State of Connecticut
Single Audit Report

For The Year Ended June 30, 2006

Auditors of Public Accounts
Hartford, Connecticut

STATE OF CONNECTICUT

Single Audit Report

For the Year Ended June 30, 2006

Table of Contents **Section/Page**

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

April 27, 2007

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, 2006.

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 $5,550,000,000 in Federal financial assistance during the fiscal year ended June 30, 2006. 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 after the March 31, 2007, deadline required by the Federal Single Audit Act. The Secretary of the Office of Policy and Management had to request an extension from the Federal government to that deadline. The reason that the deadline could not be met was that the State did not complete its 2006 financial statements, which would normally have been completed by December 2006, until April 2007. 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 and has resulted in noncompliance with the State's own statutes regarding financial reporting. We noted improvements, however, that lead us to believe that the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, is likely to be made in a timely manner.

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, 2006.

Respectfully submitted,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

State of Connecticut
Financial Statements

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

Governor 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, 2006, 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 six 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 55 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 33 percent of the assets and 30 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 55 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, 2006, 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.

The State of Connecticut adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 44, *Economic Condition Reporting: the Statistical Section*, and Statement No. 46, *Net Assets Restricted by Enabling Legislation* during the fiscal year ended June 30, 2006. Statement No. 44 updates the disclosure requirements relating to financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information. As noted below we do not audit or offer an opinion on this information. Statement No. 46 requires the disclosure of the amount of net assets restricted by enabling legislation in the notes to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2007, 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-15 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

April 25, 2007
State Capitol
Hartford, Connecticut

THIS PAGE LEFT INTENTIONALLY BLANK

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, 2006, the State had a total net asset deficit of $0.8 billion, an improvement in net assets of $588 million occurring this fiscal year. This improvement resulted from increases of $296 million and $292 million in the net assets of governmental activities and business-type activities, respectively.

During the year, revenues of governmental activities exceeded expenses by $1,008 million. However, this excess was reduced by transfers of $712 million, resulting in an increase of net asset of $296 million.

For business-type activities, expenses exceeded revenues by $420 million. However, this deficiency was offset by transfers of $712 million, resulting in an increase in net assets of $292 million.

Fund Level:
The governmental funds had a total fund balance of $3.1 billion at year end. Of this amount, $3.2 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of $0.1 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 $487 million this year.

The Enterprise Funds had total net assets of $4.3 billion, substantially all of which was invested in capital assets or restricted for various purposes.

Debt Issued and Outstanding:
Total long-term debt was $18.4 billion for governmental activities, of which $13.6 billion was bonded debt.

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 distinguishes 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 - CII 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 2006, compared to the prior year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005*	2006	2005	2006	2005*
ASSETS:						
Current and Other Assets	$ 5,110	$ 4,459	$ 3,733	$ 3,715	$ 8,843	$ 8,174
Capital Assets	9,755	9,640	3,225	3,075	12,980	12,715
Total Assets	14,865	14,099	6,958	6,790	21,823	20,889
LIABILITIES:						
Current Liabilities	2,835	2,777	683	730	3,518	3,507
Long-term Liabilities	17,106	16,694	1,984	2,061	19,090	18,755
Total Liabilities	19,941	19,471	2,667	2,791	22,608	22,262
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	3,469	3,295	2,407	2,314	5,876	5,609
Restricted	1,497	1,343	1,705	1,570	3,202	2,913
Unrestricted	(10,042)	(10,010)	179	115	(9,863)	(9,895)
Total Net Assets	$ (5,076)	$ (5,372)	$ 4,291	$ 3,999	$ (785)	$ (1,373)

***** Restated for comparative purposes. See Note 21.

The State had a total net asset deficit of $0.8 billion at year end, an improvement in net assets of $588 million occurring in this fiscal year. This improvement resulted from increases of $296 million and $292 million in the net assets of governmental activities and business-type activities, respectively.

Governmental activities had a total net asset deficit of $5.1 billion at year end, an improvement in net assets of $0.3 billion occurring in this fiscal year. Of this amount, $4.9 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 $3.8 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 $4.8 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 $0.3 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 2006, compared to the prior year,

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005*	2006	2005	2006	2005*
REVENUES						
Program Revenues						
Charges for Services	$ 1,379	$ 1,317	$ 2,900	$ 2,863	$ 4,279	$ 4,180
Operating Grants and Contributions	4,035	3,810	277	262	4,312	4,072
Capital Grants and Contributions	542	335	80	87	622	422
General Revenues						
Taxes	11,855	10,840	-	-	11,855	10,840
Casino Gaming Payments	428	418	-	-	428	418
Other	213	188	113	94	326	282
Total Revenues	18,452	16,908	3,370	3,306	21,822	20,214
EXPENSES						
Legislative	97	91	-	-	97	91
General Government	1,353	1,288	-	-	1,353	1,288
Regulation and Protection	712	633	-	-	712	633
Conservation and Development	396	424	-	-	396	424
Health and Hospitals	1,923	1,801	-	-	1,923	1,801
Transportation	1,090	1,184	-	-	1,090	1,184
Human Services	4,941	4,537	-	-	4,941	4,537
Education, Libraries and Museums	3,889	3,408	-	-	3,889	3,408
Corrections	1,768	1,676	-	-	1,768	1,676
Judicial	655	650	-	-	655	650
Interest and Fiscal Charges	620	612	-	-	620	612
University of Connecticut & Health Center	-	-	1,464	1,386	1,464	1,386
State Universities	-	-	536	507	536	507
Bradley International Airport	-	-	63	62	63	62
CT Lottery Corporation	-	-	709	691	709	691
Employment Security	-	-	573	580	573	580
Clean Water	-	-	26	28	26	28
Other	-	-	419	406	419	406
Total Expenses	17,444	16,304	3,790	3,660	21,234	19,964
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	1,008	604	(420)	(354)	588	250
Transfers	(712)	(693)	712	499	-	(194)
Special Items	-	(150)	-	-	-	(150)
Increase (Decrease) in Net Assets	296	(239)	292	145	588	(94)
Net Assets (Deficit) - Beginning (Restated)	(5,372)	(5,133)	3,999	3,854	(1,373)	(1,279)
Net Assets (Deficit) - Ending	$ (5,076)	$ (5,372)	$ 4,291	$ 3,999	$ (785)	$ (1,373)

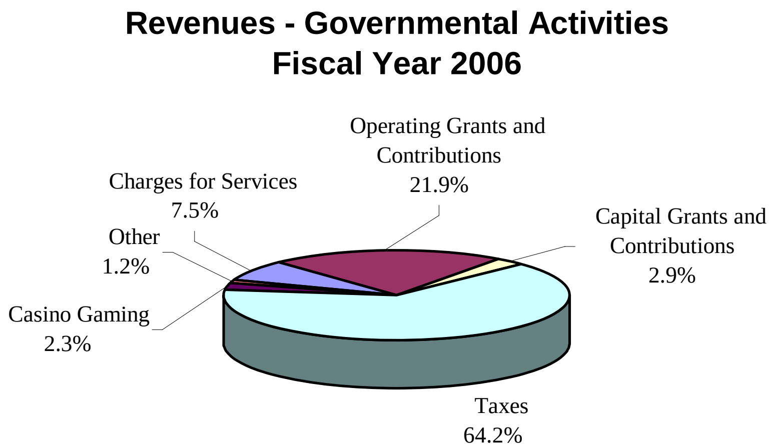
* Restated for comparative purposes. See Note 21.

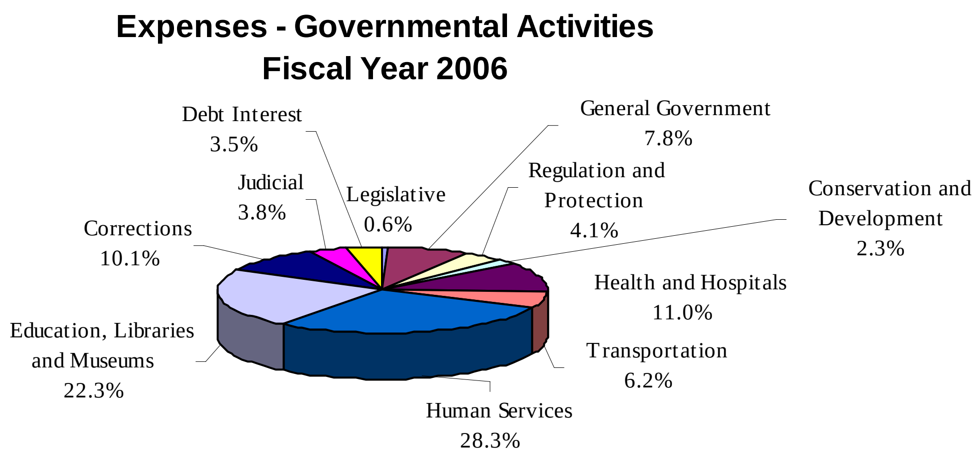
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence.

Total revenues of the State increased by $1.6 billion to $21.9 billion. More than half of this increase was due to an increase in tax revenues. Total expenses increased by $1.3 billion to $21.2 billion. This increase can be attributed mainly to an increase of $1.1 billion in governmental activities' expenditures. Total net assets of the State increased by $588 million during the fiscal year.

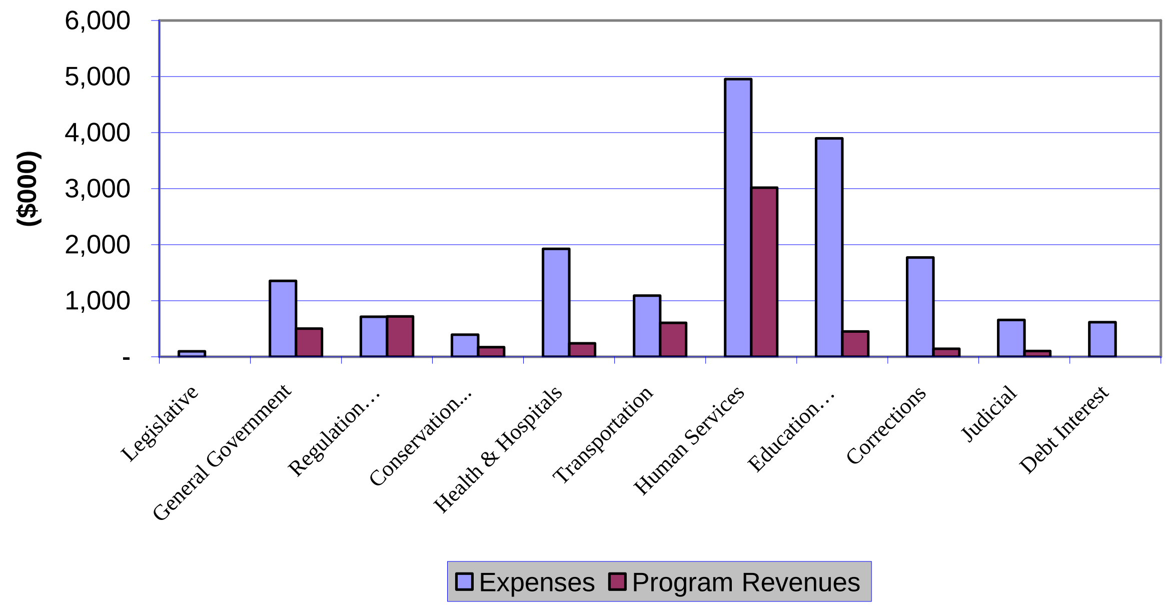
GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2006.





Expenses and Program Revenues - Governmental Activities
Fiscal Year 2006



Total revenues for the governmental activities increased by $1.5 billion to $18.4 billion. This increase was due mainly to an increase in tax revenue of $1.0 billion, reflecting a growing economy. Total expenses increased by $1.1 billion to $17.4 billion. This increase can be attributed mainly to increases in health and hospital, human services, and education expenses of $1.0 billion. Even though total revenues exceeded total expenses by $1,008 million, this excess was reduced by transfers of $712 million, resulting in an increase of net assets of $296 million.

As noted above, total revenues increased by 9 percent during the fiscal year because of a strong economy. Nationally, real Gross Domestic Product (GDP) grew a solid 5.6 percent in the third quarter of the fiscal year, after growing 1.7 percent during the second quarter of the fiscal year. However, the GDP showed growth slowing to 2.9 percent during the fourth quarter of the fiscal year. During the fiscal year, the State added 7,100 payroll jobs, which was about half of last year's job growth. The State's unemployment rate is 4.1 percent, compared to a national unemployment rate of 4.6 percent. Corporate profits grew at a rate of 14.4 percent and 11.9 percent during the second and third quarter of the fiscal year, respectively, after showing disappointing results during the first quarter of the year. During the last quarter of the fiscal year, advanced retail sales showed growth of 6.8 percent over the same quarter a year ago. Existing home sales in the State began to show signs of weakening, and permits to build have also been on a decline recently. The major stock indexes continue to show modest gains for the year.

