of the contract, $131,086 to the subrecipient. The fourth and final expenditure report was received six days later; it indicated a predictable unspent balance of $59,080, of which $12,870 and $29,643 was paid from the WIC and CDC grants, respectively. The contractor returned the full $59,080 to the Department.

We sampled one of the six contracts executed during the audit period that was affected by the new policy requiring compliance with Federal cash management guidelines. We found that although the contract appropriately includes language that requires payments to be based on the contractor's cash needs, an $868,773 payment was made with CDC funds during September 2006 that was not based on cash need.

We also noted 71 "Good Faith" payments totaling $3,591,401 from the CDC grant. These payments were made to subrecipients before the contractual benchmarks were met and without regard to the subrecipients' cash needs. One of these contractors communicated through email that it might have $11,148 in unspent funds. The $76,010 payment associated with these unspent funds was the full amount of the contract and was disbursed during December 2004. As of May 2006, the DPH has neither collected this money nor received the contractor's final financial report. Also, two contractors were allowed to carry unspent funds totaling $746,516 from one contract to another that was to be funded by a different Federal Award. The DPH is currently pursuing recovery of $469,730 in unspent funds from one of these contractors. These contracts were funded through Federal awards that are now closed. Contract Management over these "Good Faith" payments is also addressed in finding III.D.7.

Effect: The Department of Public Health has not adhered to Federal cash management requirements. This has resulted in many contractors returning unspent Federal Funds that may not have been needed at the time that the Department made the payments. Once some of the subrecipients received the full amount required by the contract, it became more difficult for the Department to obtain the contractually required program and financial reports. We noted that a few contractors have not filed financial reports that were due over one year ago; as a result, there may be unspent funds in the custody of contractors, relating to older, expired, Federal awards that must be returned to the Federal awarding agency.

Cause: The Department has not adequately addressed our prior Statewide Single Audit Report's recommendation calling for improved cash management in accordance with Federal requirements.

Recommendation: The Department of Public Health should establish policies and procedures that minimize the time elapsing between the transfer of funds and their subsequent disbursement by subrecipients in compliance with Federal requirements.

Agency Response: "We agree with the finding and recommendation. The Department of Public Health (DPH) has reduced the threshold for the federal cash management requirements from $300,000 to $275,000 effective with the start of State fiscal year 2006-2007. Prospectively, DPH will address and monitor compliance with key contracting personnel throughout the agency to achieve full adherence to the federal requirements.

The DPH through its Contracts and Grants Management Section will provide additional training to key contracting staff regarding cash management and the need to limit sub-grantee cash draw-downs to the actual funding requirements to carry out the program or project."

Auditors' Concluding Comment:

The DPH's response indicates that it intends to exclude contracts under $275,000 from the Federal cash management requirements during the 2006-2007 State fiscal year; this will not result in full compliance with the requirements.

III.D.2. Allowable Costs/Cost Principles – Documentation of Salary Costs

HIV Care Formula Grants (HIV) (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Award 2004-2005
Federal Award Number: XO7HA000-22-14

Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC) (CFDA #93.283)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: U90/CCU116996-05 and U50/CCU111188-10

Criteria: OMB Circular A-87 requires that charges for the salaries and wages of employees working solely on a single Federal award or cost objective will be supported by semi-annual certifications. For those employees working on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by "at-least" monthly personnel activity reports or equivalent documentation of an after-the-fact distribution of the actual activity of each employee and the total activity for which they are compensated. The Department has established policies for such documentation.

Condition: Our sample of 30 payroll transactions included 16 that were charged to the HIV and CDC grants totaling $23,184 and 10,438, respectively. The audit universe for HIV and CDC transactions, including fringe benefits and indirect costs was $823,405 and $7,621,798, respectively.

Employees who were charged solely to a single Federal award either prepared annual certifications or when semi-annual certifications were prepared, they were generally prepared at the same time, near the end of the Federal award period. Semi-annual certifications frequently also included time allocations for split-funded employees. In our sample of 11 transactions charged to the CDC grant we noted that two employees' time and effort was not adequately supported by timely personnel activity reports.

Effect: In the absence of semi-annual certifications and personnel activity reports, there is non-compliance with OMB Circular A-87. We question the annualized cost of $202,496 relating to the two employees' salaries, including fringe benefits and indirect costs that were charged to the CDC grant and were not adequately supported.

Cause: A lack of administrative oversight appears to have contributed to the condition.

Recommendation: The Department should comply 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 split-funded employees.

Agency Response: "We agree with the finding and recommendation. The DPH Fiscal Office is monitoring the submission of certifications on a quarterly basis. Reminders are sent and follow-up occurs if required documents are not provided.

In the case of one of the split-funded employees, the staff member maintained the time and activity log detailing the work assigned for the grant and her other duties. We do not question the untimely submission of the certification or reports.

All staff with split funding will be reminded of the requirement to maintain activity reports."

III.D.3. 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, 2003-2004, and 2004-2005
Federal Award Numbers: U90/CCU116996-03, U90/CCU116996-04, and U90/CCU116996-05

Criteria: OMB Circular A-133 requires that States manage equipment acquired under a Federal grant in accordance with State statutes and procedures. The State Property Control Manual requires each State agency to establish and maintain an adequate and accurate property control record system to provide for complete accountability and safeguarding of assets.

Condition: Our review of five equipment purchases made during the current audit period noted that one item's cost was understated by $1,715. Also, the Department still has not tagged and recorded items with a total cost of $252,434, that were reported in a prior Statewide Single Audit finding.

Effect: An incomplete record of inventory increases the risk that losses may not be detected.

Cause: A lack of administrative oversight appears to have contributed to the condition.

Recommendation: The Department of Public Health should increase efforts to improve internal controls over equipment received as part of Federal programs.

Agency Response: "We agree with the finding and recommendation. The item's cost that was understated has been revised to state the full amount of the equipment. The Department has now tagged and recorded the items with the total cost of $252,434."

III.D.4. 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 2003-2004 and 2004-2005
Federal Award Numbers: U90/CCU116996-04, U55/CCU121932-02, and U50/CCU111188-10

Criteria: 45 CFR Part 92.23 requires that only costs resulting from obligations of a funding period may be charged to that award. A grantee must liquidate all obligations incurred under an 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. We noted charges to grant years that were no longer available totaling $598,248. This required increased effort on the part of staff to make necessary corrections, some of which had not been done at the time of our review.

Effect: Failing to record the correct budget year at the time of the initial entry creates inefficiencies and increases the risk that errors will not be detected. Also, it is more difficult to prepare accurate financial status reports in a timely manner. We also noted that if a transaction is incorrectly posted to a grant year that is no longer available, and an adjustment to correct the error is not promptly made, the transaction is not included in the Department's calculations for Federal cash drawdowns.

Cause: This condition is primarily due to difficulties encountered by the Department in updating transaction account codes relating to employees' salaries and related charges.

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: "We agree with the finding and recommendation. The Department of Public Health has implemented controls designed to improve payroll charges to grants. This involves quarterly monitoring of grant payroll activities by grant managers to ensure that the proper personnel are being coded and by sending emails of new budget references to personnel before the new grant budget year goes into effect. In addition, the Personnel Office is providing monthly reports to Branch Chiefs of personal service coding of fund, SID and percentage of distribution for review and when necessary corrective action."

III.D.5. Earmarking – Minority AIDS Initiative

HIV Care Formula Grants (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Award 2004- 2005
Federal Award Number: XO7HA000-22-14

Background: An earmark is a portion of an award that is reserved for a specific purpose.

Criteria: The 2004-2005 Federal award for the HIV Care Formula Grant generally requires that funds be used to provide services to individuals with HIV. Such services include treatment and case management. The award also requires that $81,114 of the funds be earmarked for the Minority AIDS Initiative to provide education and outreach services to minorities with HIV.

Condition: Although the Department of Public Health earmarked $81,114 of its total award for the Minority AIDS Initiative, it incorrectly thought that costs relating to case management for minorities with HIV would satisfy the requirement and did not use the money to provide education and outreach services. In addition, the contractor responsible for providing these services did not provide sufficient reports to document compliance with the requirement.

Effect: The Department did not comply with the earmarking requirement. This error cannot be corrected because the full amount of the award has already been spent. We question $81,114 of the total amount spent for case management that should have been used to satisfy the earmarking requirement.

Cause: We were told by the Department that a Federal Program Manager incorrectly instructed them that case management was an allowable cost to satisfy this earmarking requirement.

Recommendation: The Department should comply with the Minority AIDS Initiative earmark requirement by earmarking the funds for allowable costs and maintaining sufficient documentation of its compliance.

Agency Response: "We agree with the finding and recommendation. When the Department was first awarded Minority AIDS Initiative (MAI) funds, three contractors were funded to provide MAI funded education and outreach activities as a result of a competitive RFP. Subsequently, Federal Project Officer Elyse Young verbally advised the Department in calendar year 2004 that case management was an allowable cost under Ryan White Title II and that these funds could now be distributed among existing contractors that were providing case management to minority clients.

In 2005, during a three-day site visit to the DPH, the subsequent Senior Project Officer, Karen Mercer, advised the DPH that case management is an allowable use of MAI funding under Title I of the CARE Act, but not under Title II, as stated by former Project Officer Young.

Consequently, in order to be in compliance with Federal requirements, the

DPH immediately added an outreach and education component to an existing program already serving a majority of Black and Hispanic clients and with the infrastructure to rapidly develop the new component. The current MAI Plan approved by HRSA is going into its second year and has demonstrated compliance with MAI earmarking requirements."