Total revenues and expenses of business-type activities were virtually unchanged between fiscal years 2006 and 2005. Although, total expenses exceeded total revenues by $420 million, this deficiency was offset by transfers of $712 million, resulting in an increase in net assets of $292 million.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State completed fiscal year 2006 with a balance of $3.1 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 $92 million, this deficiency was offset by other financing sources of $699 million, resulting in an increase in fund balance of $607 million in governmental funds in fiscal year 2006.

General Fund

The General fund is the chief operating fund of the State. At the end of fiscal year 2006, the General fund had a fund balance of $0.9 billion. Of this amount, $1.9 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 $1,017 million, this excess was reduced by other financing uses of $561 million, resulting in an increase in fund balance of $456 million for the fiscal year .

Budgetary Highlights-General Fund

Early in the fiscal year, the General fund surplus was estimated to be $18 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$940 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 $455 million.

Although actual fund revenues exceeded expenditures by $499 million, this excess was reduced by other financing uses of $12 million, resulting in an actual surplus of $487 million. A portion of the 2005 surplus in the amount of $15 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 $865 million. A tax revenue variance of $760 million accounts for much of the total variance. Some of the tax revenues that exceeded original estimates were: personal income, $370 million; corporations, $141 million; and oil companies, $80 million.

During the year, final appropriations exceeded original appropriations by $450 million. Some of the major adjustments to initial appropriations that occurred during the year were: $86 million to pre-pay debt service on economic recovery notes; $246 million for deposit to the Teachers' Retirement Fund; and $33 million for property tax relief.

Other Funds

The Debt Service fund had a fund balance of $675 million at year end, all of which was reserved. Fund balance decreased by $3 million during the fiscal year.

The Transportation fund had a fund balance of $183 million at year end, of which $129 million was unreserved. Fund balance increased by $7 million during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

As of June 30, 2006 the State had an investment in total capital assets (net of accumulated depreciation) of $13.0 billion. During the fiscal year, capital assets of governmental activities and business-type activities increased by $115 million and $150 million, respectively. Depreciation charges for the fiscal year totaled $0.9 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	$ 1,295	$ 1,264	$ 59	$ 64	$ 1,354	$ 1,328
Buildings	1,138	1,046	2,330	2,098	3,468	3,144
Improvements Other than Buildings	192	197	296	258	488	455
Equipment	391	389	365	352	756	741
Infrastructure	5,080	5,363	-	-	5,080	5,363
Construction in Progress	1,659	1,381	175	303	1,834	1,684
Total	$ 9,755	$ 9,640	$ 3,225	$ 3,075	$ 12,980	$ 12,715

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	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	$ 10,211	$ 9,905	$ -	$ -	$ 10,211	$ 9,905
Transportation Related Bonds	3,094	3,114	-	-	3,094	3,114
Revenue Bonds			1,523	1,620	1,523	1,620
Premiums and deferred amounts	267	229	39	34	306	263
Total	$ 13,572	$ 13,248	$ 1,562	$ 1,654	$ 15,134	$ 14,902

In fiscal year 2006 the State increased outstanding bonds by $232 million. Bonds of governmental activities increased by $324 million while bonds of business-type activities decreased by $92 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 Aaa, AAA, AAA 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 October, 2006, the State had a debt incurring margin of $4.2 billion.

Other Long-Term Debt

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Net Pension Obligation	$ 3,737	$ 3,636	$ -	$ -	$ 3,737	$ 3,636
Compensated Absences	471	415	124	102	595	517
Workers Compensation	344	299	-	-	344	299
Lottery Prizes	-	-	302	337	302	337
Other*	230	298	181	166	411	464
Total	$ 4,782	$ 4,648	$ 607	$ 605	$ 5,389	$ 5,253

* Includes Economic Recovery Notes of $146 million and $209 million in 2006 and 2005, respectively

The State’s other long-term obligations increased by $136 million during the year. An increase of $101 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.

THIS PAGE LEFT INTENTIONALLY BLANK

Basic Financial Statements

THIS PAGE LEFT INTENTIONALLY BLANK

Statement of Net Assets

June 30, 2006
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 2,154,451	$ 492,520	$ 2,646,971	$ 191,847
Deposits with U.S. Treasury	-	632,318	632,318	-
Investments	134,477	98,480	232,957	345,240
Receivables, (Net of Allowances)	2,033,355	621,357	2,654,712	56,186
Due from Component Units	2,619	-	2,619	-
Due from Primary Government	-	-	-	12,778
Inventories	58,572	10,087	68,659	3,509
Restricted Assets	-	82,546	82,546	1,260,718
Internal Balances	(210,633)	210,633	-	-
Other Current Assets	13,603	15,025	28,628	3,071
Total Current Assets	4,186,444	2,162,966	6,349,410	1,873,349
Noncurrent Assets:				
Cash and Cash Equivalents	-	217,435	217,435	-
Due From Component Units	13,320	-	13,320	-
Investments	-	312,567	312,567	53,800
Receivables, (Net of Allowances)	177,988	489,445	667,433	123,798
Restricted Assets	675,323	490,598	1,165,921	3,603,376
Capital Assets, (Net of Accumulated Depreciation)	9,754,593	3,225,193	12,979,786	462,640
Other Noncurrent Assets	57,042	59,352	116,394	14,184
Total Noncurrent Assets	10,678,266	4,794,590	15,472,856	4,257,798
Total Assets	14,864,710	6,957,556	21,822,266	6,131,147
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	644,854	257,253	902,107	66,280
Due to Component Units	12,778	-	12,778	-
Due to Primary Government	-	-	-	2,619
Due to Other Governments	63,789	167	63,956	-
Current Portion of Long-Term Obligations	1,248,067	186,597	1,434,664	153,263
Amount Held for Institutions	-	-	-	471,585
Deferred Revenue	8,519	155,717	164,236	-
Medicaid Liability	569,613	-	569,613	-
Liability for Escheated Property	104,719	-	104,719	-
Other Current Liabilities	182,776	83,166	265,942	28,227
Total Current Liabilities	2,835,115	682,900	3,518,015	721,974
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	17,105,597	1,983,518	19,089,115	3,679,250
Total Noncurrent Liabilities	17,105,597	1,983,518	19,089,115	3,679,250
Total Liabilities	19,940,712	2,666,418	22,607,130	4,401,224
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,469,145	2,407,382	5,876,527	284,295
Restricted For:				
Transportation	102,767	-	102,767	-
Debt Service	640,540	72,547	713,087	31,866
Capital Projects	234,893	110,952	345,845	-
Unemployment Compensation	-	762,997	762,997	-
Clean Water and Drinking Water Projects	-	566,438	566,438	-
Bond Indenture Requirements	-	3,248	3,248	724,815
Loans	-	6,318	6,318	-
Permanent Investments or Endowments:				
Expendable	3,241	-	3,241	109,346
Nonexpendable	89,619	14,010	103,629	220,481
Other Purposes	425,633	168,075	593,708	50,400
Unrestricted (Deficit)	(10,041,840)	179,171	(9,862,669)	308,720
Total Net Assets (Deficit)	$ (5,076,002)	$ 4,291,138	$ (784,864)	$ 1,729,923

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

Statement of Activities

For The Fiscal Year Ended June 30, 2006

(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	$ 96,622	$ 2,300	$ 90	$ -
General Government	1,352,908	459,602	43,687	-
Regulation and Protection	712,061	527,391	192,124	-
Conservation and Development	396,296	92,788	79,974	-
Health and Hospitals	1,922,583	54,205	183,126	-
Transportation	1,090,504	61,982	-	541,875
Human Services	4,941,454	47,126	2,970,922	-
Education, Libraries, and Museums	3,888,711	28,460	424,456	-
Corrections	1,768,368	11,434	130,040	-
Judicial	654,894	93,773	10,254	-
Interest and Fiscal Charges	619,730	-	-	-
Total Governmental Activities	17,444,131	1,379,061	4,034,673	541,875
Business-Type Activities:				
University of Connecticut & Health Center	1,464,055	798,041	166,259	9,966
State Universities	536,026	264,413	42,982	68,077
Bradley International Airport	62,625	54,193	-	2,039
Connecticut Lottery Corporation	709,591	970,568	-	-
Employment Security	572,602	585,375	-	-
Clean Water	26,076	14,156	19,764	-
Other	419,074	213,359	48,352	-
Total Business-Type Activities	3,790,049	2,900,105	277,357	80,082
Total Primary Government	$ 21,234,180	$ 4,279,166	$ 4,312,030	$ 621,957
Component Units				
Connecticut Housing Finance Authority (12-31-05)	$ 183,431	$ 160,753	$ -	$ -
Connecticut Health and Educational Facilities Authority	6,055	4,655	-	-
Other	282,552	270,169	6,212	31,054
Total Component Units	$ 472,038	$ 435,577	$ 6,212	$ 31,054

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 Item-Statutory Payment to State
Transfers-Internal Activities
Total General Revenues, Contributions, Special Item, and Transfers
Change in Net Assets
Net Assets (Deficit)- Beginning (as restated)
Net Assets (Deficit)- Ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (94,232)	$ -	$ (94,232)	$ -
(849,619)	-	(849,619)	-
7,454	-	7,454	-
(223,534)	-	(223,534)	-
(1,685,252)	-	(1,685,252)	-
(486,647)	-	(486,647)	-
(1,923,406)	-	(1,923,406)	-
(3,435,795)	-	(3,435,795)	-
(1,626,894)	-	(1,626,894)	-
(550,867)	-	(550,867)	-
(619,730)	-	(619,730)	-
(11,488,522)	-	(11,488,522)	-
-	(489,789)	(489,789)	-
-	(160,554)	(160,554)	-
-	(6,393)	(6,393)	-
-	260,977	260,977	-
-	12,773	12,773	-
-	7,844	7,844	-
-	(157,363)	(157,363)	-
-	(532,505)	(532,505)	-
(11,488,522)	(532,505)	(12,021,027)	-
-	-	-	(22,678)
-	-	-	(1,400)
-	-	-	24,883
-	-	-	805
5,625,882	-	5,625,882	-
655,607	-	655,607	-
3,382,118	-	3,382,118	-
1,608,235	-	1,608,235	-
515,013	-	515,013	-
68,418		68,418	-
427,527	-	427,527	-
108,619	-	108,619	-
104,911	113,387	218,298	58,182
-	-	-	33,520
-	-	-	(5,000)
(711,657)	711,657	-	-
11,784,673	825,044	12,609,717	86,702
296,151	292,539	588,690	87,507
(5,372,153)	3,998,599	(1,373,554)	1,642,416
$ (5,076,002)	$ 4,291,138	$ (784,864)	$ 1,729,923

THIS PAGE LEFT INTENTIONALLY BLANK

Governmental Fund Financial Statements

Major Funds

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

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

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

Nonmajor Funds
Nonmajor governmental funds are presented, by fund type beginning on page 88 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2006*, as issued by the State Comptroller.

Balance Sheet
Governmental Funds

June 30, 2006
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ 887,481	$ -	$ 125,947	$ 1,124,119	$ 2,137,547
Investments	-	-	-	134,477	134,477
Securities Lending Collateral	-	-	-	13,562	13,562
Receivables:					
Taxes, Net of Allowances	960,095	-	42,721	-	1,002,816
Accounts, Net of Allowances	182,949	-	12,557	39,717	235,223
Loans, Net of Allowances	-	-	-	177,988	177,988
From Other Governments	509,964	-	-	256,021	765,985
Interest	-	6,634	992	-	7,626
Other	-	-	-	6,321	6,321
Due from Other Funds	22,195	202	18,714	99,178	140,289
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	15,939	-	-	-	15,939
Inventories	39,347	-	15,730	-	55,077
Restricted Assets		674,428		895	675,323
Other Assets	-	-	-	5	5
Total Assets	$ 2,622,670	$ 681,264	$ 216,661	$ 1,852,283	$ 5,372,878
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	$ 311,083	$ -	$ 27,599	$ 193,844	$ 532,526
Due to Other Funds	115,112	6,634	-	159,397	281,143
Due to Component Units	-	-	-	12,778	12,778
Due to Other Governments	61,385	-	-	2,404	63,789
Deferred Revenue	433,275	-	5,503	77,483	516,261
Medicaid Liability	569,613	-	-	-	569,613
Liability For Escheated Property	104,719	-	-	-	104,719
Securities Lending Obligation		-	-	13,562	13,562
Other Liabilities	168,937	-	-	277	169,214
Total Liabilities	1,764,124	6,634	33,102	459,745	2,263,605
Fund Balances					
Reserved For:					
Petty Cash	912	-	-	-	912
Inventories	39,347	-	15,730	-	55,077
Loans	20,639	-	-	177,988	198,627
Continuing Appropriations	702,854	-	39,067	1,140	743,061
Debt Service	-	674,630	-	-	674,630
Restricted Purposes	-	-	-	415,040	415,040
Surplus Transfer to FY 07	41,000	-	-	-	41,000
Budget Reserve Fund	1,112,508	-	-	-	1,112,508
Unreserved Reported In:					
General Fund	(1,058,714)	-	-	-	(1,058,714)
Transportation Fund	-	-	128,762	-	128,762
Special Revenue Funds	-	-	-	533,857	533,857
Capital Project Funds	-	-	-	264,513	264,513
Total Fund Balances	858,546	674,630	183,559	1,392,538	3,109,273
Total Liabilities and Fund Balances	$ 2,622,670	$ 681,264	$ 216,661	$ 1,852,283	$ 5,372,878

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, 2006

(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	3,109,273
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	2,766,854		
Equipment	1,175,497		
Infrastructure	12,481,408		
Other Capital Assets	999,639		
Accumulated Depreciation	(7,719,130)		9,704,268
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.			55,785
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.			507,871
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.			(8,831)
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	(3,737,136)		
Worker's Compensation	(344,274)		
Capital Leases	(60,491)		
Compensated Absences	(465,721)		
Claims and Judgments	(18,418)		(4,626,040)
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	(146,090)		
Bonds Payable	(13,305,494)		
Unamortized Premiums	(516,109)		
Less: Deferred Loss on Refundings	248,934		
Accrued Interest Payable	(99,569)		(13,818,328)
Net Assets of Governmental Activities		$	(5,076,002)

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, 2006

(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 11,225,489	$ -	$ 583,896	$ 27,424	$ 11,836,809
Assessments	-	-	-	21,555	21,555
Licenses, Permits and Fees	156,954	-	315,544	63,970	536,468
Tobacco Settlement	-	-	-	108,619	108,619
Federal Grants and Aid	2,817,844	-	-	1,760,537	4,578,381
Charges for Services	34,788	-	64,961	9,048	108,797
Fines, Forfeits and Rents	74,936	-	30,012	2,167	107,115
Casino Gaming Payments	427,527	-	-	-	427,527
Investment Earnings	53,629	14,642	11,789	22,634	102,694
Miscellaneous	150,034	-	8,457	435,138	593,629
Total Revenues	14,941,201	14,642	1,014,659	2,451,092	18,421,594
Expenditures					
Current:					
Legislative	89,454	-	-	2,279	91,733
General Government	916,747	-	2,947	385,877	1,305,571
Regulation and Protection	324,225	-	79,721	282,801	686,747
Conservation and Development	123,531	-	-	260,532	384,063
Health and Hospitals	1,707,536	-	-	181,706	1,889,242
Transportation	1,874	-	522,451	124,303	648,628
Human Services	4,487,762	-	-	389,849	4,877,611
Education, Libraries, and Museums	2,668,013	-	-	1,145,536	3,813,549
Corrections	1,686,200	-	-	37,391	1,723,591
Judicial	618,311	-	-	29,963	648,274
Capital Projects	-	-	-	671,124	671,124
Debt Service:					
Principal Retirement	831,719	270,420	631	-	1,102,770
Interest and Fiscal Charges	468,750	144,802	5,798	51,035	670,385
Total Expenditures	13,924,122	415,222	611,548	3,562,396	18,513,288
Excess (Deficiency) of Revenues Over Expenditures	1,017,079	(400,580)	403,111	(1,111,304)	(91,694)
Other Financing Sources (Uses)					
Bonds Issued	-	-	-	1,362,145	1,362,145
Premiums on Bonds Issued	-	4,453	-	50,791	55,244
Transfers In	377,484	426,814	53,398	178,958	1,036,654
Transfers Out	(938,233)	(29,159)	(449,306)	(333,841)	(1,750,539)
Refunding Bonds Issued	-	61,020	-	-	61,020
Payment to Refunded Bond Escrow Agent	-	(65,473)	-	-	(65,473)
Capital Lease Obligations	-	-	-	-	-
Total Other Financing Sources (Uses)	(560,749)	397,655	(395,908)	1,258,053	699,051
Net Change in Fund Balances	456,330	(2,925)	7,203	146,749	607,357
Fund Balances - Beginning (as restated)	396,893	677,555	172,837	1,245,789	2,493,074
Changes in Reserves for Inventories	5,323	-	3,519	-	8,842
Fund Balances - Ending	$ 858,546	$ 674,630	$ 183,559	$ 1,392,538	$ 3,109,273

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, 2006

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 607,357
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	(1,362,145)	
Refunding Bonds Issued	(61,020)	
Premium on Bonds Issued	(55,244)	(1,478,409)
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	1,102,770	
Payments to Refunded Bond Escrow Agent	65,473	
Capital Lease Payments	16,464	1,184,707
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	794,362	
Depreciation Expense	(655,424)	
Retirements	(35,532)	103,406
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which purchases exceeded consumption of inventories.		8,842
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	(3,911)	
Decrease in Interest Accreted on Capital Appreciation Debt	35,813	
Amortization of Bond Premium	41,794	
Amortization of Loss on Debt Refundings	(28,461)	
Increase in Compensated Absences Liability	(56,355)	
Increase in Workers Compensation Liability	(45,718)	
Increase in Claims and Judgments Liability	(11,809)	
Increase in Net Pension Obligation	(100,832)	(169,479)
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.		30,345
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.		3,962
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	9,718	
Amortization of Debt Issue Costs	(4,298)	5,420
Change in Net Assets of Governmental Activities		$ 296,151

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, 2006

(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	**Original**	**Final**	**Actual**	**(negative)**
Budgeted:				
Taxes, Net of Refunds	$ 10,455,400	$ 11,243,500	$ 11,215,243	$ (28,257)
Operating Transfers In	374,500	379,300	379,346	46
Casino Gaming Payments	430,000	427,500	427,527	27
Licenses, Permits, and Fees	147,300	158,300	157,400	(900)
Other	253,000	339,400	356,366	16,966
Federal Grants	2,601,400	2,552,100	2,549,577	(2,523)
Transfer to the Resources of the General Fund	(41,000)	(41,000)	-	41,000
Refunds of Payments	(600)	(400)	(438)	(38)
Operating Transfers Out	(86,300)	(86,300)	(86,300)	-
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	14,133,700	14,972,400	14,998,721	26,321
Expenditures				
Budgeted:				
Legislative	69,986	70,159	62,159	8,000
General Government	506,145	546,161	442,517	103,644
Regulation and Protection	238,829	253,681	237,380	16,301
Conservation and Development	96,038	98,833	90,887	7,946
Health and Hospitals	1,385,899	1,408,990	1,392,263	16,727
Transportation	20,600	12,600	1,810	10,790
Human Services	4,314,610	4,344,908	4,181,893	163,015
Education, Libraries, and Museums	3,264,755	3,521,654	3,290,626	231,028
Corrections	1,337,239	1,352,868	1,339,289	13,579
Judicial	436,474	441,006	438,124	2,882
Non Functional	3,260,909	3,330,433	3,022,668	307,765
Total Expenditures	14,931,484	15,381,293	14,499,616	881,677
Appropriations Lapsed	105,400	174,200	-	(174,200)
Excess (Deficiency) of Revenues Over Expenditures	(692,384)	(234,693)	499,105	733,798
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	694,422	694,422	694,422	-
Appropriations Continued to Fiscal Year 2007	-	-	(702,854)	(702,854)
Transfer of 2005 Surplus	15,851	15,851	15,851	-
Miscellaneous Adjustments	-	(20,500)	(19,035)	1,465
Total Other Financing Sources (Uses)	710,273	689,773	(11,616)	(701,389)
Net Change in Fund Balance	$ 17,889	$ 455,080	487,489	$ 32,409
Budgetary Fund Balances - July 1			1,075,107	
Changes in Reserves			(371,340)	
Budgetary Fund Balances - June 30			$ 1,191,256	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 595,900	$ 585,000	$ 583,934	$ (1,066)
-	-	-	-
-	-	-	-
393,000	387,700	387,703	3
29,000	40,200	40,125	(75)
-	-	-	-
-	-	-	-
(2,800)	(2,700)	(2,666)	34
(3,600)	(4,600)	(4,600)	-
(25,300)	(25,300)	(25,300)	-
986,200	980,300	979,196	(1,104)
-	-	-	-
2,635	2,635	1,749	886
73,348	73,348	55,297	18,051
-	-	-	-
-	-	-	-
412,663	425,982	410,316	15,666
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
542,410	551,354	531,648	19,706
1,031,056	1,053,319	999,010	54,309
11,000	15,750	-	(15,750)
(33,856)	(57,269)	(19,814)	37,455
37,418	37,418	37,418	-
-	-	(39,067)	(39,067)
-	-	-	-
-	21,451	21,775	324
37,418	58,869	20,126	(38,743)
$ 3,562	$ 1,600	312	$ (1,288)
		170,485	
		1,649	
		$ 172,446	

THIS PAGE LEFT INTENTIONALLY BLANK

Proprietary Fund Financial Statements

Major Funds

University of Connecticut and 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 consist of four universities: Central, Eastern, Southern, and Western.

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

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

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

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

Nonmajor Funds:
Nonmajor proprietary funds are presented, by fund type beginning on page 112 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2006,* as issued by the State Comptroller.

Statement of Net Assets
Proprietary Funds

June 30, 2006
(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	$ 214,352	$ 93,818	$ 33,239	$ 23,651
Deposits with U.S. Treasury	-	-	-	-
Investments	6,854	48,228	-	43,398
Receivables:				
Accounts, Net of Allowances	101,939	104,749	5,935	11,932
Loans, Net of Allowances	2,535	2,143	-	-
Interest	-	-	-	10,640
From Other Governments	-	2,091	1,841	-
Due from Other Funds	52,763	47,192	-	-
Inventories	8,938	-	-	-
Restricted Assets	71,314	-	11,232	-
Other Current Assets	9,437	1,707	726	2,555
Total Current Assets	468,132	299,928	52,973	92,176
Noncurrent Assets:				
Cash and Cash Equivalents	1,454	120,951	-	-
Investments	13,495	-	-	256,712
Receivables:				
Accounts, Net of Allowances	-	-	-	-
Loans, Net of Allowances	9,577	7,857	-	-
Restricted Assets	18,129	-	113,818	-
Capital Assets, Net of Accumulated Depreciation	1,749,594	837,535	303,499	1,924
Other Noncurrent Assets	9,891	4,294	6,195	5,091
Total Noncurrent Assets	1,802,140	970,637	423,512	263,727
Total Assets	2,270,272	1,270,565	476,485	355,903
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	116,786	53,927	10,068	18,302
Due to Other Funds	15,064	2,300	1,274	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	44,780	23,645	8,430	45,765
Deferred Revenue	32,788	117,906	1,394	751
Other Current Liabilities	42,873	5,481	-	31,196
Total Current Liabilities	252,291	203,259	21,166	96,014
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	377,803	376,295	217,720	256,712
Total Noncurrent Liabilities	377,803	376,295	217,720	256,712
Total Liabilities	630,094	579,554	238,886	352,726
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,406,160	616,346	101,858	1,924
Restricted For:				
Debt Service	11,299	-	26,305	-
Unemployment Compensation	-	-	-	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	45,788	-	65,164	-
Nonexpendable Purposes	13,507	483	-	-
Bond Indentures	-	-	3,248	-
Loans	6,318	-	-	-
Other Purposes	15,349	28,467	-	3,177
Unrestricted	141,757	45,715	41,024	(1,924)
Total Net Assets	$ 1,640,178	$ 691,011	$ 237,599	$ 3,177

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
$ -	$ 5,573	$ 121,887	$ 492,520	$ 16,904
632,318	-	-	632,318	-
-	-	-	98,480	-
132,039	-	21,309	377,903	3,808
-	207,335	5,273	217,286	-
-	5,317	1,213	17,170	-
3,474	455	1,137	8,998	-
517	-	133,983	234,455	11,091
-	-	1,149	10,087	3,495
-	-	-	82,546	-
-	-	600	15,025	36
768,348	218,680	286,551	2,186,788	35,334
-	71,497	23,533	217,435	-
-	29,360	13,000	312,567	-
-	-	2,013	2,013	-
-	427,003	42,995	487,432	-
-	297,509	61,142	490,598	-
-	-	332,641	3,225,193	50,325
-	31,167	2,714	59,352	1,257
-	856,536	478,038	4,794,590	51,582
768,348	1,075,216	764,589	6,981,378	86,916
-	5,398	52,772	257,253	8,901
5,184	-	-	23,822	73,152
167	-	-	167	-
-	31,546	32,431	186,597	256
-	-	2,878	155,717	129
-	1,306	2,310	83,166	-
5,351	38,250	90,391	706,722	82,438
-	473,909	281,079	1,983,518	13,309
-	473,909	281,079	1,983,518	13,309
5,351	512,159	371,470	2,690,240	95,747
-	-	281,094	2,407,382	49,968
-	-	34,943	72,547	-
762,997	-	-	762,997	-
-	514,176	52,262	566,438	-
-	-	-	110,952	-
-	-	20	14,010	-
-	-	-	3,248	-
-	-	-	6,318	-
-	-	121,082	168,075	-
-	48,881	(96,282)	179,171	(58,799)
$ 762,997	$ 563,057	$ 393,119	$ 4,291,138	$ (8,831)