III.D.6. Program Income – Rebate Option

HIV Care Formula Grants (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Award 2004- 2005
Federal Award Number: XO7HA000-22-14

Criteria: The Federal AIDS Drug Assistance Program (ADAP) manual states, "monies received as a result of participating in the ADAP Section 340B rebate option must be returned to the operating budget of the ADAP program."

Condition: There were $4,421,836 in rebates collected during the 2004-2005 State fiscal year that were not returned to the ADAP operating budget as required by the manual. Rather, the funds were incorrectly used to reduce program expenses that resulted in lapsing Federal funds.

Effect: Based on a Federal Audit, the Department revised its final financial reports for the 2002-2003, 2003-2004, and 2004-2005 award periods to recover funds previously considered lapsed. As a result, the Department drew $3,924,084 during the 2005-2006 State fiscal year and deposited the funds to a nonfederal account for expansion of the ADAP program.

Cause: The Department was not aware of the rebate option until a Federal auditor brought it to their attention.

Recommendation: The Department should use rebate funds in compliance with the AIDS Drug Assistance Program (ADAP) manual.

Agency Response: "We agree with the finding and recommendation. The Department has modified the accounting practices for handling of the rebate funds. The current practice provides these funds for the reimbursement to DSS for drug expenses under the Connecticut ADAP requirements."

III.D.7. Allowable Costs/Cost Principles and Period of Availability – Contract Management

National Bioterrorism Hospital Preparedness Program (CFDA #93.889) - Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: 9/1/2004-8/31/2005 and 9/1/2004-8/31/2006
Federal Award Numbers: 4U3RMC00020-02-04 and 4U3RHS03813-01-04

Centers for Disease Control and Prevention Investigations and Technical Assistance (CDC) (CFDA #93.283)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2002-2003, 2003-2004, and 2004-2005
Federal Award Numbers: U58/CCU119326-03, U90/CCU116996-04-1, and U90/CCU116996-05-5

Criteria: 45 CFR 92.20 (a) and (b) indicate, in part, that effective internal control and accountability must be maintained for all grantee and subgrantee assets, assuring its use solely for authorized purposes in accordance with State laws and procedures for expending and accounting for its own funds. Such State laws include Section 4-98 of the General Statutes, which requires that a valid commitment must be in place prior to incurring an obligation.

Boilerplate language in the Department of Public Health's contracts includes a payment schedule and the requirement that amendments to the contract, including contract extensions, be in writing and "executed by both parties to the contract, and, where applicable, the Attorney General."

Condition: We noted the following deficiencies regarding sound business practices over contract management that included overriding the Department of Public Health's established controls. The related cash management aspects of these findings are addressed in finding III.D.1.

Contract amendments were not properly executed by the Department. We noted that unspent National Bioterrorism Hospital Preparedness funds totaling $35,248 were held by a subrecipient pending the extension of an expired contract. After five months, a program manager, who does not have the authority to bind the State contractually, issued a letter extending the expired contract. Also, the Department allowed contractors to carry $711,267 in CDC Federal Funds from one Federal award to another without addressing the matter in a written agreement.

Many contracts relating to CDC funds were not executed until a few weeks before the end of the one-year contract term, causing contractors to work before and after the agreements were in effect. This delay in executing contracts also resulted in the Department issuing 71 payments, totaling $3,591,401, that were based on “good faith” letters approved by the Division Director. The letters generally stated that the payments were made to avoid lapsing Federal funds. In some cases, these contractors were paid the full amount of their contract with the Department’s knowledge that the contractor had not met the contractual benchmarks for the payments.

The Department investigated and confirmed a complaint by a contractor that one of the Department’s program managers inappropriately instructed the contractor to overstate National Bioterrorism Hospital Preparedness award expenditures on its final financial report by $2,769. The contractor refused to comply with the instructions and returned the Federal funds. The Department’s employee wanted it to appear as if total expenditures relating to an older year of the Federal award were fully spent so that the basis for calculating future Federal awards would be overstated. The same employee had oversight for an additional 22 contracts funded by the same Federal award. We were told by the Department that none of the other contractors submitted amended financial reports.

Effect: There is no known loss of Federal or State funds as a result of these conditions. We were told by staff that payments based on “good faith” contributed to extensive delays and additional effort to obtain the contractually required deliverables from contractors. The employee’s instructions to falsify a financial report may set the tone that the Department would tolerate unethical, irregular, and illegal actions by contractors.

Cause: The employees and management disregarded the DPH’s established internal controls over contracting, reporting, and payment approval.

Recommendation: The Department’s employees should not circumvent established controls over contracting, reporting, and payment approval.

Agency Response: “We agree with the finding and recommendation. The program manager in the case of the contract extension has received training and guidance by the DPH contracts unit staff. Instruction was provided on the proper actions to take when extensions of grant contracts are requested. The Commissioner of DPH gave written notification of this issue on March 21, 2006, to the Comptroller and the Auditors of Public Accounts.

With regard to the "good faith payments" that were made, these contractors had a track record of meeting deliverables in previous contractual agreements with the state. These grants fund preparedness efforts related to bioterrorism. It would be impossible and unwise to stop or discontinue work at the local or regional level due to delays in the State contracting process. In the context of keeping these public health planning efforts moving forward, a decision was made to make these payments against these contracts. All of the required deliverables on these contracts have been received to date.

The DPH has undertaken a process to streamline our contracts and accounts payable processes, including the need to incorporate the new contracting ethics affidavits. The goals are to avoid the delays experienced during this period."

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 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1401 and G-0501CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1407 and G-0501CT1407

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

Criteria: States are required to submit a cost allocation plan to the Director, Division of Cost Allocation (DCA), Department of Health and Human Services. The plans must describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency and contain sufficient information in such detail to permit the Director, DCA, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency (45 CFR 95.507).

To be allowable under Federal awards, costs must meet the general criteria that the cost is allocable to Federal awards and is 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 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 (45 CFR section 95.509).

Public assistance agencies using random moment time studies (RMTS) should periodically provide training to RMTS observers to assure that they understand the purpose of the RMTS (Review Guide for Public Assistance Cost Allocation Plans, U.S. Department of Health and Human Services, Program Support Center, Division of Cost Allocation, 10/2002).

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's plan did not include all Federal/State programs it administers.

The Department used an average cost basis versus actual costs when allocating certain fringe benefit and other non-payroll costs assigned to more than one cost pool.

The Department discontinued allocating costs to its subsidized adoption administration and training cost pool during the fiscal year ended June 30, 2005. The Department did not submit an amendment to its plan indicating discontinuance of the cost pool.

The Department allocated workers' compensation costs ($8,650,280) using the number of full–time equivalent (FTE) personnel allocated to its various cost pools. The use of a FTE personnel allocation cost basis distributes approximately 68 percent of workers compensation costs to seven Federal cost pools. Analysis of workers compensation cases and costs for the fiscal year ended June 30, 2005, disclosed that approximately 71 percent of new cases and 83 percent of actual costs were borne by the Department's facilities whose regular operating costs were for the most part directly allocated to non-Federal cost pools. FTE personnel assigned to Department facilities represent approximately 28 percent of total Department staff.

The Department used training allocation percentages pertaining to the quarter ended December 31, 2004, to allocate actual training costs ($645,776) incurred in the quarter ended June 30, 2005. Training cost estimates used for the fiscal year ended June 30, 2004, were not reconciled with actual costs and adjusted in the fiscal year ended June 30, 2005.

Costs allocated to the Department's Statewide Automated Child Welfare

Information System (SACWIS) cost pool ($468,721) for the quarter ended June 30, 2005, were not adequately documented.

We surveyed nine observers out of 1,138 observers responding to the RMTS conducted for the quarter ended June 30, 2005. We asked each observer if they understood the purpose for completing the time study. Four observers indicated that they did not understand the purpose; two observers indicated that they understood the purpose, and three observers did not respond to our survey.

Effect: The collective effect of the above conditions could result in an inequitable distribution of costs to Federal and State programs.

Cause: Personnel responsible for the design, review and administration of the plan are not fully knowledgeable with the cost principles prescribed in Circular A-87 and other applicable Federal regulations.

Recommendation: The Department should amend its cost allocation plan to include all programs administered by the Department and include additional information on procedures used by it in situations where actual costs or current allocation percentages are not used to allocate costs. All costs claimed should be adequately supported. Amendments to the plan should be clearly identified and modified in the plan. The Department should also provide training material to RMTS observers explaining the process and purpose of RMTS.

Agency Response: "We agree with this finding:

The Department will amend the Cost Allocation Plan and provide more expansive explanation[s] regarding total costs allocated and the methodology used to allocate individual employee fringe benefit and other related costs.

The auditors have correctly noted that the Department did not request the formal discontinuance of the Subsidized Adoption Administration and Training Cost Pool even though the CAP amendment effective July 1, 2005, did indicate a change in the organizational structure, staffing schedules and financial calculations that eliminated direct charges to that cost pool. The Department did not request the discontinuance of that cost pool because it anticipated that future organizational changes might again require that cost pool designation.

Although the Department correctly applied the approved methodology to allocate worker's compensation costs, the auditors believe that the allocated costs are not indicative of the actual costs incurred by the cost pool. The

Department will investigate and provide more expansive explanation in the next CAP amendment.

Training allocation percentages from the DCF Training Academy and certain contracted training costs used to compile the June 2005 claim were not available at the time the claim was compiled. The June 2005 claim was subsequently adjusted for actual amounts and a prior period adjustment was posted in the September 2005 claim.

SACWIS costs used to compile the June 2005 claim were subsequently adjusted and a prior period adjustment was posted in the September 2005 claim.

Social workers are trained in the RMTS process through the Training Academy and the RMTS system also provides an online help function that describes each possible code selection. Based on the audit finding, the Department will work with the Training Academy to investigate improved practices."

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 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1401 and G-0501CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1407 and G-0501CT1407

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 reliable reports needed to prepare the 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 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 state fiscal year ended June 30, 2005. We noted variances between the quarterly reports in each of the quarters. The differences were $24,699, $40,826, $17,821 and $10,049 for the quarters ended September 30, 2004, December 31, 2004, March 31, 2005, and June 30, 2005, which amounted to $93,395 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."

III.E.3. Eligibility – Inadequate Documentation/Improper Payments

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1401 and G-0501CT1401

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. The licensing file for the child care institution must contain documentation which verifies that safety considerations with respect to the staff of the institution have been addressed (45 CFR 1356.30(a)(b) and (f)).

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).

To be allowable under Federal awards, costs must 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 (OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments).

Costs of social services provided to the child, the child's family, or the child's foster family, which provide counseling or treatment to ameliorate or remedy personal problems, behaviors, or home conditions are unallowable. (45 CFR 1356.60 (c)(3)) Respite care is not an allowable maintenance expenditure under the Title IV-E Foster Care program (Child Welfare Policy Manual, Section 8.3B.1).

The Supplemental Security Income (SSI) Program Operations Manual states that SSI payments should be reduced dollar for dollar by the amount of the Foster Care IV-E payment.

Condition: We randomly selected 40 maintenance transactions from a population of 41,744 Foster Care claims identified on "*Federal Claims Detail Reports*" prepared by the Department for the State fiscal year ended June 30, 2005. The 41,744 claims totaled $59,076,381 ($29,538,191 Federal Financial Participation). The 40 transactions totaled $47,593 ($23,797 Federal Financial Participation) and represented payments to 29 foster care homes, 5 child placing agencies and 6 child care institutions.

Our testing identified the following conditions:

We noted that there was inadequate documentation in two out-of-state child care institution files (three transactions) verifying that safety considerations with respect to the staff of the institution had been addressed.

For one transaction, documentation was not found in the foster family provider file indicating that the foster family home had satisfactorily met a criminal records check with respect to prospective foster parents.

For one transaction, the Department claimed a portion of a monthly payment ($486) made to a child placement agency as maintenance cost for three days in which the child was not in the foster care home. The child's case record indicated that the child had run away from the home. Costs incurred for bed holds are considered administrative costs and as such should have been allocated and claimed through the Department's cost allocation plan as an indirect cost rather than being claimed as a direct maintenance cost. For the same provider, the foster care maintenance payment per diem rate negotiated with the provider included unallowable consultative services and respite care costs in the per diem rate.

For one transaction, the Department received Supplemental Security Income (SSI) and claimed Foster Care IV-E benefits on behalf of a child in the same month.

Effect: The four transactions lacking adequate documentation represented $3,890 in questioned costs at the 50 percent Federal reimbursement rate.

The one transaction where the Department claimed a portion of a payment made to a child placement agency for three days in which the child was not in the foster care home as a maintenance cost rather than an administrative cost represents a questioned cost of $243 at the 50 percent Federal reimbursement rate and includes improper payments of $12 for the portion of the per diem rate that included unallowable services.

The foster care per diem rate used to pay the agency for the days in which the child was in the home included unallowable service costs of $115 at the 50 percent Federal reimbursement rate. This payment represents a questioned cost and an improper payment.

The transaction where the Department received both SSI and claimed Foster Care IV-E benefits in the same month represents a questioned cost and an improper payment of $564 that should not have been made from the Supplemental Security Income program.

Cause: The Department's internal controls relative to documenting that out of state providers have met safety requirements are inadequate. We were informed by the Department that it has no authority to access and review confidential out-of-state agency personnel records and therefore relies on the out-of-state agency's policy as documentation that criminal background checks are routinely done, along with a current license that confirms that the agency is in compliance with state regulations and therefore in compliance with standard requirements to consistently implement their own policy. Based on the Department's response we inquired with the Administration of Children and Families (ACF) as to what constituted sufficient documentation for verifying that safety considerations with respect to staff of the out-of-state facilities were met. We were informed by ACF staff that a facility's license is not sufficient to meet the safety documentation requirement. ACF indicated that the state (Connecticut) needs either a monitoring report or a letter from the out of state licensing authority that indicates the facility is in compliance with the out-of-state's criminal records/safety check standards.

The social worker did not change the child's placement status in the Department's case management system in a timely manner. The unallowable per diem costs were the result of a lack of sufficient oversight of child placement agencies' per diem rates calculated for hard to place foster care children relative to the reasonableness and allowability of the costs and services provided by these agencies.

The Department's child welfare unit was not notified by the Revenue Enhancement Unit to suspend the receipt of SSI payments for the child.

Recommendation: The Department should improve its internal controls over out-of-state providers by obtaining and maintaining documentation that show out-of-state providers have satisfactorily met Federal safety requirements. The Department should also more closely review per diem maintenance rates negotiated with child placement agencies for hard to place foster children to determine the reasonableness of costs and services provided and the allowability of the costs and services under the Foster Care Title IV-E program.

Agency Response: "We agree with this finding.

The Agency agrees with the finding for the one transaction with a missing criminal background check, and the one transaction with an incorrect eligibility determination due to receipt of SSI. Title IV-E eligibility determination changes will be made to correct these errors in the claim for the quarter ended March 2006.

LINK modifications are being pursued to require workers to verify that criminal background checks are performed for prospective foster parents before the home is licensed in LINK. The target date for the LINK modification is January 2007.

The Agency also agrees with the finding on bed hold days. Child Welfare Accounting processed an adjustment that will credit the maintenance payment and charge the days as an administrative expense.

The Agency also agrees with the finding for the rate calculation for a hard to place child and will make an adjustment to the provider's rate in the claim for the quarter ended March 2006."

III.E.4. Eligibility – Inadequate Documentation/Improper Payment

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1407 and G-0501CT1407

Criteria: Adoption assistance subsidy payments may be paid on behalf of a child if the following requirements are met:

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 child was determined by the State to be a child with special needs (42 USC 673(c)).

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)).

Condition: We randomly selected 40 adoption assistance subsidy payments from a population of 36,813 Adoption Assistance claims identified on *"Federal Claims Detail Reports"* prepared by the Department for the State fiscal year ended June 30, 2005. The 36,813 claims totaled $29,872,831 ($14,936,416 FFP). The 40 transactions totaled $31,363 ($15,681 FFP). Our testing identified the following conditions:

For three transactions, we were unable to determine whether the Department performed the required criminal records checks on prospective adoptive parents because the Department could not locate the adoptive parent files.

For one transaction, the Department did not document in the adoptive parent file that criminal record checks were performed.

For one transaction, the Department incorrectly determined the child to be Foster Care Title IV-E eligible.

Effect	The four transactions lacking adequate documentation and the payment made on behalf of an ineligible child represented $1,821 in questioned costs at the 50 percent Federal reimbursement rate. The one payment ($135) made on behalf of an ineligible child represents an improper payment. This $135 improper payment is included in the $1,821 in questioned costs.
Cause:	The Department's record retention procedures for adoption cases are inadequate. During the 1998 and 1999 calendar years, the Department automatically considered the child to be Foster Care Title IV-E eligible in relative adoption cases. The Department has since changed this practice. However, these adoption cases were never re-reviewed to determine whether the children met Title IV-E financial criteria.
Recommendation:	The Department should review its record retention procedures relative to adoption assistance case records to ensure that records are maintained and accounted for and contain information/documentation in support of Federal requirements.
Agency Response:	"We agree with this finding."

III.E.5. Procurement and Suspension and Debarment – State Contracts

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1401 and G-0501CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1407 and G-0501CT1407

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G0401CTTANF and G0501CTTANF

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005

Federal Award Numbers: 05-0405CT5028 and 05-0505CT5028

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. States can do this by:

(a) Checking the Excluded Parties List System (EPLS); or

(b) Collecting a certification from that entity if allowed; or

(c) Adding a clause or condition to the covered transaction with that entity (45 CFR 76.300).

Condition: Our review of the Department's procurement procedures disclosed that the Department does not determine whether vendors providing goods or services under statewide contracts 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's internal controls do not include reviews of vendors paid from statewide contracts.

Recommendation: The Department should implement procedures that ensure that all vendors providing goods and services to it have not been suspended, debarred or excluded from Federal programs.

Agency Response: "The Department agrees with the finding."

III.E.6. Allowable Costs/Cost Principles – Program Certifications

Child Welfare Services State Grants (CFDA # 93.645) - Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: G-0401CT1400 and G-0501CT1400

Criteria: 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 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 (OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment B, Section 8(h)(3)).

Condition: Our review of employee payroll expenditures charged to the Child Welfare Services State Grants program disclosed that charges for their personal services and fringe benefit costs were not supported by periodic certifications that the employees worked solely on this program.

Effect: The Department has lessened assurance that personal services and fringe benefit costs totaling $1,701,554 charged to the Child Welfare Services State Grants program in the State fiscal year ended June 30, 2005, were accurate and adequately supported.

Cause: The Department was not aware of the certification requirement.

Recommendation: The Department should complete periodic certifications for employees working solely on a single Federal award or cost objective.

Agency Response: “We agree with the finding.”