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

For The Fiscal Year Ended June 30, 2006

(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	$ 689,693	$ 246,976	$ 39,535	$ 970,327
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	146,526	29,530	-	-
State Grants, Contracts and Other Aid	17,306	10,337		
Private Gifts and Grants	34,642	3,115	-	-
Interest on Loans	-	-	-	-
Other	53,930	14,374	-	236
Total Operating Revenues	942,097	304,332	39,535	970,563
Operating Expenses				
Salaries, Wages and Administrative	1,230,130	474,854	33,871	92,904
Lottery Prize Awards	-	-	-	587,388
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	110,278	39,103	17,603	623
Other	110,615	22,069	-	6,288
Total Operating Expenses	1,451,023	536,026	51,474	687,203
Operating Income (Loss)	(508,926)	(231,694)	(11,939)	283,360
Nonoperating Revenue (Expenses)				
Interest and Investment Income	15,031	12,504	6,547	23,834
Interest and Fiscal Charges	(13,032)	-	(11,151)	(22,388)
Other	22,203	3,063	14,658	5
Total Nonoperating Revenues (Expenses)	24,202	15,567	10,054	1,451
Income (Loss) Before Capital Contributions, Grants, and Transfers	(484,724)	(216,127)	(1,885)	284,811
Capital Contributions	9,966	68,077	2,039	-
Federal Capitalization Grants	-	-	-	-
Transfers In	496,727	229,901	9,064	-
Transfers Out	-	-	-	(284,865)
Change in Net Assets	21,969	81,851	9,218	(54)
Total Net Assets - Beginning	1,618,209	609,160	228,381	3,231
Total Net Assets - Ending	$ 1,640,178	$ 691,011	$ 237,599	$ 3,177

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ -	$ 137,761	$ 2,084,292	$ 86,190
569,387	-	59,073	628,460	-
6,189	-	31,391	213,636	-
5,564		9,435	42,642	-
-	-	990	38,747	-
-	12,443	1,311	13,754	-
4,235	-	11,397	84,172	762
585,375	12,443	251,358	3,105,703	86,952
-	856	335,144	2,167,759	64,170
-	-	-	587,388	-
572,602	-	-	572,602	-
-	-	38,752	38,752	-
-	-	15,546	183,153	18,911
-	-	15,437	154,409	-
572,602	856	404,879	3,704,063	83,081
12,773	11,587	(153,521)	(598,360)	3,871
26,964	20,575	7,932	113,387	176
-	(25,220)	(14,195)	(85,986)	(85)
-	1,713	3,817	45,459	-
26,964	(2,932)	(2,446)	72,860	91
39,737	8,655	(155,967)	(525,500)	3,962
-	-	-	80,082	-
-	19,764	6,536	26,300	-
-	5,497	270,215	1,011,404	-
(3,390)	(1,902)	(9,590)	(299,747)	-
36,347	32,014	111,194	292,539	3,962
726,650	531,043	281,925	3,998,599	(12,793)
$ 762,997	$ 563,057	$ 393,119	$ 4,291,138	$ (8,831)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2006
(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	$ 686,015	$ 266,586	$ 39,368	$ 968,922
Payments to Suppliers	(417,981)	(4,751)	(21,417)	(35,607)
Payments to Employees	(869,093)	(328,794)	(13,218)	(12,641)
Other Receipts (Payments)	261,263	(111,486)	-	(639,738)
Net Cash Provided by (Used in) Operating Activities	(339,796)	(178,445)	4,733	280,936
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	16,948
Retirement of Bonds and Annuities Payable	-	-	-	(48,437)
Interest on Bonds and Annuities Payable	-	-	-	(24,221)
Transfers In	356,395	209,514	9,064	-
Transfers Out	-	-	-	(284,865)
Other Receipts (Payments)	16,397	5,048	(1,283)	-
Net Cash Flows from Noncapital Financing Activities	372,792	214,562	7,781	(340,575)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(106,569)	(79,065)	(11,999)	(305)
Proceeds from Capital Debt	81,666	62,944	-	-
Principal Paid on Capital Debt	(61,964)	(16,294)	(10,140)	-
Interest Paid on Capital Debt	(47,061)	-	(11,359)	-
Transfer In	96,999	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	20,415	1,153	-
Other Receipts (Payments)	8,963	-	14,712	-
Net Cash Flows from Capital and Related Financing Activities	(27,966)	(12,000)	(17,633)	(305)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	631	-	-	48,109
Purchase of Investment Securities	-	(55)	-	(16,948)
Interest on Investments	13,503	11,879	6,323	25,667
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	(942)	-	-	-
Net Cash Flows from Investing Activities	13,192	11,824	6,323	56,828
Net Increase (Decrease) in Cash and Cash Equivalents	18,222	35,941	1,204	(3,116)
Cash and Cash Equivalents -Beginning of Year	286,656	178,828	109,169	26,767
Cash and Cash Equivalents -End of Year	$ 304,878	$ 214,769	$ 110,373	$ 23,651
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (508,926)	$ (231,694)	$ (11,939)	$ 283,360
Adjustments not Affecting Cash:				
Depreciation and Amortization	110,278	39,103	17,603	623
Other	55,984	(34)	-	57
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(17,782)	(2,264)	(166)	36,933
(Increase) Decrease in Due from Other Funds	5,183	-	-	-
(Increase) Decrease in Inventories and Other Assets	(4,217)	1,282	-	(222)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	19,558	15,162	(765)	(39,815)
Increase (Decrease) in Due to Other Funds	126	-	-	-
Total Adjustments	169,130	53,249	16,672	(2,424)
Net Cash Provided by (Used In) Operating Activities	$ (339,796)	$ (178,445)	$ 4,733	$ 280,936
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 214,352	$ 93,818	$ 33,239	
Cash and Cash Equivalents - Noncurrent	1,454	120,951	-	
Cash and Cash Equivalents - Restricted	89,072	-	77,134	
	$ 304,878	$ 214,769	$ 110,373	

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other	Totals	Internal Service Funds
$ 593,741	$ 54,901	$ 204,367	$ 2,813,900	$ 85,570
-	-	(56,271)	(536,027)	(19,989)
-	(795)	(271,047)	(1,495,588)	(36,179)
(617,316)	(58,959)	(41,853)	(1,208,089)	(2,326)
(23,575)	(4,853)	(164,804)	(425,804)	27,076
-	-	-	16,948	-
-	(34,386)	(27,984)	(110,807)	-
-	(21,988)	(10,745)	(56,954)	-
-	3,595	196,199	774,767	-
(3,390)	-	(9,818)	(298,073)	-
-	(821)	5,410	24,751	-
(3,390)	(53,600)	153,062	350,632	-
-	-	(7,991)	(205,929)	(29,775)
-	-	-	144,610	-
-	-	-	(88,398)	-
-	-	(3,099)	(61,519)	-
-	-	71,339	168,338	-
-	19,730	6,637	26,367	-
-	-	-	21,568	-
-	-	(20,438)	3,237	(85)
-	19,730	46,448	8,274	(29,860)
-	-	-	48,740	-
-	-	-	(17,003)	-
26,965	20,219	7,779	112,335	176
-	-	(752)	(752)	-
-	19,717	(2,983)	15,792	-
26,965	39,936	4,044	159,112	176
-	1,213	38,750	92,214	(2,608)
-	4,360	83,137	688,917	19,512
$ -	$ 5,573	$ 121,887	$ 781,131	$ 16,904
$ 12,773	$ 11,587	$ (153,521)	$ (598,360)	$ 3,871
-	-	15,546	183,153	18,911
-	-	(3,879)	52,128	-
23,997	(16,440)	(27,415)	(3,137)	(3,600)
357	-	-	5,540	2,980
(59,529)	-	819	(61,867)	1,076
-	-	3,646	(2,214)	3,838
(1,173)	-	-	(1,047)	-
(36,348)	(16,440)	(11,283)	172,556	23,205
$ (23,575)	$ (4,853)	$ (164,804)	$ (425,804)	$ 27,076

THIS PAGE LEFT INTENTIONALLY BLANK

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, 2006,* as issued by the State Comptroller:
Pension (and Other Employee Benefit) Trust Funds, page 120
Agency Funds, page 126

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

(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	$ 24,243	$ -	$ -	$ 124,863	$ 149,106
Receivables:					
Accounts, Net of Allowances	13,586	-	-	4,183	17,769
From Other Governments	2,274	-	-	-	2,274
From Other Funds	1,577	-	-	3,525	5,102
Interest	783	1,673	-	317	2,773
Investments	22,726,546	914,516	-	-	23,641,062
Inventories	-	-	-	607	607
Securities Lending Collateral	2,801,502	-	-	-	2,801,502
Other Assets	5,474	6	58,801	355,390	419,671
Total Assets	25,575,985	916,195	58,801	$ 488,885	27,039,866
Liabilities					
Accounts Payable and Accrued Liabilities	36	3,745	-	$ 1,526	5,307
Securities Lending Obligation	2,801,502	-	-	-	2,801,502
Due to Other Funds	12,820	-	-	-	12,820
Other Liabilities	-	2	-	3,744	3,746
Funds Held for Others	-	-	-	483,615	483,615
Total Liabilities	2,814,358	3,747	-	$ 488,885	3,306,990
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	22,714,728	-	-		22,714,728
Other Employee Benefits	46,899	-	-		46,899
Individuals, Organizations, and Other Governments	-	912,448	58,801		971,249
Total Net Assets	$ 22,761,627	$ 912,448	$ 58,801		$ 23,732,876

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, 2006
(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	$ 376,483	$ -	$ -	$ 376,483
State	1,048,705	-	-	1,048,705
Municipalities	32,844	-	-	32,844
Total Contributions	1,458,032	-	-	1,458,032
Investment Income	2,406,498	56,828	-	2,463,326
Less: Investment Expense	(180,828)	(347)	-	(181,175)
Net Investment Income	2,225,670	56,481	-	2,282,151
Escheat Securities Received	-	-	33,563	33,563
Pool's Share Transactions	-	180,893	-	180,893
Transfers In	2,228	-	-	2,228
Other	5,180	-	3,604	8,784
Total Additions	3,691,110	237,374	37,167	3,965,651
Deductions				
Administrative Expense	2,266	-	-	2,266
Benefit Payments and Refunds	2,134,966	-	-	2,134,966
Escheat Securities Returned or Sold	-	-	22,050	22,050
Distributions to Pool Participants	-	56,480	-	56,480
Other	2,240	-	-	2,240
Total Deductions	2,139,472	56,480	22,050	2,218,002
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,551,638	-	-	1,551,638
Individuals, Organizations, and Other Governments	-	180,894	15,117	196,011
Net Assets - Beginning	21,209,989	731,554	43,684	21,985,227
Net Assets - Ending	$ 22,761,627	$ 912,448	$ 58,801	$ 23,732,876

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

THIS PAGE LEFT INTENTIONALLY BLANK

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 134 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2006,* as issued by the State Comptroller.