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 2003-2004 and 2004-2005
Federal Award Numbers: S010A030007 and S010A040007

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: H027A030021 and H027A040021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: H173A030024 and H173A040024

Improving Teacher Quality State Grants (ITQSG) (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2003-2004 and 2004-2005
Federal Award Numbers: S367A030006 and S367A040006

Background: In our 2001 Single Audit report, we reported that the U.S. 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.

This prior audit condition has not been resolved by the Department and has been repeated as a recommendation in each of the intervening years.

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 testing purposes.

Criteria: In accordance with 34 CFR 80.20(b)(7), procedures for minimizing the time elapsing between the transfer of funds from grantees to subrecipients must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subrecipients to assure that they conform substantially to the same standards of timing and amount that apply to cash advances to grantees.

Condition: Our current review found that the previously reported condition continued to exist for the fiscal year ended June 30, 2005. While the Department's monitoring controls were able to identify current period non-complying Local Education Agencies (LEAs), those controls were not able to prevent excess cash drawdowns for LEAs 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 14 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	11	$ 1,475,883
IDEA (Cluster)	13	2,787,396
ITQSG	8	248,360
		$ 4,511,639

The results reflect only those grant funds initially awarded during the fiscal year ended June 30, 2005. 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 continue to require quarterly cash disbursement information from the districts that have been identified with excessive balances. Payments to these districts are reduced if expenditure levels do not justify monthly requests.

We are beginning to develop a web-based “e-grants” system that will allow more flexibility in data collection and payment calculation.

We will be able to electronically identify those districts with questionable drawdown amounts and request additional documentation prior to releasing payments.”

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 2003-2004 and 2004-2005
Federal Award Numbers: S010A030007 and S010A040007

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: H027A030021 and H027A040021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: H173A030024 and H173A040024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2003-2004 and 2004-2005
Federal Award Numbers: S367A030006 and S367A040006

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

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 semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

In addition, OMB Circular A-87, Attachment B, Section (h)(4) requires 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 which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

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.

Condition: We reviewed the personal activity distribution reports for five split funded employees. Those employees were charged to one or more of the major Federal assistance programs tested at the Department for the current fiscal year. Our testing found the following:

- Of the five split funded employees tested, two showed no reportable errors.
- The remaining three employees had a total of 19 personal activity reports that were incompletely supported. Of the 19 reports, 17 were not approved by an appropriate official and two could not be found.
- The total payroll and fringe benefit costs for the three split funded employees were $317,700; the payroll and fringe benefit costs associated with the 19 incompletely supported personal activity reports were $78,421.
- Of that amount, $37,501 was expended from CFDA 84.010 and $22,041 from the cluster CFDA 84.027 and CFDA 84.173.

In addition to the above, our payroll testing included a review of eight adjusting journal entries made during the fiscal year. Those adjustments included employees whose positions were fully funded by one Federal program but subsequently were adjusted to another Federal program.

That review found:

- Of the eight adjusting journal entries tested, six showed no reportable errors.
- One adjusting entry transferred payroll charges for an employee in the

amount of $44,386 for the period 9/1/04 to 1/6/2005 from CFDA 84.367 to CFDA 84.048. The explanation for the adjustment was to make funding changes due to reorganization. However, the six-month certification for the employee for the period 7/1/2004 to 12/31/2004 was for CFDA 84.367.

- The other adjusting entry transferred payroll charges for another employee in the amount of $46,139 for the period 10/14/2004 to 3/31/2005 from CFDA 84.027 to CFDA 84.186. However, the certifications for the employee for the period 7/1/2004 to 6/30/2005 were for CFDA 84.027

The incompletely supported payroll and fringe benefit costs associated with the major Federal programs noted above were not material; however, the related exceptions indicated that controls were not adequate to ensure compliance with OMB Circular A-87 approval and documentation requirements for Federally Funded positions.

Effect: Employees may be charged to an incorrect funding source. Management may have inadequate information to approve timesheets, evaluate employee performance, and determine staffing requirements on a daily basis.

Cause: The tasks associated with the production of periodic certifications were not performed as they had been in previous periods.

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.

Agency Response: “We agree with the findings. The Department will take corrective actions to establish and maintain uniform certification and timesheet approval procedures and conduct periodical reviews to ensure that the requirements established in OMB Circular A-87 are met.”

III.F.3. Eligibility and Subrecipient Monitoring – Ongoing Federal Investigation

Migrant Education-State Grant Program (MEP) (CFDA # 84.011) - Non Major Program
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2002-2003 and 2003-2004
Federal Award Numbers: S011A030007 and S011A040007

Criteria: 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 Statewide Single Audit.

According to regulations contained in 34 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: In our prior audit, we reported that the USDOE discovered fraud in conjunction with eligibility determinations for MEP in several States. As a result of that 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.

In our prior review, we analyzed the results of the Department's eligibility re-determinations for four of the five districts:

- The number of confirmed ineligible Certificates of Eligibility represented approximately twenty-five percent (25 percent) of those students receiving benefits under MEP.

- Conversely, the number of Certificates of Eligibility where eligibility was confirmed represented approximately six percent (6 percent) of the sample. Therefore, Certificates of Eligibility in the sample with questioned eligibility represented ninety-four percent (94 percent) of the sample.

- 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).

However, the Federal authorities have not completed their MEP investigation in Connecticut. The Department remains subject to an indeterminate liability for MEP expenditures for ineligible students. Also, the potential exists for criminal action against those individuals who knowingly certified or participated in the certification of ineligible students as eligible. In addition, at the completion of their investigation, the federal authorities may require additional corrective actions to be implemented for the MEP at both the State and district level. Pending the completion of the federal investigation, this recommendation will be repeated.

Subsequently, the MEP was discontinued in those five districts with high reconfirmation ineligibilities. Further, the Department states in response to the prior audit recommendation that it has continued using the procedures instituted during the re-interviewing process for all new Certificates of Eligibility in the remaining districts.

Effect: Our prior recommendation noted that 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 had received funding from the USDOE based on incorrect information.

Further, the faulty data was used to allocate funds to the local districts. Additionally, the grant dollars expended for ineligible students constitutes a misuse of federal grant dollars.

The continuing effect is that the Department remains liable for the return of all MEP funds that were expended for ineligible students.

Cause: The controls employed by the State Education Agency and its representative agency were not sufficient to prevent ineligible students from receiving benefits under MEP.

Recommendation: The State Department of Education should reassess and improve its controls over the monitoring of its representative agency and the certification process employed at the local level to ensure that only eligible students receive benefits under the program. Further, in cooperation with the Federal authorities, the Department should determine the State and local liability for ineligible MEP expenditures and return those funds to the Federal grantor.

Agency Response: "The State Department of Education (SDE) agrees in part with the finding. The percentage of students determined to be ineligible for migrant program services is still being evaluated. State and Federal investigations are continuing.

The SDE initiated a voluntary re-interviewing process at the request of the U.S. Department of Education. This was due to significant problems that occurred with the Migrant Education Program (MEP) in states other than Connecticut.

The SDE has reviewed and updated its policies and procedures over the MEP to provide assurances that only eligible students receive benefits. Procedures instituted during the re-interviewing process are being continued for all new Certificates of Eligibility."

III.F.4. Subrecipient Monitoring – Schedules of Expenditures of Federal Awards

Title 1, Part A Improving Basic Grants (CFDA# 84.010)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: S010A030007 and S010A040007

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: H027A030021 and H027A040021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: H173A030024 and H173A040024

Reading First State Grants (CFDA # 84.357)
Federal Award Agency: U.S. Department of Education
Award Year: Federal Fiscal Year 2004-2005
Federal Award Number: S357A040007

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: S367A030006 and S367A040006

Criteria: In order to determine if Federal programs funded through the Department of Education receive adequate coverage during the audit of subrecipients, Department staff must periodically conduct an effective examination of audited Schedules of Expenditures of Federal Awards (SEFAs).

Condition: We observed that the Department's process for examining submitted SEFAs was inadequate, in that we found the following:

- The Department's monitoring process had failed to disclose and resolve lacking or erroneous identification of Federal programs in five of the 15 (33 percent) SEFAs selected for testing.

- The Department's monitoring process had failed to appropriately resolve evident discrepancies between claimed expenditure amounts and audited expenditure amounts in another two of the 15 (13 percent) SEFAs selected for testing.

Effect: This condition served to lessen the value of the Department's subrecipient monitoring process and increased the risk that funding provided through the Department may not have been appropriately expended or accounted for.

Cause: This condition is primarily attributable to the absence of clearly assigned responsibility within the Department for ensuring the effective review of all key information presented on submitted SEFAs. Additionally, the Department has not been informing subrecipients of all required information upon the official issuance of standard Federal grant award documents.

Recommendation: The Department of Education should formally assign responsibility for ensuring the effective review of all key information presented on submitted SEFAs. Moreover, as part of any corrective action taken, the Department should also develop and implement formal controls specifically designed to prevent the recurrence of the above-noted condition.

Agency Response: "We agree with the finding. The Bureau of Fiscal Services (BFS) will be in charge of maintaining the Department's official CFDA list that will be recorded on the agency's Intranet. By June 1, 2006, they will reconcile the existing list to in-house federal Grant Award Notifications. The Bureau of Grants Management (BGM) will use the Intranet file exclusively when creating a table used to produce the list of grants used by the Office of Internal Audit (OIA).