THIS PAGE LEFT INTENTIONALLY BLANK

Statement of Net Assets
Component Units

June 30, 2006

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-05)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 20,526	$ 171,321	$ 191,847
Investments	-	-	345,240	345,240
Receivables:				
Accounts, Net of Allowances	-	252	30,585	30,837
Loans, Net of Allowances	-	-	24,326	24,326
Other	-	-	1,023	1,023
Due from Primary Government	-	-	12,778	12,778
Restricted Assets	736,184	471,613	52,921	1,260,718
Inventories	-	-	3,509	3,509
Other Current Assets	-	120	2,951	3,071
Total Current Assets	736,184	492,511	644,654	1,873,349
Noncurrent Assets:				
Investments	-	-	53,800	53,800
Accounts, Net of Allowances	-	-	14,406	14,406
Loans, Net of Allowances	-	-	109,392	109,392
Restricted Assets	3,494,741	2,247	106,388	3,603,376
Capital Assets, Net of Accumulated Depreciation	3,282	275	459,083	462,640
Other Noncurrent Assets	-	-	14,184	14,184
Total Noncurrent Assets	3,498,023	2,522	757,253	4,257,798
Total Assets	4,234,207	495,033	1,401,907	6,131,147
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	24,790	2,230	39,260	66,280
Current Portion of Long-Term Obligations	137,012	-	16,251	153,263
Amount Held for Institutions	-	471,585	-	471,585
Due to Primary Government	-	-	2,619	2,619
Other Liabilities	27,648	-	579	28,227
Total Current Liabilities	189,450	473,815	58,709	721,974
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,316,660	2,247	360,343	3,679,250
Total Noncurrent Liabilities	3,316,660	2,247	360,343	3,679,250
Total Liabilities	3,506,110	476,062	419,052	4,401,224
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,282	275	280,738	284,295
Restricted:				
Debt Service	-	-	31,866	31,866
Bond Indentures	724,815	-	-	724,815
Expendable Endowments	-	-	109,346	109,346
Nonexpendable Endowments	-	-	220,481	220,481
Other Purposes	-	-	50,400	50,400
Unrestricted	-	18,696	290,024	308,720
Total Net Assets	$ 728,097	$ 18,971	$ 982,855	$ 1,729,923

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/05)	$ 183,431	$ 160,753	$ -	$ -
Connecticut Health and Educational Facilities Authority	6,055	4,655	-	-
Other Component Units	282,552	270,169	6,212	31,054
Total Component Units	$ 472,038	$ 435,577	$ 6,212	$ 31,054

General Revenues:
Investment Income (Loss)
Contributions to Endowments
Special Item:
Statutory Payment to State
Total General Revenues,
Contributions, and Special Item
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

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

Connecticut Housing Finance Authority (12-31-05)	Connecticut Health & Educational Facilities Authority	Other Component Units	Totals
	Net (Expense) Revenue and Changes in Net Assets		
$ (22,678)	$ -	$ -	$ (22,678)
-	(1,400)	-	(1,400)
-	-	24,883	24,883
(22,678)	(1,400)	24,883	805
39,802	844	17,536	58,182
-	-	33,520	33,520
(5,000)	-	-	(5,000)
34,802	844	51,056	86,702
12,124	(556)	75,939	87,507
715,973	19,527	906,916	1,642,416
$ 728,097	$ 18,971	$ 982,855	$ 1,729,923

THIS PAGE LEFT INTENTIONALLY BLANK

Notes to the Financial Statements
June 30, 2006

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, 2005.

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 and Health Center, 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, and 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 2006 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 judgments, 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)	$ 487,489	$ 312
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	36,236	4,722
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(37,676)	1,388
Salaries and Fringe Benefits Payable	(22,300)	(1,514)
Increase in Continuing Appropriations	8,432	1,649
Transfer of 2005 Surplus	(15,851)	-
Fund Reclassification-Bus Operations	-	646
Net change in fund balances (GAAP basis)	$ 456,330	$ 7,203

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, 2006, none of which constitutes a violation of statutory provisions (amounts in thousands).

Capital Projects	
State Facilities	$ 25,387
Enterprise	
Bradley Parking Garage	$ 5,686
Rate Reduction Bond Operations	$ 143,476
Internal Service	
Administrative Services	$ 30,495

Note 4 Cash Deposits and Investments

According to GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*", 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, 2006, STIF had the following investments and maturities (amounts in thousands):

Short-Term Investment Fund

		Investment Maturities (in years)	
Investment Type	**Amortized Cost**	**Less Than 1**	**1-5**
Commercial Paper	$ 249,880	$ 249,880	$ -
Asset Backed Commercial Paper	2,971,822	2,971,822	-
Federal Agency Securities	35,000	25,000	10,000
Floating Rate Bonds	445,773	445,773	-
Repurchase Agreements	100,000	100,000	-
Total Investments	$ 3,802,475	$ 3,792,475	$ 10,000

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, 2006, the weighted average maturity of the STIF was 39 days. Additionally, STIF is allowed by policy to invest in floating-rate securities, and investments in such securities with maturities greater than two years is limited to no more than 20 percent of the overall portfolio. 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, 2006, the amount of STIF's investments in variable-rate securities was $470.8 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, 2006, 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	$ 249,880	$ -	$ -	$ 249,880
Asset Backed Commercial Paper	2,971,822	-	-	2,971,822
Federal Agency Securities	35,000	35,000	-	-
Floating Rate Bonds	445,773	257,948	187,825	-
Repurchase Agreements	100,000	100,000	-	-
Total	$ 3,802,475	$ 392,948	$ 187,825	$3,221,702

Concentration of Credit Risk

STIF reduces its exposure to this risk by requiring that not more than 10 percent 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, 2006, STIF's investments in any one single issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	**Amortized Cost**
Albis Capital Corporation	$ 249,035
Altius Funding	$ 235,000
Hardwood Street	$ 199,165
Ocala Funding	$ 356,498
Tasman Funding	$ 344,242
Von Karman Funding	$ 249,817

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 whose long-term debt is rated at least A and its issuer rating is at least "C". As of June 30, 2006, $1,639,400 of the bank balance of STIF's deposits of $1,640,000 was exposed to custodial credit risk as follows

Uninsured and uncollateralized	$ 1,479,400
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	160,000
Total	$ 1,639,400

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, 2006, 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	$ 89,619	$ 607	$22,726,546
Other Investments	44,858	97,873	914,516
Total Investments-Current	$ 134,477	$ 98,480	$23,641,062

As of June 30, 2006, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Cash Equivalents	$ 820,780	$ 784,780	$ 36,000	$ -	$ -
Asset Backed Securities	434,063	684	406,306	26,192	881
Government Securities	1,664,157	186,767	545,636	401,957	529,797
Government Agency Securities	1,536,773	18	33,493	70,773	1,432,489
Mortgage Backed Securities	970,810	-	21,997	60,746	888,067
Corporate Debt	1,940,538	166,369	633,638	698,039	442,492
Convertible Debt	45,229	5,096	27,004	10,129	3,000
Mutual Fund	222,823	-	-	-	222,823
Total Debt Instruments	7,635,173	$ 1,143,714	$ 1,704,074	$ 1,267,836	$ 3,519,549
Common Stock	13,888,792				
Preferred Stock	100,927				
Real Estate Investment Trust	113,099				
Mutual Fund	137,433				
Limited Liability Corporation	10,770				
Trusts	53,199				
Limited Partnerships	1,543,268				
Annuities	238				
Total Investments	$ 23,482,899				

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

The CIFS minimizes exposure to this risk in accordance with a comprehensive investment policy statement, as developed by the Office of the Treasurer and the State's Investment Advisory Council, which provides policy guidelines for the CIFS and includes an asset allocation plan. The asset allocation plan's main objective is to maximize investment returns over the long term at an acceptable level of risk. As of June 30, 2006, 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	$ 4,302,772	$ 4,197	$ 427,140	$ 1,441,029	$ 1,518,933	$ 744,052	$ 167,421	$ -	$ -
Aa	389,776		-	23,299	-	1,261	364,625	591	-
A	278,870	4,808	236	11,165	-	1,746	260,184	731	-
Baa	466,882	-	5,224	68,603	-	10,735	382,242	78	-
Ba	296,542	-	-	42,606	-	3,966	244,832	5,138	-
B	406,203	-	-	29,797	-	7,254	367,490	1,662	-
Caa	66,296	-	-	-	-	7,432	54,605	4,259	-
Ca	6,129	-	-	-	-	110	383	5,636	-
C	922	-	-	-	-	922	-	-	-
Prime-1	125,948	125,948	-	-	-	-	-	-	-
Not Rated	1,294,833	685,827	1,463	47,658	17,840	193,332	98,756	27,134	222,823
Total	$ 7,635,173	$ 820,780	$ 434,063	$ 1,664,157	$ 1,536,773	$ 970,810	$ 1,940,538	$ 45,229	$ 222,823

Foreign Currency Risk

The CIFS manage exposure to this risk by utilizing a strategic hedge ratio of 50 percent 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, 2006, 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	$ 2,765	$ 20	$ 2,440	$ -	$ -	$ 305	$ -	$ -
Australian Dollar	151,647	410	-	-	-	151,237	-	-
Brazilian Real	66,525	204	-	4,256	-	16,923	45,142	-
Canadian Dollar	22,986	23	-	1,049	-	21,914	-	-
Chilean Peso	4,071	28	-	-	-	3,214	829	-
Czech Koruna	1,866	-	-	-	-	1,866	-	-
Danish Krone	35,363	147	-	-	-	35,216	-	-
Egyptian Pound	-	-	-	-	-	-	-	-
Euro Currency	1,396,310	9,274	14,537	-	936	1,352,516	19,047	-
Honk Kong Dollar	173,347	409	-	-	-	172,493	-	445
Hungarian Fornit	3,189	-	-	-	-	3,189	-	-
Indonesian Rupiah	10,709	3	-	693	-	10,013	-	-
Israeli Shekel	6,926	-	-	-	-	6,926	-	-
Japanese Yen	1,106,010	22,837	-	-	1,420	1,081,276	-	477
Malaysian Ringgit	21,577	32	-	-	-	21,545	-	-
Mexican Peso	34,655	951	13,122	-	-	20,582	-	-
New Taiwan Dollar	79,648	60	-	-	-	79,588	-	-
New Turkish Dollar	9,701	-	-	-	-	9,701	-	-
New Zealand Dollar	20,322	517	708	5,775	-	13,322	-	-
Norwegian Krone	42,497	2,670	-	-	-	39,827	-	-
Pakistan Rupee	408	-	-	-	-	408	-	-
Peruvian Nouveau Sol	120	-	-	-	-	120	-	-
Philippine Peso	4,087	1	-	-	-	4,086	-	-
Polish Zloty	6,489	58	-	-	-	6,431	-	-
Pound Sterling	940,214	2,028	-	10,618	-	927,568	-	-
Singapore Dollar	61,985	373	7,697	7,299	-	45,871	-	745
South African Rand	89,084	-	-	-	-	88,843	241	-
South Korean Won	338,345	702	-	1,882	-	304,942	30,819	-
Swedish Krona	71,511	479	-	-	-	71,032	-	-
Swiss Franc	305,789	478	-	-	-	303,699	1,612	-
Thailand Baht	29,025	(1)	-	11,370	-	17,656	-	-
Total	$ 5,037,171	$ 41,703	$ 38,504	$ 42,942	$ 2,356	$ 4,812,309	$ 97,690	$ 1,667

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, 2006, the CIFS had deposits with a bank balance of $53.7 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, 2006, 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	$ 45,497	$ 45,497	$ -	$ -	$ -
State/Municipal Bonds	68,559	1,004	6,813	9,554	51,188
U.S. Government Securities	42,177	25,808	232	-	16,137
U.S. Agency Securities	399,436	31,579	-	367,857	-
Guaranteed Investment Contracts	468,955	614	95,087	192,586	180,668
Tax Exempt Proceeds Fund	57,611	57,611	-	-	-
Money Market Funds	7,743	7,743	-	-	-
Mortgage-Backed Securities	6,420	-	-	3,386	3,034
Corporate Bonds	6	2	4	-	-
Total Debt Investments	1,096,404	$ 169,858	$ 102,136	$ 573,383	$ 251,027
Annuity Contracts	300,110				
Endowment Pool	12,047				
Total Investments	$ 1,408,561				

Credit Risk

As of June 30, 2006, other investments were rated by Standard and Poor's as follows (amounts in thousands):

Other Investments

Investment Type	Fair Value	Quality Ratings AAA	AA	A	Unrated
Repurchase Agreements	$ 45,497	$ 39,848	$ -	$ 5,649	$ -
State/Municipal Bonds	68,559	1,004	67,555	-	-
U.S. Agency Securities	399,436	367,857	-	31,579	-
Guaranteed Investment Contracts	468,955	391,980	76,975	-	-
Tax Exempt Proceeds Fund	57,611				57,611
Money Market Funds	7,743	7,011	-	-	732
Mortgage-Backed Securities	6,420	6,420	-	-	-
Corporate Bonds	6	-	-	-	6
Total	$ 1,054,227	$ 814,120	$ 144,530	$ 37,228	$ 58,349

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, 2006, $73,327 of the bank balance of the Primary Government of $74,786 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 66,344
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	6,983
Total	$ 73,327

Component Units

As of June 30, 2006, 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	$ 3,693	$ -	$ -	$ -	$ 3,693
Corporate Finance Bonds	7,980	-	2,250	5,730	-
Corporate Notes	8,189	-	6,745	-	1,444
Federated Funds	60,504	60,504	-	-	-
Fidelity Tax Exempt Fund	8,255	8,255	-	-	-
GNMA Program Assets	712,634	-	-	-	712,634
Guaranteed Investment Contracts	307,543	-	306,406	1,137	-
Investment Agreements	1,575	-	-	1,575	-
Mortgage Backed Securities	5,255	-	84	1,793	3,378
Repurchase Agreements	14,096	-	-	-	14,096
U.S. Government Securities	793	-	-	-	793
Structured Securities	461	-	-	-	461
Money Market Funds	389,704	389,704	-	-	-
Municipal Bonds	1,856	-	-	-	1,856
Total	$ 1,522,538	$ 458,463	$ 315,485	$ 10,235	$ 738,355

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) own 71.9 percent and 28.1 percent 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, 2006, 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	AA	A	BBB	C	Unrated
Collateralized Mortgage Obligations	$ 3,693	$ 539	$ 3,154	$ -	$ -	$ -	$ -
Corporate Finance Bonds	7,980	-	-	2,250	5,730	-	-
Corporate Notes	8,189	-	-	6,625	1,564	-	-
Federated Funds	60,504	-	-	-	-	-	60,504
Fidelity Tax Exempt Fund	8,255	-	-	-	-	-	8,255
GNMA Assets	712,634	-	-	-	-	-	712,634
Guaranteed Investment Contracts	307,543	270,147	37,396	-	-	-	-
Investment Agreements	1,575	-	-	-	-	-	1,575
Mortgage Backed Securities	5,255	473	-	-	-	-	4,782
Repurchase Agreements	14,096	-	-	-	-	-	14,096
Structured Securities	461	-	-	-	-	461	-
Money Market Funds	389,704	389,704	-	-	-	-	-
Municipal Bonds	1,856	1,856	-	-	-	-	-
Total	$ 1,521,745	$ 662,719	$ 40,550	$ 8,875	$ 7,294	$ 461	$ 801,846

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 16.4 percent 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 percent of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50 percent 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 AIG exceeded 5 percent 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, 2006, the funds had no credit exposure to the borrowers, because the value of collateral held and the market value securities on loan were $2,879.7 million and $2,825.3 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 47 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, 2006, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,096,849	$ -	$ -
Accounts	1,121,711	464,881	31,603
Loans-Current Portion	-	217,286	26,396
Other Governments	765,985	8,998	-
Interest	7,626	17,170	1,023
Other (1)	17,896	-	-
Total Receivables	3,010,067	708,335	59,022
Allowance for Uncollectibles	(976,712)	(86,978)	(2,836)
Receivables, Net	$ 2,033,355	$ 621,357	$ 56,186

(1) Includes a reconciling amount of $11,576 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2006 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 487,321	$ -	$ 487,321
Income Taxes	261,510	-	261,510
Corporations	74,121	-	74,121
Gasoline and Special Fuel	-	43,139	43,139
Various Other	230,759	-	230,759
Total Taxes Receivable	1,053,711	43,139	1,096,850
Allowance for Uncollectibles	(93,616)	(418)	(94,034)
Taxes Receivable, Net	$ 960,095	$ 42,721	$ 1,002,816

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2006, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	$ -	$ 2,013	$ 14,406
Loans	187,532	490,285	119,361
Total Receivables	187,532	492,298	133,767
Allowance for Uncollectibles	(9,544)	(2,853)	(9,969)
Receivables, Net	$ 177,988	$ 489,445	$ 123,798

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 $427 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 3 percent to 11.15 percent. As of June 30, 2006, the noncurrent portion of loans receivable was $47 million. In addition, loans in the amount of $6.9 million (including loans of $6.1 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 $(296) 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, 2006, 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	$ 172,277	$ 502,151	$ -	$ -	$ 674,428
Environmental	-	879	-	-	879
Other	16	-	-	-	16
Total-Governmental Activities	$ 172,293	$ 503,030	$ -	$ -	$ 675,323
Business-Type Activities:					
Bradley International Airport	$ 77,134	$ 45,094	$ -	$ 2,822	$ 125,050
UConn/Health Center	89,072	371	-	-	89,443
Clean Water	-	297,509	-	-	297,509
Other Proprietary	11,493	49,649	-	-	61,142
Total-Business-Type Activities	$ 177,699	$ 392,623	$ -	$ 2,822	$ 573,144
Component Units:					
CHFA	$ 2,683	$ 1,643,228	$ 2,469,955	$ 115,059	$ 4,230,925
CHEFA	129	473,672	-	59	473,860
Other Component Units	119,251	39,441	-	617	159,309
Total-Component Units	$ 122,063	$ 2,156,341	$ 2,469,955	$ 115,735	$ 4,864,094

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2006, 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	$ 116,063	$ 195,020	$ -	$ -	$ 311,083
Transportation	16,856	10,743	-	-	27,599
Other Governmental	173,226	18,855	-	1,763	193,844
Internal Service	233	2,752	-	5,916	8,901
Reconciling amount from fund financial statements to government-wide financial statements	-	-	99,569	3,858	103,427
Total-Governmental Activities	$ 306,378	$ 227,370	$ 99,569	$ 11,537	$ 644,854
Business-Type Activities:					
UConn/Health Center	$ 42,533	$ 63,263	$ -	$ 10,990	$ 116,786
State Universities	12,883	34,589	2,366	4,089	53,927
Other Proprietary	18,126	24,764	20,789	22,861	86,540
Total-Business-Type Activities	$ 73,542	$ 122,616	$ 23,155	$ 37,940	$ 257,253

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	$ 1,263,767	$ 45,453	$ 14,604	$ 1,294,616
Construction in Progress	1,381,117	639,933	362,355	1,658,695
Total Capital Assets not being Depreciated	2,644,884	685,386	376,959	2,953,311
Other Capital Assets:				
Buildings	2,793,557	162,240	187,333	2,768,464
Improvements Other than Buildings	489,328	17,370	56,899	449,799
Equipment	1,322,242	151,648	88,339	1,385,551
Infrastructure	9,929,096	148,924	-	10,078,020
Total Other Capital Assets at Historical Cost	14,534,223	480,182	332,571	14,681,834
Less: Accumulated Depreciation For:				
Buildings	1,747,643	69,211	187,333	1,629,521
Improvements Other than Buildings	292,059	22,502	56,899	257,662
Equipment	933,301	150,180	88,339	995,142
Infrastructure	4,565,785	432,442	-	4,998,227
Total Accumulated Depreciation	7,538,788	674,335 *	332,571	7,880,552
Other Capital Assets, Net	6,995,435	(194,153)	-	6,801,282
Governmental Activities, Capital Assets, Net	$ 9,640,319	$ 491,233	$ 376,959	$ 9,754,593

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 4,839
General Government	36,424
Regulation and Protection	22,537
Conservation and Development	10,186
Health and Hospitals	12,118
Transportation	488,272
Human Services	2,289
Education, Libraries and Museums	34,156
Corrections	30,569
Judicial	14,034
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	18,911
Total Depreciation Expense	$ 674,335

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 63,852	$ -	$ 4,538	$ 59,314
Construction in Progress	303,000	107,949	235,500	175,449
Total Capital Assets not being Depreciated	366,852	107,949	240,038	234,763
Capital Assets being Depreciated:				
Buildings	2,958,232	333,657	2,947	3,288,942
Improvements Other Than Buildings	423,438	59,207	32	482,613
Equipment	791,484	76,234	26,553	841,165
Infrastructure	281	-	281	-
Total Other Capital Assets at Historical Cost	4,173,435	469,098	29,813	4,612,720
Less: Accumulated Depreciation For:				
Buildings	860,709	102,381	3,502	959,588
Improvements Other Than Buildings	165,330	21,032	-	186,362
Equipment	439,619	59,086	22,365	476,340
Total Accumulated Depreciation	1,465,658	182,499	25,867	1,622,290
Other Capital Assets, Net	2,707,777	286,599	3,946	2,990,430
Business-Type Activities, Capital Assets, Net	$ 3,074,629	$ 394,548	$ 243,984	$ 3,225,193

Component Units

Capital assets of the component units consisted of the following as of June 30, 2006 (amounts in thousands):

Land	$ 28,625
Buildings	466,058
Improvements other than Buildings	2,703
Machinery and Equipment	251,343
Construction in Progress	121
Total Capital Assets	748,850
Accumulated Depreciation	(286,210)
Capital Assets, net	$ 462,640

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 6/30/2006	TRS 6/30/2006	JRS 6/30/2006
Retirees and beneficiaries receiving benefits	36,964	26,695	220
Terminated plan members entitled to but not yet receiving benefits	1,732	1,341	2
Active plan members	50,605	51,015	217
Total	89,301	79,051	439

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. 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	$ 623,063	$ 396,249	$ 11,730
Interest on net pension obligation	187,751	121,331	4
Adjustment to annual required contribution	(125,341)	(82,910)	(3)
Annual pension cost	685,473	434,670	11,731
Contributions made	623,063	396,249	11,730
Increase (decrease) in net pension obligation	62,410	38,421	1
Net pension obligation beginning of year	2,208,839	1,427,420	45
Net pension obligation end of year	$ 2,271,249	$ 1,465,841	$ 46

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2004	$ 534,191	88.0%	$ 2,145,521
	2005	$ 582,082	89.1%	$ 2,208,839
	2006	$ 685,473	90.9%	$ 2,271,249
TRS	2004	$ 305,243	60.7%	$ 1,294,790
	2005	$ 317,978	58.3%	$ 1,427,420
	2006	$ 434,670	91.2%	$ 1,465,841
JRS	2004	$ 11,600	100%	$ 43
	2005	$ 12,238	100%	$ 45
	2006	$ 11,731	100%	$ 46

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 $28.7 million and $48.9 million, respectively.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

Plan Descriptions and Contribution Information

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

	CMERS 6/30/2006	CPJERS 12/31/2005
Retirees and beneficiaries receiving benefits	5,112	263
Terminated plan members entitled to but not receiving benefits	430	28
Active plan members	8,505	386
Total	14,047	677
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	$ -	$ 3,594	$ 3	$ -	$ 8	$ 92	$ 3,697
Receivables:							
Accounts, Net of Allowances	2,077	7,317	8	4,180	4	-	13,586
From Other Governments		2,274	-	-	-	-	2,274
From Other Funds	-	333	-	-	-	-	333
Interest	204	523	5	47	3	-	782
Investments	8,774,086	12,189,855	163,758	1,501,120	77,321	771	22,706,911
Securities Lending Collateral	1,096,939	1,482,754	21,082	188,013	10,015	106	2,798,909
Total Assets	9,873,306	13,686,650	184,856	1,693,360	87,351	969	25,526,492
Liabilities							
Accounts Payable and Accrued Liabilities	36	-	-	-	-	-	36
Securities Lending Obligation	1,096,939	1,482,754	21,082	188,013	10,015	106	2,798,909
Due to Other Funds	11,180	1,244	-	395	-	-	12,819
Total Liabilities	1,108,155	1,483,998	21,082	188,408	10,015	106	2,811,764
Net Assets							
Held in Trust For Employee Pension Benefits	8,765,151	12,202,652	163,774	1,504,952	77,336	863	22,714,728
Total Net Assets	$ 8,765,151	$ 12,202,652	$ 163,774	$ 1,504,952	$ 77,336	$ 863	$ 22,714,728

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	$ 55,235	$ 252,998	$ 1,491	$ 12,928	$ 266	$ 28	$ 322,946
State	623,063	396,249	11,730	-	-	-	1,031,042
Municipalities	-	4,104	-	28,717	-	-	32,821
Total Contributions	678,298	653,351	13,221	41,645	266	28	1,386,809
Investment Income	926,756	1,306,723	14,972	148,259	8,240	28	2,404,978
Less: Investment Expenses	(69,665)	(98,194)	(1,125)	(11,145)	(620)	(2)	(180,751)
Net Investment Income	857,091	1,208,529	13,847	137,114	7,620	26	2,224,227
Transfers In	-	-	-	-	2,228	-	2,228
Other	-	4,515	-	652	3	10	5,180
Total Additions	1,535,389	1,866,395	27,068	179,411	10,117	64	3,618,444
Deductions							
Administrative Expense	431	-	8	-	-	-	439
Benefit Payments and Refunds	918,914	1,060,956	16,028	74,460	2,643	3	2,073,004
Other	-	-	-	-	2,228	-	2,228
Total Deductions	919,345	1,060,956	16,036	74,460	4,871	3	2,075,671
Changes in Net Assets	616,044	805,439	11,032	104,951	5,246	61	1,542,773
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	8,149,107	11,397,213	152,742	1,400,001	72,090	802	21,171,955
End of Year	$ 8,765,151	$ 12,202,652	$ 163,774	$ 1,504,952	$ 77,336	$ 863	$ 22,714,728

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, 2006, 35,725 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, 2006, $393.4 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):

2007	$	42,145
2008		39,234
2009		35,903
2010		30,103
2011		30,281
Thereafter		19,364
Total	$	197,030

Contingent revenues for the year ended June 30, 2006, were $2.7 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2006, were as follows (amounts in thousands):

		Noncancelable Operating Leases		Capital Leases
2007	$	46,727	$	7,962
2008		37,134		7,576
2009		31,669		7,480
2010		27,664		7,486
2011		14,933		7,429
2012-2016		16,964		24,419
2017-2021		522		12,856
2022-2026		92		6,132
2027-2031		-		6,090
Total minimum lease payments	$	175,705		87,430
Less: Amount representing interest costs				26,939
Present value of minimum lease payments			$	60,491

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, 2006, totaled $34.2 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 $333 million at June 30, 2006.