New Special Identification numbers will be established on CORE CT using the Grant Award Notifications. As part of that process, BFS will send a copy to BGM to update the applicable table. BGM will review the grant lists prior to releasing them to OIA. BGM will also include the CFDA number as a part of the electronic grant file when creating the proposed web-based "e-grants" system. This system is scheduled to go online in FY2008."

G. UNIVERSITY OF CONNECTICUT SYSTEM

III.G.1. Allowable Costs (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2005
Research and Development Programs:

Criteria: OMB Circular A-21 requires that the rates charged by specialized service centers be designed to recover only the aggregate cost of such services.

Condition: A review of the University's accounting data relating to the specialized service facility known as the Institute of Material Science found that data contained within accounts used to develop a recovery rate for charging Federal grants had not been appropriately segregated.

Effect: The inclusion of transactions not directly associated with the operations of a specialized service center, within the accounts used in the development of a recovery rate, may lead to over or under recovery.

Cause: University personnel believed that the data contained in existing accounts was appropriate enough to develop the recovery rate for the Institute of Material Science.

Recommendation: The University's Controller's Office, the University's Office of Sponsored Programs as well as personnel from the Institute of Material Science, should work together in a manner which assures that the Institute of Material Science's recovery rate is in compliance with Circular A-21.

Agency Response: "We agree with this finding."

III.G.2. 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, 2005
Research and Development Programs:

Criteria: The University's cost disclosure statement states that the University supports direct charges to Federal grants for salary and wages using "After the Fact

Activity Records". OMB Circular A-21 requires that "After the Fact Activity Records" be prepared no less frequently than every six months.

Condition: A review of the time and effort reporting system found that the University was preparing their "After the Fact Activity Records" on an annual basis.

Effect: The University has not complied with the cost principals established by OMB Circular A-21.

Cause: Unknown

Recommendation: The University should prepare their "After the Fact Activity Records" at least every six months.

Agency Response: **"**We agree with this finding. The University will prepare the "After the Fact Activity Records" at least every six months."

III.G.3. Period of Availability of Funds (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2005
Research and Development Programs:
Alcohol Research Programs (CFDA# 93.273)
Grant#1 R01 AA11551-01A1
Account# 522277 "Natural Experiments on TV Liquor Ad Effects"

Criteria: OMB Circular A-110, Section 28, relating to the period of availability of funds, states that when a funding period is specified, a recipient of a Federal grant may charge such grant only for allowable costs resulting from obligations incurred during the funding period.

Condition: We tested 94 expenditure transactions to determine if such transactions had been made in accordance with Federal requirements on the period of availability of funds. We noted one instance in the amount of $15,000 in which the University had charged a grant for an expenditure that had been obligated after the period of availability had expired.

Effect: The University has not complied with the administrative principals established by OMB Circular A-110.

Cause: An unforeseen delay occurred in obligating the funds to make the applicable purchase.

Recommendation: The University should not obligate funds or make purchases after the period of availability has expired.

Agency Response: **"**We agree with this finding. This particular instance was due to an error in judgment. The funds have been returned. Additional training has been provided to staff and will be on-going."

III.G.4. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut Health Center)

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2005
Research and Development Programs:
Allergy, Immunology and Transplantation Research (CFDA 93.855):
Account # 522891 – "A Thymus - Bone Marrow Feedback Loop for Prothymocytes" – 5 R01-AI060735-02 from the National Institutes of Health, project period June 1, 2004 through May 31, 2009
Research Related to Deafness and Communication Disorders (CFDA 93.173):
Account # 522785 – "Spectral and Temporal Factors in Binaural Hearing" – 5 R01-DC000234-23 from the National Institutes of Health, project period June 1, 1987 through February 28, 2006
Account # 522497 – "Neural Mechanisms of Binaural Hearing" – 5 R01-DC02178-20 from the National Institutes of Health, project period July 1, 1994 through November 30, 2006
General Clinical Research Centers (CFDA 93.333):
Account # 636535 – Sub award for "Networking to Enhance Human Subjects Research Compliance" identified by the grantor, the University of Connecticut, as "UConn - Storrs" under award # 1 S07-RR18220-01 from the National Institutes of Health, project period September 1, 2002 through March 30, 2006
Mental Health Research Career/Scientist Development Awards (CFDA 93.281):
Account # 522618 – "Treatment and Clinical Course of Complex PTSD" – 5 K23-MH001889-04 from the National Institutes of Health, project period June 13, 2001 through November 30, 2006
National Institute of Justice Research, Evaluation, and Development Project Grants (CFDA 16.560):
Account # 522939 – "Breaking the Cycle of Behavioral Health Problems and Crime" – 2004-DD-BX-1025 from the Office of Justice Programs, project period September 30, 2004 through September 29, 2007

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.

The Health Center maintains an electronic time and effort reporting system that, on a quarterly basis, identifies the percentage of effort applied each month by employee and account. Employees' time and effort is often split between multiple accounts; the principal investigator for each award generally certifies the percentage listed for the related account. Passwords are used to confirm the identity of those responsible for review and certifying the charges.

Condition: We reviewed electronically filed time and effort reports for 40 individuals covering $95,460 of the $30,723,114 in salary payments charged to Federal Research and Development Programs accounts during the 2004-2005 fiscal year. When we started our review on September 28, 2005, we found that $4,710 of the $95,460, involving charges for five individuals to six awards, had not yet been certified. The $4,710 was comprised of charges of $271, $406, $251, $2,799, $702 and $281 to accounts 522891, 522785, 522497, 636535, 522618 and 522939, respectively. Though certifications were subsequently provided to us, the fact that they had not been completed three months after the end of the year raises questions as to their authority.

Additionally, we found that the integrity of the certifications made by five researchers had been compromised, as their passwords had been disclosed to others. Problems with passwords 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 Health Center monitors time and effort reports in process and follows up on incomplete reports. However, it appears that some researchers do not assign a high enough priority to completing them. Similarly, 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 completing required reports in a timely manner, and of never disclosing passwords for critical processes, should be continued. The feasibility of biometric authentication should be investigated.

Agency Response: “Management agrees and will continue to educate faculty (time and effort reviewers) and administrators as to the importance of timely Time and Effort filing. We will also continue to urge that passwords never be disclosed. In both circumstances, we have and continue to work closely with the Office of Research Compliance to reduce late filings and eliminate the sharing of passwords.”

III.G.5. Subrecipient Monitoring (University of Connecticut Health Center)

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2005
Research and Development Programs

Criteria: As stated in the OMB Circular A-133 Compliance Supplement, a pass-through entity is responsible for ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition: In order to track compliance, the Health Center creates a list of subrecipients by extracting data from a contract preparation system. In December 2004, the Health Center asked its subrecipients to submit copies of their audit reports or provide written notification that an audit had been conducted and that there were no findings related to Federal awards provided by the Health Center. When we reviewed the agency’s current listing in August 2005, we found that, though 13 of the 53 subrecipients had not submitted reports or provided written notification, no follow-up action had been taken.

Effect: The agency cannot fulfill its responsibility to ensure that appropriate corrective action is taken in a reasonable timeframe if it is not aware of the need for such corrective action.

Cause: The task was not assigned a high enough priority.

Recommendation: Subrecipient monitoring responsibilities should be discharged in a timely fashion.

Agency Response: "Management agrees that sub recipient monitoring should be discharged in a timely manner. We have revised our current procedures. Our initial letter has been changed to request a reply within 90 days of the date the letter is sent. We will follow-up and send a reminder letter 90 days after the original letter is sent. A third letter will be sent after another 90 days, if required."

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, 2005:

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 – Awarding Procedures

Federal Family Education Loans (CFDA # 84.032)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria:

- 34 CFR 682.204 establishes loan limits for subsidized and unsubsidized loans. Limits are based on graduate/undergraduate enrollment, dependent/independent student status, and class rank (determined by the University according to the number of credits earned).

- 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 student's courseload should be supported by their registration record in the institution's information system at the time of disbursement.

Condition:

In total, we selected 105 recipients for eligibility testing from several State universities and colleges of which we found problems with awarding procedures at one institution. Of the 105 in total selected, we selected 16 Title IV recipients from Southern Connecticut State University for eligibility testing and noted the following:

- One student received an unsubsidized loan in the amount of $1,000. Eligibility for student loans is, in part, based on the student's class rank as defined by the University. Banner, the University's information system, relied on student-reported data that may not be in agreement with the University's definition. The student reported her rank as a junior, while, by the University's definition, she was a sophomore for the Fall semester.

- Two students did not receive the correct Pell awards. The awarding process in Banner ties the student's award to their initial registration for the semester, rather than their actual registration at the time of awarding. These two students received awards for a total of $2,562 less than they should have received.

Effect:

- One student received a Federal Family Education Loan (FFEL) overaward of $1,000, which we are treating as a questioned cost. Total FFEL loans in our sample from Southern CSU were $109,650, while the total of FFEL loans at Southern CSU was $35,554,174.

- Two students were underawarded Pell Grants in the amounts of $1,012 and $1,550.

Cause:

- The Banner System awards loans based on student-reported class rank found on the Institutional Student Information Record (ISIR), rather than on class rank as defined by the University. There are no established procedures to prevent awarding errors from occurring.
- The electronic awarding process established in the Banner System tied the Pell awards to the student's initial registration, not the student's actual registration at the time of awarding. The University did not have a process in place to prevent awarding errors from occurring.

Recommendation: The University should improve internal controls over eligibility determination to ensure compliance with Federal requirements.

Agency Response: *Southern CSU:* "The University agrees with this finding."