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, 2006, (amounts in thousands):

Governmental Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Bonds:					
General Obligation	$ 9,905,242	$ 1,173,165	$ 866,914	$ 10,211,493	$ 817,088
Transportation	3,113,875	251,076	270,950	3,094,001	266,573
	13,019,117	1,424,241	1,137,864	13,305,494	1,083,661
Plus/(Less) premiums and deferred amounts	229,068	51,483	13,376	267,175	-
Total Bonds	13,248,185	1,475,724	1,151,240	13,572,669	1,083,661
Economic Recovery Notes	209,560	-	63,470	146,090	63,270
Other Liabilities:					
Net Pension Obligation	3,636,304	1,131,874	1,031,042	3,737,136	-
Compensated Absences	415,169	86,007	30,083	471,093	16,886
Workers' Compensation	298,556	122,998	77,280	344,274	75,599
Capital Leases	76,955	-	16,464	60,491	4,098
Claims and Judgments	6,609	14,876	3,067	18,418	4,553
Contracts Payable & Other	4,816	3,493	4,816	3,493	-
Total Other Liabilities	4,438,409	1,359,248	1,162,752	4,634,905	101,136
Governmental Activities Long-Term Liabilities	$ 17,896,154	$ 2,834,972	$ 2,377,462	$ 18,353,664	$ 1,248,067

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

Business-Type Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Revenue Bonds	$ 1,619,658	$ -	$ 96,528	$ 1,523,130	$ 95,612
Plus/(Less) premiums, discounts and deferred amounts	33,883	12,745	7,137	39,491	484
Total Revenue Bonds	1,653,541	12,745	103,665	1,562,621	96,096
Lottery Prizes	337,002	16,948	51,473	302,477	45,765
Compensated Absences	102,148	39,359	17,247	124,260	33,027
Other	165,869	62,337	47,449	180,757	11,709
Total Other Liabilities	605,019	118,644	116,169	607,494	90,501
Business-Type Long-Term Liabilities	$ 2,258,560	$ 131,389	$ 219,834	$ 2,170,115	$ 186,597

b) As of June 30, 2006, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2006	Amounts due within year
Bonds Payable	$ 3,638,671	$ 110,519
Escrow Deposits	140,575	40,383
Closure of Landfills	27,439	1,420
State Loan	15,939	2,619
Deferred Revenue	5,636	824
Other	6,872	117
Total	$ 3,835,132	$ 155,882

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

As of June 30 2006, the amount of Economic Recovery Notes outstanding was $146.1 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, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 63,270	$ 4,470	$ 67,740
2008	63,270	2,063	65,333
2009	19,550	684	20,234
Total	$ 146,090	$ 7,217	$ 153,307

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, 2006, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2007-2025	2-8%	$ 2,176,916	$ 350,342
School Construction	2007-2025	2-7.282%	2,302,319	154,571
Municipal & Other Grants & Loans	2007-2023	2-7.51%	1,501,472	560,231
Elderly Housing	2007-2011	7-7.5%	55,800	10,000
Elimination of Water Pollution	2007-2023	3-7.525%	245,601	489,692
General Obligation Refunding	2007-2020	2-6.14%	3,399,915	-
Miscellaneous	2007-2031	2.5-6.75%	76,257	5,080
			9,758,280	$ 1,569,916
Accretion-Various Capital Appreciation Bonds			453,213	
		Total	$ 10,211,493	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 817,088	$ 528,825	$ 1,345,913
2008	805,895	501,914	1,307,809
2009	762,284	507,367	1,269,651
2010	765,225	465,940	1,231,165
2011	731,743	371,607	1,103,350
2012-2016	2,911,079	1,146,779	4,057,858
2017-2021	2,101,641	466,855	2,568,496
2022-2026	854,490	86,295	940,785
2027-2031	8,595	1,031	9,626
2032-2036	240	6	246
Total	$ 9,758,280	$ 4,076,619	$ 13,834,899

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, 2006, 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%	$ 1,593	$ 4,065
Infrastructure				
Improvements	2007-2024	2-8.0%	3,081,098	672,786
General Obligation				
Other	2008	7.513-7.525%	343	-
			3,083,034	$ 676,851
Accretion-Various Capital Appreciation Bonds			10,967	
		Total	$ 3,094,001	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 266,573	$ 148,955	$ 415,528
2008	276,393	135,965	412,358
2009	274,998	117,332	392,330
2010	268,515	102,662	371,177
2011	238,390	88,750	327,140
2012-2016	990,370	279,075	1,269,445
2017-2021	530,635	115,373	646,008
2022-2026	237,160	22,943	260,103
	$ 3,083,034	$ 1,011,055	$ 4,094,089

Variable-Rate Demand Bonds
As of June 30, 2006, 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	$ 97,900	1990	2010
General Obligation	80,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	412,900	2003	2022
General Obligation	290,000	2005	2023
Total	$ 1,080,800		

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, 2006, 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	$ 58,800	12/19/1990	5.746%	65% of LIBOR (1)	$ (2,900)	12/1/2010	Aa2/AA/AA
1990 STO	39,100	12/19/1990	5.709%	65% of LIBOR (1)	(1,901)	12/1/2010	A/A/A-
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	121	6/15/2012	Aa3/A+/AA-
2003 STO	117,730	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	2,512	2/1/2022	Aa1/AA/AA-
2003 STO	97,865	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp after 1/31/07	2,094	2/1/2022	Aa1/AA/AA+
2003 STO	197,305	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	4,353	2/1/2022	Aa2/AA+/AA+
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR (1) plus 30bp thereafter	4,912	3/1/2023	Aaa/AAA/nr
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR (1) plus 30bp thereafter	4,904	3/1/2023	Aa1/AA/AA-
2005 GO	15,620	4/27/2005	3.990%	CPI (3) plus .65%	(440)	6/1/2016	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	5.070%	CPI (3) plus 1.73%	(625)	6/1/2017	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	5.200%	CPI (3) plus 1.79%	(591)	6/1/2020	Aaa/AAA/nr
Total	$ 866,420				$ 12,439		

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

Fair value
As of June 30, 2006, the swaps dated in 2001, 2003 and March 2005 had positive fair values because interest rates have increased since the time when these swaps were undertaken; the 1990 and April 2005 swaps had negative fair values because interest rates had similarly declined. 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, 2006, the State had credit risk exposure relating to the relationship between the variable interest rate on the bonds and the rate that it receives under the swap agreements undertaken in 2001, 2003 and March 2005. The State had no credit risk exposure on the swaps undertaken in 1990 and April 2005 because the swaps had negative fair value. 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, 2006. 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 23 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 A/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, 2006, the BMA rate was 3.97 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 3.46 and 3.50 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2006, 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, 2006, 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
2007	$ 20,350	$ 34,902	$ 289	$ 55,541
2008	21,665	33,786	185	55,636
2009	22,985	32,887	(231)	55,641
2010	24,410	31,942	(685)	55,667
2011	25,940	30,939	(1,169)	55,710
2012-2016	251,225	133,054	(7,298)	376,981
2017-2021	423,310	55,996	(2,852)	476,454
2022-2026	76,535	3,722	(110)	80,147
Total	$ 866,420	$ 357,228	$ (11,871)	$ 1,211,777

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, 2006, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2007-2036	2-6.5%	$ 544,970
Bradley International Airport	2007-2032	2.5-5.25%	226,375
Clean Water	2007-2026	2-6.5%	487,582
Bradley Parking Garage	2007-2024	6.1-8%	49,875
Drinking Water	2007-2026	4-5.9%	47,733
Rate Reduction Bonds	2007-2011	3-5%	166,595
Total Revenue Bonds			1,523,130
Plus/(Less) premiums, discounts and deferred amounts:			
Higher Education			9,191
Bradley International Airport			(225)
Clean Water			17,872
Other			12,653
Revenue Bonds, net			$ 1,562,621

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2006, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $24.6 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 $183.6 million and 2001 Bradley International Airport Refunding Bonds in the amount of $18.2 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

In 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, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 98,450	$ 65,449	$ 163,899
2008	108,974	61,327	170,301
2009	103,253	55,682	158,935
2010	122,504	60,945	183,449
2011	103,991	45,248	149,239
2012-2016	325,674	177,184	502,858
2017-2021	286,128	112,083	398,211
2022-2026	209,600	62,110	271,710
2027-2031	126,775	24,493	151,268
2032-2036	37,781	2,467	40,248
Total	$ 1,523,130	$ 666,988	$ 2,190,118

d. Component Units
Component units' revenue bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2007-2019	2.9-6%	$ 33,500
CT Housing Finance Authority	2006-2045	1.5-9.36%	3,313,097
CT Resources Recovery Authority	2007-2016	4-5.5%	83,700
CT Higher Education Supplemental Loan Authority	2007-2024	1.7-6%	115,815
Capital City Economics Development Authority	2007-2034	2.5-5%	86,800
UConn Foundation	2007-2029	3.6-5.375%	7,195
Total Revenue Bonds			3,640,107
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			20
CRRA			(1,272)
CCEDA			173
CHESLA			(357)
Revenue Bonds, net			$ 3,638,671

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, 2006 were $1.2 million. Assets totaling $2.3 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 $32.3 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, 2005, bonds outstanding under the bond resolution and the indenture were $2,939.0 million and $374.0 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 ($234.0 million at 12/31/05) on all outstanding bonds. As of December 31, 2005, the Authority has entered into interest rate swap agreements for $867.1 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 $76.1 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, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 102,652	$ 157,728	$ 260,380
2008	114,015	153,965	267,980
2009	431,984	147,477	579,461
2010	217,793	277,061	494,854
2011	562,687	535,055	1,097,742
2012-2016	654,838	437,229	1,092,067
2017-2021	587,498	295,176	882,674
2022-2026	521,720	164,027	685,747
2027-2031	403,900	55,657	459,557
2032-2036	33,900	6,290	40,190
2037-2041	9,120	911	10,031
Total	$ 3,640,107	$ 2,230,576	$ 5,870,683

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, 2006 were $891.5 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, 2006 were $157.5 million. Of this amount, $53.7 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, 2006, were $5,183.7 million, of which $377.5 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 $61.0 million of general obligation bonds with an average interest rate of 4.88% to advance refund $61.7 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.07%. 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 $3.8 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 fourteen years by $1.96 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $.41 million. As of June 30, 2006, $3,041.3 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 of Loss	Risk Financed by: Purchase of Commercial Insurance	Risk Financed by: 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 6-30-04	$ 276,681	$ 10,340
Incurred claims	96,245	4,937
Paid claims	(74,370)	(1,915)
Balance 6-30-05	298,556	13,362
Incurred claims	122,998	11,777
Paid claims	(77,280)	(3,503)
Balance 6-30-06	$ 344,274	$ 21,636

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2006, 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	$ -	$ 10,875	$ 2,254	$ 46,064	$ 21,997	$ 18,456	$ 517	$ 11,091	$ 3,858	$ -	$ 115,112
Other Governmental	4,466	7,839	6,305	6,699	25,195	115,527	-	-	-	12,778	178,809
UConn	15,064	-	-	-	-	-	-	-	-	-	15,064
State Universities	2,300	-	-	-	-	-	-	-	-	-	2,300
Employment Security	-	-	5,184	-	-	-	-	-	-	-	5,184
Other Proprietary	365	-	909	-	-	-	-	-	-	-	1,274
Internal Services	4,700	-	73,152	-	-	-	-	-	-	-	77,852
Fiduciary	-	-	11,576	-	-	-	-	-	1,244	-	12,820
Component Units	15,939	-	-	-	-	-	-	-	-	-	15,939
Total	$ 42,834	$ 18,714	$ 99,380	$ 52,763	$ 47,192	$ 133,983	$ 517	$ 11,091	$ 5,102	$ 12,778	$ 424,354

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, 2006, 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	$ -	$ -	$ 19,166	$ 86,300	$ 416,204	$ 212,900	$ 203,663	$ -	$ 938,233
Debt Service	-	-	29,159	-	-	-	-	-	29,159
Transportation	-	419,406	-	29,900	-	-	-	-	449,306
Other Governmental	92,619	7,408	5,073	57,955	80,523	17,001	71,034	2,228	333,841
Connecticut Lottery	284,865	-	-	-	-	-	-	-	284,865
Other Proprietary	-	-	-	4,803	-	-	10,079	-	14,882
Total	$ 377,484	$ 426,814	$ 53,398	$ 178,958	$ 496,727	$ 229,901	$ 284,776	$ 2,228	$ 2,050,286

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2006, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-05 Previously Reported	Correction of Reported Assets/ Liabilities	Balance 6-30-05 as Restated
Governmental Activities			
Non-Major Funds:			
Restricted Grants & Accounts	$ 232,510	$ 18,470	$ 250,980
Total Governmental Funds	$ 2,474,604	$ 18,470	$ 2,493,074
Net Assets of Governmental Activities	$ (5,390,623)	$ 18,470	$ (5,372,153)

During the year, the state adjusted the beginning fund balance of the Restricted Grants and Accounts fund, a special revenue fund, to correct an understatement of federal revenue reported in prior years.