III.H.2. Eligibility – Effect of Non-Federal Awards on Title IV Aid

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria: Federal regulations have established that qualification for a subsidized loan is based on financial need, which is defined as the student's cost of attendance less estimated financial assistance. 34 CFR 682.200 includes scholarships as one of the components of estimated financial assistance.

Condition: We selected five Title IV recipients from Western CSU for eligibility testing. In our review of the University's accounts receivable transactions related to one student, we noted that a private scholarship for $800, which was credited to his student account, had not been recorded in Financial Aid Office records. The private scholarship was not included in the student's aid packaging. Because the student's financial aid need had been met without the scholarship, the additional $800 in aid resulted in a subsidized loan overaward of $800; the student should have received an unsubsidized loan for that amount.

Effect: The student received a subsidized loan when he should have received an unsubsidized loan.

Cause: The University has not established a reliable procedure in which the

Financial Aid Office is notified when a student's account is credited with private scholarship funds.

Recommendation: The University should establish a procedure to notify the Financial Aid Office when a student's account is credited with private scholarship funds.

Agency Response: *Western CSU:* "We agree with the finding that the University needs to establish a procedure to notify the Financial Aid Office when a student's account is credited with private scholarship funds."

III.H.3. Eligibility – Satisfactory Academic Progress Policy

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2004-2005

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: In our previous review of Southern CSU's official SAP policy, we noted that the policy was not in compliance with Federal requirements in the following areas:

- 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 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.

We noted that this condition was the same during our current audit.

Effect: The University's official SAP policy is not in compliance with Federal regulations.

Cause: The policy in place is not in compliance with all the requirements of 34 CFR 668.16.

Recommendation: The University should revise its Satisfactory Academic Progress policy to comply with Federal regulations.

Agency Response: *Southern CSU:* "The University agrees with this finding."

III.H.4. Cash Management – Pell Grant Drawdowns

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria: 34 CFR 668.166 requires an institution to disburse Title IV funds to students by the end of the third business day following the date the institution received those funds.

Condition: At UConn, the initial drawdown of Pell Grant funds for award year 2004-2005, which totaled $3,634,058, was made on September 7, 2004. Pell Grant awards credited to students' accounts at that time totaled $3,276,307. The remaining $357,751 in Pell Grant funds were not completely disbursed to students until September 16, 2004.

Effect: The University maintained excess Pell Grant funds from September 10 until September 16, 2004.

Cause: The Office of Sponsored Programs drew down its entire initial Pell Grant authorization, which is an estimate of University needs made by the US Department of Education.

Recommendation: The University should develop procedures to ensure that excess cash is not maintained in the Pell Grant program. The initial Pell Grant authorization should not be drawn in its entirety unless these funds have been disbursed to students.

Agency Response: *UConn:* "We agree with this finding."

III.H.5. Cash Management – Pell Grant Program Reconciliations

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria: The US Dept. of Education Blue Book states, "To fulfill its responsibility to safeguard federal funds and ensure they are expended as intended, a school must perform reconciliations in each FSA program monthly." This reconciliation should be performed between records of the Common Origination and Disbursement System (COD), the Grant Administration and Payment System (GAPS), and institutional records.

Condition: At UConn, there were unreconciled variances in numerous combinations between the Pell Grant account records in FRS (the University's accounting system), SAM (the University's financial aid information system), COD, and GAPS.

Effect: Pell Grant awards and disbursements between internal and external records are not reconciled.

Cause: The University does not have a procedure in place for ensuring that reconciliations between these various systems are performed and that discrepancies are followed up on and corrected.

Recommendation: The University should develop a formal procedure for reconciling Pell Grant awards and disbursements between its internal records, COD, and GAPS.

Agency Response: *UConn:* "We agree with this finding in part. Reconciliation occurs regularly between various University systems and COD. Reconciliation requires an understanding of the various statuses of Federal Pell Grant records, corresponding fiscal transactions, and their differences. For FY 2006, we understand the differences that exist between PeopleSoft, FRS, and COD. In FY 2005, due to the University's recent PeopleSoft implementation, reconciliations needed to occur between four systems, PeopleSoft, FRS, SAM, and COD. There were challenges related to developing all of the tools formerly used in the reconciliation, which resulted in reconciliation taking longer."

III.H.6. 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: 2004-2005

Criteria: The instructions for completing the FISAP are contained in the *Instructions Booklet for Fiscal Operations Report for 2004 – 2005 and Application to Participate for 2006 – 2007 (FISAP)*. These instructions provide guidelines for institutions to follow in completing the *Total Tuition and Fees* line on the FISAP.

Condition: We reviewed the FISAP at Eastern Connecticut State University and noted that the amount reported by the University for tuition and fees was incorrect. Medical insurance fees in the amount of $1,864,429 were improperly included in the tuition and fees as well as other less significant fees such as penalties.

Effect: The amount reported on the FISAP was incorrect, which could affect the level of funding for the University's campus-based programs.

Cause: The insurance and other fees were inadvertently included by the University on the FISAP under tuition and fees.

Recommendation: The University should comply with the requirements of the Instructions Booklet in preparing the FISAP.

Agency Response: *Eastern CSU:* "We agree with this finding. The University will submit a revision to Section II, line 22 which will provide the accurate tuition and fee figure free of medical insurance, penalties and other fees."

III.H.7. 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: 2004-2005

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, in the case of PLUS loans, to the 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 of a payment period.

Condition: At UConn, from a sample of 11 Title IV recipients who had a credit balance in their student accounts, three recipients did not receive payment of the credit balance within the required timeframe. Credit balances between $144 and $3,556 were paid to students between one day and 27 days later than required.

At Southern CSU, we reviewed the student accounts of ten Title IV recipients. From this sample, we noted two instances in which a credit balance resulting from the payment of Title IV funds was not paid to the student within the required timeframe. Credit balances of $767 and $155 were paid to the students 16 days and 15 days later than required, respectively.

At Western CSU, we noted an instance in which a graduate student dropped a course in the second winter semester, and a credit of $981 was posted to his account on March 31, 2005. As of September 26, 2005, the student had not received the payment for the amount of the credit balance.

Effect: These Universities are not in compliance with the required timeframe for paying students the credit balance in their student account.

Cause: At UConn, a report of students with credit balances is produced by the Bursar's 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.

At Southern CSU, the cause is unknown.

At Western CSU, the Cashier's Office did not complete the procedure to process the refund check to the student for the amount of the credit in the student's account.

Recommendation: These Universities should pay credit balances resulting from Title IV program receipts directly to the student, or, in the case of PLUS loans, to the student's parent within the required timeframe.

Agency Response: *UConn:* "We disagree with this finding. A variety of legitimate factors can result in a refund issued beyond the 14-day limit. Typical examples include, but are not limited to:

- A mid-term reduction in charges that abruptly converts a previous debit balance into a credit balance
- A request from a student that the Bursar's Office not issue a check (usually because future charges are pending)
- The registration schedule for graduate students is such that Title IV disbursements are often made long before a grad student has registered for even a single course. To ensure reconciliation between the aid and the registration course load, UConn requires grad students to request their checks on-line when they are finished registering.

The University makes every attempt to issue refund checks within the specified timeframes, however, as noted above, the circumstances are not as simple as comparing disbursement date to refund date. We concede that our conversion to PeopleSoft occurred within the audit period and that cases where the time period was exceeded may exist. However, it appears that the three sampled students cited in the audit findings each fall into one or more of the above-noted exceptions."

Southern CSU: "The University agrees with this finding."

Western CSU: "We agree with the finding that the University needs to establish a procedure to ensure that refunds are processed within 14 days after disbursement. We believe this was an isolated case because the original funds were credited and disbursed within 14 days after disbursement. The lateness occurred due to the timing of the withdrawal from the class."

Auditors' Concluding Comments:

UConn: When the University responds that there are "legitimate factors" for not complying with the 14-day limit on disbursement of a credit balance in a student's account, the University is attempting to put into context some reasons why the requirement was not complied with; however, the requirement must be adhered to in all circumstances.

Regarding the second bullet in the agency response, payment was eventually made to each of the three students included in our finding, so this example is not applicable.

Regarding the third bullet, in which the agency responds, ". . . Title IV disbursements are often made long before a grad student has registered for even a single course . . .", two of the three students in our finding were undergraduates. The third student was a graduate student, and we reviewed his registration and student account records. This review noted nothing unusual, so the third bullet is not applicable.

Regarding the first bullet in the agency response, this situation is applicable to the three students included in our finding. However, it is our opinion that a credit balance in the account of a Title IV recipient under the circumstances presented by the University is a significant and relatively unusual event. This event should be identified by the University's information system and reviewed by staff in a timely manner.

III.H.8. Special Tests: Disbursements to Students - Notifications

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria: Per 34 CFR 668.165(a), if an institution credits a student's account with FFEL 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: At UConn, we noted the following:

- From a sample of 13 students who received FFEL funds during the Fall 2004 semester, we were unable to determine if any received the required notifications. Also, we noted that all students who received FFEL funds for the Spring 2005 semester after January 13, 2005, were not notified of the date and amount of the crediting of FFEL funds to their student accounts.

- The University was not in compliance with the requirement that, for PLUS loans, the parent must be notified of the date and amount of FFEL funds that are credited to a student's account and the right to cancel all or a portion of that loan.

Effect: Students (and parents in the case of PLUS loans) receiving FFEL funds were not notified of the date and amount credited to their student accounts.

Cause:

- During the audited period, the University began accounting for student receivables in PeopleSoft; the Student Accounts Receivable System (SARS) had previously been used for this purpose. The memo screen which had been used in SARS to indicate that loan notifications were sent to students via email was no longer in use, and there is not yet a comparable procedure in the PeopleSoft system.

- The University has been notifying the student, rather than the student's parent when the student's account is credited with PLUS loan funds.

Recommendation: The University should develop procedures to ensure that students (or parents in the case of PLUS loans) receiving FFEL funds are notified of the date and amount credited to their student accounts.

Agency Response: *UConn:* "We agree with this finding. Our responses to the two conditions in this finding are as follows:

- FFEL funds as a whole (*Agree*): For Fall 2004, the University believes that notifications went out even though the Memo (MQ) Screen was no longer being updated. Since the disbursements occurred prior to the PeopleSoft conversion it is likely the notification jobs ran as usual however we have not been able to objectively confirm this to date. For the Spring 2005 term, which was the first term after conversion, no notification utility had yet been developed in PeopleSoft. Although most students were manually notified on January 28, 2005, we agree some students from that time forward did not receive notification."

- PLUS Loans: This situation arose out of ambiguity within the language of the handbook *Processing Aid & Managing FSA Funds*. After consulting with the US Department of Education, the liaison agreed that "*the regulatory language might be read to suggest that the school could notify either the student or the parent – it might have been clearer if we had written the regulations to simply refer to the 'borrower' rather than 'student or parent'*."

III.H.9. Special Tests: Student Status Changes

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria:

- 34 CFR 682.610 (c) requires that changes in the enrollment status of an FFEL recipient be reported within 30 days unless a Roster File is expected to be filed within 60 days.

- The National Student Clearinghouse Core Service Programming and Testing Guide states that an institution must not report a student who is on a leave of absence as "Withdrawn"; a student in this category should be reported as "Approved Leave of Absence" effective the date the student went on leave.

Condition: From a sample of 25 FFEL recipients who separated from UConn, we noted the following:

- One student's change in enrollment status to "Withdrawn" was not reported to the National Student Loan Data Service (NSLDS) within 30 days; a Roster File was also not expected to be filed within 60 days.

- One student, who was on an approved leave of absence as of February 14, 2005, was reported as "Withdrawn" to the NSLDS.

From a sample of ten FFEL recipients who graduated from Southern CSU in May 2005, we noted that nine were not reported to the NSLC with the first report of the Fall 2005 semester.

We selected ten FFEL recipients at Capital Community College for testing and found that the College did not report a change in status within 60 days to the NSLC for three borrowers. These borrowers had either withdrawn or graduated from the College. In addition, one of these students was incorrectly reported as withdrawn rather than graduated and another was not reported as graduated.

Effect: Enrollment information for certain students was not provided to interested parties in a timely and/or accurate manner.

Cause: At UConn, the cause for the first condition is that students who were dismissed at the end of the Spring semester in May 2005, were not reported by the Registrar's Office as "Withdrawn" until the First of Term Submission on September 12, 2005. The cause for the second condition is that the student in our sample was on an approved leave of absence and was reported as "Withdrawn" while her status met the guidelines to be reported under the "Approved Leave of Absence" category.

The causes for the conditions at Southern CSU and Capital Community College are unknown.

Recommendation: These institutions should comply with the reporting requirements related to student status changes.

Agency Response: *UConn:* "We agree with the finding related to the student who was dismissed following the Spring semester [and] was not reported as "Withdrawn" until the First Fall term submission on September 12, 2005.

We agree in part with the finding related to the student on approved Leave of Absence that was reported as "Withdrawn." The Dean of Students Office entered information into two fields on the student information system, one indicating that the student had withdrawn from the Spring term and another indicating a Leave of Absence for the Spring term."

Southern CSU: "The University agrees with this finding."

Capital CC: "We agree with this finding in part. Two of the students were unofficial withdrawals. Their withdrawal date of November 19, 2004, was determined on January 11, 2005, after the College rolled the Fall 2004 semester grades with institutional records submitted by professors of these students. The College calculated and processed the return of Title IV funds and recorded the withdrawal date in accordance with 34 CFR 668.22.

Regarding the student who was not reported as graduated, the College accurately reported her to the NSLC as half-time. She completed her matriculation requirements in December 2004. At the completion of the courses and graduation audit her graduation date became May 2005 based on College practice and process.

Regarding the student who was incorrectly reported as withdrawn rather than graduated, according to College records, this student is listed on the report of graduated students sent to the NSLC on June 28, 2005. NSLC is working with the College to determine why the status was listed as withdrawn."

III.H.10. Special Tests: Student Loan Repayments

Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Award Agency: Department of Education
Award Year: 2004-2005

Criteria:

- 34 CFR 674.31(b)(2) states that repayment begins nine months after the borrower ceases to be at least a half-time regular student at the institution.

- 34 CFR 674.42(b) requires an institution to conduct exit counseling with the borrower either in person, by audiovisual presentation, or electronically before the student ceases to be enrolled on at least a half-time basis. If a borrower withdraws or fails to complete an exit counseling session, the institution must mail the exit counseling material to the borrower within 30 days after learning that the borrower did not complete the exit counseling.

Condition: At Eastern CSU we noted the following:

- From a sample of ten borrowers who entered repayment during the audited period, we noted that the change in enrollment status for four borrowers was not reported to University Accounting Services (UAS), the University's third-party servicer, in a timely manner. UAS received notification of the change in status for these four borrowers between three and 15 months later than required.

- From the same sample, we noted that the University could not provide documentation that exit interview materials were mailed to seven borrowers. In addition, the materials were mailed to one borrower one year after his separation from the University.

Effect: The University was not in compliance with Federal due diligence requirements.

Cause: The responsibility for Perkins Loans duties in the Financial Aid Office has been shifted among various employees in recent years.

Recommendation: The University should improve internal control over student loan repayments.

Agency Response: *Eastern CSU:* "We agree with this finding. Perkins Loan oversight with Financial Aid has been reassigned to a supervisory level position. In addition, the Financial Aid Office, Office of the Bursar, and the Information Technology Services Unit have begun to design a regular, automated reporting process which will permit staff to view the registration status of all Perkins participants in one report. The detailed report will be incorporated in routine work responsibilities of both the Financial Aid Office and the Office of the Bursar."

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 Years: State Fiscal Years Ended June 30, 2004 and 2005
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 (FHWA).

Criteria: The Department prepares and submits semi-monthly claims for reimbursement under 23 U.S.C. 121. 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 Core-CT accounting system.

Condition: The Department ceased to report personal services costs within its reimbursement claims in November 2003, consistent with the State's change to Core-CT for processing payroll and personnel transactions. It was estimated that approximately $34,000,000 in allowable personal service costs were not billed/claimed for the fiscal year ended June 30, 2004. This condition continued to exist throughout the 2004-2005 fiscal year, and it is estimated that approximately $51,000,000 in allowable personal service costs were not billed/claimed for that fiscal year, bringing the estimated unbilled total to approximately $85,000,000 as of June 30, 2005. We note that the Department has made it a priority to develop a system that would resolve this matter and has been corresponding with the FHWA on it. Subsequent to June 30, 2005, the Department completed its development of a new program to translate payroll information from the Core-CT system, and on November 21, 2005, received approval from the FHWA to bill using that system. The Department began rebilling for personal services costs in December 2005, [for the pay period ended November 27, 2003], and it expects to request reimbursement for all unbilled personal services costs by the end of the 2006 fiscal year.

Cause: The Core-CT system does not calculate amounts that may be billed for the

Highway Planning and Construction program. As stated above, the Department utilized two programs to generate claim information. These systems continue to generate project expenditures from construction activity, but cannot translate payroll information from the Core-CT system. Therefore, a new system that could translate such information needed to be developed, and as previously indicated, it was created subsequent to June 30, 2005.

Effect: It is estimated that personal services costs that may be billed to the program approximate $2,000,000 for each pay period. During the fiscal years ended June 30, 2004 and 2005, the Department incurred an estimated $34,000,000 and $51,000,000, respectively, in such unclaimed personal services costs.

Recommendation: The Department should continue its efforts to recover the unclaimed personal services costs it incurred as a result of the translation problems that arose with the implementation of the Core-CT payroll system.

Agency Response: "We agree with this finding. The Department has continued to progress towards its goal of complying with the federal requirement for prompt billing. The Department has worked with Federal Highway Administration (FHWA) staff to obtain approval to utilize a new system that was developed to translate CORE-CT payroll information and then input it into the legacy system to create the Department's federal billing. Translations started in December 2005 and are currently on schedule to be completed during the summer of 2006. From that point, the Department is planning on providing prompt federal billings on a bimonthly basis until the implementation of the CORE-CT Projects module. Once the CORE-CT Projects module is implemented, it is expected that the bimonthly billing will be prepared within CORE-CT and translation will no longer be required."

III.I.2. Procurement

Highway Planning and Construction (CFDA 20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration [FHWA])
Award Years: State Fiscal Years Ended June 30, 1997 through 2005
Federal Award Numbers: Various
State Projects: Various

Criteria: As a participant in the Federal Highway Planning and Construction program (CFDA 20.205) the Department is required to comply with all provisions of the Code of Federal Regulations (CFR), Title 23, with every Federal-aid Project Agreement executed.

Condition: In a letter dated July 20, 2005, the FHWA cited the Department for violating certain provisions of CFR 23. It is stated in the letter that "…The violations include not having made an appropriate *finding in the public interest* to justify sole source procurement, (CFR 635.411(b), 635.4111(c)), not consistently applying provisions to address *significant changes in the character of work*, (CFR 635.109(3)), and inappropriately *providing an in-State or local geographical preference*, (CFR 635.110(1), 635.117(b)). Many of these violations appear to have been part of a potential pattern to award federal-aid work to a singular provider of product and/or service." All of the violations cited related to contracts that were issued for certain crack sealing operations performed in the State over the past several years. Apparently, these contracts were issued after bids were solicited, but with specifications written so as to avoid competitive bidding by tailoring them to ensure that a particular contactor was selected.

Cause: The Department employees assigned to write and review the bid specifications failed to ensure that they were written for open competition.

Effect: The FHWA disallowed approximately $6,500,000 in reimbursements it made to the Department for expenditures made under certain crack sealing contracts.

Recommendation: The Department should improve internal controls over the bid specifications it prepares to ensure that open competition for contractors is achieved in every instance.

Agency Response: "We agree with this finding in part. The Department of Transportation Administrative Memorandum No. 31, dated February 1, 2006, included the addition of the Contract Specification Review Standing Committee to the Department's List of Standing Committees. The Contract Specification Review Standing Committee was established in accordance with Administrative Memorandum No. 17, dated April 28, 2005, to review Department of Administrative Services (DAS) contracts. The committee is comprised of personnel from various units within the Department and is charged with reviewing the specifications to ensure that open competition for contractors is achieved. The committee has established a new procedure for reviewing specifications. A contract specification questionnaire and flow chart were developed to improve internal reviews of the DAS contracts.

Any specifications that require proprietary items will be reviewed with and approved by the appropriate Federal agency prior to submitting contracts to DAS for processing. The Federal Highway Administration (FHWA) will provide oversight and necessary approvals throughout project initiation, contract development, and project award process.

The process for awarding DAS contracts has also been changed. Contract awards are now recommended by the using unit and reviewed and approved by the Department's Administrator of Operations and Support, Bureau Chief of Finance and Administration, and Bureau Chief of Engineering and Highway Operations."

J. BOARD OF EDUCATION AND SERVICES FOR THE BLIND

III.J.1. Allowable Costs/Cost Principles – Payroll Expenditures

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
Federal Award Agency: Department of Education
Award Years: Federal Fiscal Year 2003-2004, 2004-2005
Federal Award Numbers: H126A040008, H126A050008

Criteria: OMB Circular A-87 allows direct costs to be charged to Federal Awards. A typical direct cost is "compensation of employees for the time devoted and identified specifically to the performance of those awards."

Condition: We reviewed $21,522 in payroll charges for ten transactions charged to the Vocational Rehabilitation Program. These charges were selected for review as part of our random selection of bi-weekly payroll transactions and were selected from payroll expenditures totaling $1,744,784. Our review disclosed that one employee, whose salary was charged 100 percent to the Vocational Rehabilitation program, worked 10.5 hours of overtime totaling $273 on activities not related to Vocational Rehabilitation.

We also noted that payroll and fringe benefit expenditures of one employee totaling $40,808 were funded entirely from the Vocational Rehabilitation Program for the five-month period in which the employee was also supervising two other divisions. These errors were not part of our initial sample but were identified during a separate review.

Effect: Payroll charges of $273 are unallowable. We were unable to determine the exact amount of the questioned costs related to the $40,808 reported above.

Cause: The correct coding was not entered into the payroll system for the overtime and we were informed that the Agency began receiving assistance with payroll processing from another State agency around the time the error was made.

We were informed that although the Agency's intent was to code the employee's salary equally among the three divisions that the individual was supervising, the information was not properly entered into the Agency's payroll and personnel system.

Recommendation: The Department should institute procedures to ensure that payroll expenditures are correctly coded and charged appropriately.

Agency Response: "The Agency agrees with this finding. The Agency Director of Financial Services shall issue written instructions to supervisory staff within the Vocational Rehabilitation Division regarding the correct coding that must appear on the time and attendance forms for all employees under their supervision when work is being performed by employees in other programs. This direct coding onto the form will provide clarity to payroll staff at the Department of Administrative Services who are now handling all Agency payroll processing.

In addition, the Agency is correcting within the Core-CT system the funding codes for the split-funded position noted in the audit finding.

Corrections are in process to reimburse the Vocational Rehabilitation Program for the portions of the aforementioned salaries that were not accurately charged during payroll cycle processing."

III.J.2. Allowable Costs/Cost Principles – Unsupported Expenditures

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
Federal Award Agency: Department of Education
Award Years: Federal Fiscal Years 2003-2004, 2004-2005
Federal Award Numbers: H126A040008, H126A050008

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

Condition: We reviewed ten Vocational Rehabilitation expenditures totaling $18,059 for allowable services. These expenditures were selected from payments totaling $457,693. Our review disclosed one payment of $450 paid to a client for reimbursement of personal care attendant services that was not sufficiently documented to determine if the services were actually received by the client.

We also noted $13,626 in additional expenditures payable to the same client for personal care attendant services that were not sufficiently documented to determine if services were actually received by the client. These expenditures were not part of our initial sample. Of the $13,626 of expenditures identified, $6,750 were Federally reimbursed and $6,876 were used to meet the matching and level of effort requirements of the program.

Effect: Payments for undocumented services totaling $7,200 were claimed for Federal reimbursement and $6,876 were claimed as matching funds.

Cause: The Agency did not require the client to submit documentation that services were received prior to processing the payments.

Recommendation: The Agency should follow established procedures to ensure that all expenditures charged to the Vocational Rehabilitation program are adequately supported.

Agency Response: "The Agency agrees with this finding. A training session will be provided to all Vocational Rehabilitation Counseling staff on the provisions of acceptable documentation that can be utilized to verify that services have been rendered as authorized. This training will utilize the policy and procedure manual for the division, that already has procedures in place relative to required documentation. In the above referenced case, corrective action has already been implemented. The client is required to complete a form, and have the personal care attendant also sign the form, verifying that services were provided."

III.J.3. Financial Reporting

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
Federal Award Agency: Department of Education
Award Year: Federal Fiscal Year 2003-2004
Federal Award Number: H126A040008

Criteria: Each State Vocational Rehabilitation (VR) Agency that has expended funds in providing VR services to individuals with disabilities under the Section 110 and Title VI-B programs of the Rehabilitation Act of 1973, as amended, must submit an Annual Vocational Rehabilitation Program/Cost Report (RSA-2) for each Federal Fiscal Year.

Condition: Our review of the RSA-2 Program Cost Report for the Federal Fiscal Year 2004 disclosed the following:

- Expenditures in the amount of $2,242,968 for the Business Enterprise Program that were reported on line 3c of Schedule I, were based on requisitions that were not reconciled to expenditure reports.
- The number of individuals served reported in Schedule II on Line 1 (Assessment, Counseling, Guidance and Placement) was not supported by detailed supporting documentation.
- The amount reported in Schedule II on Line 10 (Total Number of Individuals Served) contained duplicated case counts when the instructions require the reporting of unduplicated case counts.
- Various amounts throughout the report were reported on the wrong

line or were totaled incorrectly.

Effect: The RSA-2 Program Cost Report was not prepared accurately.

Cause: The Agency does not have automated reports available that include all of the information that must be reported. Various manual calculations were performed and clerical errors were made.

Recommendation: The Agency should institute procedures to ensure that the RSA-2 Program Cost Report is accurately prepared.

Agency Response: "The Agency agrees with this finding. The Agency shall work with assigned staff at the Department of Administrative Services, who are now responsible for many of the Agency's business office functions, to generate this year's RSA-2 report with supporting documentation for each line item. In addition, the Quality Control Reviewer within the Vocational Rehabilitation Program shall be assigned to assist with reviewing the data reports prior to finalization of the line item entries for each category.

The Agency shall also explore options for developing software that will enable the Case Management System within the Vocational Rehabilitation division to complete the form in future years, using an automated process with supporting documentation reports through the database."

III.J.4. Period of Availability

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
Federal Award Agency: Department of Education
Award Year: Federal Fiscal Year 2002-2003
Federal Award Number: H126A030008

Criteria: 34 CFR Section 76.709 requires that if a State or a subgrantee does not obligate all of its grant or subgrant funds by the end of the fiscal year for which Congress appropriated the funds, it may obligate the remaining funds during a carryover period of one additional fiscal year. The State shall return to the Federal Government any carryover funds not obligated by the end of the carryover period by the State and its subgrantees.

Condition: We reviewed all Vocational Rehabilitation expenditures and adjustments that related to awards received during the 2002-2003 Federal fiscal year for period of availability requirements. Total expenditures and adjustments were $695,388. Our review disclosed payroll expenditures of $32,856 that were not obligated within the carryover period.

Effect: There is non-compliance with section 34 CFR Section 76.709.

Cause: The Agency is using a new state-wide accounting system and errors were made in the processing of Agency corrections.

Recommendation: The Agency should institute procedures to ensure that funds are obligated within the period of availability and should return the funds that were not obligated within the period of availability or make appropriate corrections.

Agency Response: "The Agency agrees with this finding. Corrections were made to charge the proper budget reference year and copies were given to the State Audit Team. Agency staff continue to participate in training as offered by Core-CT to learn the requirements for establishing proper funding accounts in the new commitment system. With the statewide alignment of business office functions for smaller state agencies, BESB staff who are remaining behind at BESB to perform purchasing functions will receive written instructions by the Agency Director of Financial Services or the Chief of Fiscal and Administrative Services at the Department of Administrative Services to ensure that all future commitments to the Vocational Rehabilitation Program utilize the correct funding year."