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, 2006, the Departments of Transportation and Public Works had contractual commitments of approximately $1,288 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program $3,770 million.
Clean and drinking water loan programs $198 million.
Economic and community development grant/loan programs $128 million.
Various programs and services $705 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, 2006, the Authority had drawn $21.5 million on these funds.

Component Units

As of December 31, 2005, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately $109 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, 2006, 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, 2006, the State reported a transfer of $5 million from the Connecticut Housing Finance Authority, a component unit, to the General fund as a special item.

Note 25 New Accounting Pronouncements

In fiscal year 2006, the State implemented the following Statements issued by the Governmental Accounting Standards Board: Statement No. 44, "Economic Condition Reporting: The Statistical Section"; and Statement No. 46, "Net Assets Restricted by Enabling Legislation."

Statement No. 44 provides new guidance regarding the information included in the Statistical Section of the Comprehensive Annual Financial Report. According to the Statement, the Statistical Section should contain information about five distinct categories: financial trends, revenue capacity, debt capacity, demographic and economic, and operating indicators.

Statement No. 46 clarifies the meaning of net assets that are restricted by enabling legislation and requires that the amount of net assets restricted by enabling legislation be disclosed in the notes to the financial statements.

As of June 30, 2006, the government-wide statement of net assets reports $3,201 million of restricted net assets, of which $192 million is restricted by enabling legislation.

Note 26 Subsequent Events

In July 2006, the State issued $180 million of Clean Water fund general revenue bonds and general revenue refunding bonds. The bonds will mature in years 2007 through 2027 and bear interest rates ranging from 3.75% to 5.0%.

In October 2006, the State issued $608.4 million of general obligation bonds and general obligation refunding bonds. The bonds will mature in years 2007 through 2026 and bear interest rates ranging from 4.0% to 5.0%.

In December 2006, the State issued $400 million of general obligation bonds. The bonds will mature in years 2007 through 2021 and bear interest rates ranging from 3.5% to 5.07%.

In April 2007, the State issued $135.4 million of University of Connecticut general obligation bonds and general obligation refunding bonds. The bonds will mature in years 2008 through 2027 and bear interest rates ranging from 3.5% to 5.0%.

THIS PAGE LEFT INTENTIONALLY BLANK

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%	$2,338.9	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	$8,517.7	$15,987.5	$7,469.8	53.3%	$2,980.1	250.7%
6/30/2006	$8,951.4	$16,830.3	$7,878.9	53.2%	$3,107.9	253.5%
*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 *	-	-	-	-	-	-
6/30/2006	$10,190.3	$17,112.8	$6,922.5	59.5%	$3,137.7	220.6%
*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%	$27.8	245.3%
6/30/2004	$150.9	$219.8	$68.9	68.7%	$28.9	238.4%
6/30/2005	$160.3	$235.0	$74.7	68.2%	$30.2	247.8%
6/30/2006	$169.7	$246.9	$77.2	68.7%	$31.8	242.8%
MERS						
6/30/1997	$872.0	$731.1	$(140.9)	119.3%	$246.0	(57.3)%
6/30/1998	$980.4	$814.1	$(166.3)	120.4%	$258.2	(64.4)%
6/30/1999	$1,100.7	$860.1	$(240.6)	128.0%	$269.4	(89.3)%
6/30/2000	$1,251.6	$1,153.2	$(98.4)	108.5%	$290.3	(33.9)%
6/30/2001	$1,353.1	$1,238.1	$(115.0)	109.3%	$311.2	(37.0)%
6/30/2002	$1,403.4	$1,319.7	$(83.7)	106.3%	$321.8	(26.0)%
7/1/2003	$1,417.7	$1,378.2	$(39.5)	102.9%	$326.4	(12.1)%
7/1/2004	$1,434.3	$1,393.4	$(40.9)	102.9%	$332.6	(12.3)%
7/1/2005	$1,512.5	$1,465.1	$(47.4)	103.2%	$352.2	(13.5)%
7/1/2006	$1,587.7	$1,549.5	$(38.2)	102.5%	$366.3	(10.4)%

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%	$-	-
2006	$623.1	100.0%	$396.2	100.0%	$11.7	100.0%	$26.0	100.0%	$-	-

Note: During the years 2000 thru 2006 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	6/30/2006	6/30/2006	6/30/2006	7/1/2006	12/31/2005
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	26 Years	6-25 Years	25 Years	1-19 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%	4-7.5%	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%

THIS PAGE LEFT INTENTIONALLY BLANK

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
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

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

Governor M. Jodi Rell
Members of the General Assembly

We have audited the financial statements of the State of Connecticut, as of and for the year ended June 30, 2006, and have issued our report thereon dated April 25, 2007. 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. The Office of State Comptroller did 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 and apply adequate controls and direction over Statewide financial accounting and reporting.
- II.A.3 The Core-CT accounting system did not provide needed reporting functionality to system users.
- II.A.4 The Core-CT accounting system was not designed to provide an automated and efficient reconciliation of cash activity.
- II.A.5 The Core-CT accounting system did not have adequate internal controls to ensure that all interagency transfers were properly coded to the correct accounts.
- II.A.6 The Core-CT accounting system did not have adequate internal controls to ensure that department and agency users properly entered account codes.
- II.A.7 The internal controls in the new Core-CT accounting system failed to ensure that all transactions were correctly and consistently 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.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, 2006

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, 2006

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
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

April 25, 2007
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, 2006. 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 expended $89,225,070 in Federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2006. Our audit, described below, did not include the operations of the Connecticut Housing Finance 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 item III.E.4. in the accompanying Schedule of Findings and Questioned Costs, the State of Connecticut did not comply with the requirements regarding *Eligibility* that are applicable to its *Adoption Assistance* (CFDA #93.659) program. Compliance with such requirements is necessary, in our opinion, for the State of Connecticut to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Connecticut complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006. 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.6., III.A.7., III.A.8., III.A.13., III.A.14., III.A.19., III.A.20., III.A.21., III.A.23., III.D.1., III.D.2., III.D.3., III.D.4., III.E.1., III.E.3., III.F.1., III.F.2., III.F.3., III.G.5., III.H.1., III.I.1., and III.I.3..

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.B.1., III.B.2., III.B.3., III.C.1., III.D.1., III.D.2., III.D.3., III.D.4., III.E.1., III.E.2., III.E.3., III.E.4., 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.G.6., III.H.1., III.H.2., III.H.3., III.H.4., III.H.5., III.H.6., III.H.7., III.H.8., III.H.9., III.H.10., III.H.11., III.H.12., III.I.1., III.I.2., III.I.3., III.I.4., and III.J.1..

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items III.A.3., III.B.1., III.D.1., III.E.4., III.F.1., III.F.2., III.F.3., and III.G.5. 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, 2006, and have issued our report thereon dated April 25, 2007. 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
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

April 27, 2007
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, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
		$
Department of Agriculture		
Food Stamp Cluster:		
Food Stamps (See Note 3)	10.551	235,689,290
State Administrative Matching Grants for Food Stamp Program	10.561	25,564,979
Total Food Stamp Cluster		261,254,269
Child Nutrition Cluster:		
School Breakfast Program	10.553	12,595,964
National School Lunch Program	10.555	58,516,589
Special Milk Program for Children	10.556	382,937
Summer Food Service Program for Children	10.559	732,825
Total Child Nutrition Cluster		72,228,315
Agricultural Research - Basic and Applied Research	10.001	1,211,684
Plant and Animal Disease, Pest Control, and Animal Care	10.025	729,151
Federal-State Marketing Improvement Program	10.156	27,988
Market Protection and Promotion	10.163	11,156
Grants for Agricultural Research, Special Research Grants	10.200	32,848
Cooperative Forestry Research	10.202	170,534
Payments to Agricultural Experiment Stations Under Hatch Act	10.203	669,776
Grants for Agricultural Research-Competitive Research Grants (See Note 11)	10.206	50,369
Biotechnology Risk Assessment Research	10.219	150,176
Higher Education Multicultural Scholars Program	10.220	27,341
Integrated Programs	10.303	31,827
Crop Insurance	10.450	219,285
Cooperative Extension Service (See Note 11)	10.500	2,851,281
Food Donation (See Note 3)	10.550	8,058,762
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	43,099,470
Child and Adult Care Food Program	10.558	10,827,590
State Administrative Expenses for Child Nutrition	10.560	1,052,844
Emergency Food Assistance Program (Administrative Costs)	10.568	440,870
WIC Farmers' Market Nutrition Program	10.572	19,975
Team Nutrition Grants	10.574	115,275
Fresh Fruit and Vegetable Program	10.582	94,840
Forestry Research	10.652	6,782
Cooperative Forestry Assistance	10.664	1,598,902
Forest Stewardship Program	10.678	13,465
Rural Business Enterprise Grants	10.769	58,944
Wildlife Habitat Incentive Program	10.914	89,285
Total Department of Agriculture		405,143,004
Department of Commerce		
Miscellaneous (See Note 11)	11.000	19,825
Economic Development_Technical Assistance	11.303	10,148
Economic Adjustment Assistance (See Note 8)	11.307	1,993,069
Anadromous Fish Conservation Act Program	11.405	39,918
Interjurisdictional Fisheries Act of 1986	11.407	13,756
Sea Grant Support	11.417	73,244
Coastal Zone Management Administration Awards	11.419	2,225,283
Atlantic Coastal Fisheries Cooperative Management Act	11.474	181,763

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Fisheries Disaster Relief	11.477	135,986
Total Department of Commerce		4,692,992
Department of Defense		
Procurement Technical Assistance For Business Firms (See Note 11)	12.002	69,193
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	46,951
Basic and Applied Scientific Research	12.300	13,060
Military Construction, National Guard	12.400	3,359,718
National Guard Military Operations and Maintenance (O&M) Projects	12.401	9,785,322
National Guard Civilian Youth Opportunities	12.404	184,017
Military Medical Research and Development	12.420	91,155
Air Force Defense Research Sciences Program (See Note 11)	12.800	65,800
Research and Technology Development	12.910	11,924
Total Department of Defense		13,627,140
Department of Housing and Urban Development		
Section 8 Project-Based Cluster:		
Lower Income Housing Assistance Program - Section 8 New Const/Substan. Rehab. (See Note 1)	14.182	13,309,531
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation (See Note 1)	14.856	403,570
Total Section 8 Project-Based Cluster		13,713,101
Multifamily Housing Service Coordinators	14.191	317,037
Community Development Block Grants/State's Program	14.228	15,396,530
Emergency Shelter Grants Program	14.231	1,131,871
Supportive Housing Program	14.235	1,277,389
Shelter Plus Care	14.238	6,634,164
HOME Investment Partnerships Program	14.239	4,694,963
Housing Opportunities for Persons with AIDS	14.241	257,275
Empowerment Zones Program (See Note 11)	14.244	248,867
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	1,495,204
Fair Housing Assistance Program-State and Local	14.401	24,173
Community Outreach Partnership Center Program	14.511	895
Demolition and Revitalization of Serverely Distressed Pubulic Housing (See Note 11)	14.866	27,507
Section 8 Housing Choice Vouchers (See Note 1)	14.871	50,155,436
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	2,568,112
Total Department of Housing and Urban Development		97,942,524
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	2,894,195
Wildlife Restoration	15.611	1,529,012
Total Fish and Wildlife Cluster		4,423,207
Miscellaneous Programs	15.000	77,613
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,000,000
Cooperative Endangered Species Conservation Fund	15.615	14,600
Clean Vessel Act	15.616	854,421
Sportfishing and Boating Safety Act	15.622	1,756

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Landowner Incentive	15.633	183,593
State Wildlife Grants	15.634	565,289
U.S. Geological Survey-Research and Data Acquisition	15.808	24,813
Historic Preservation Fund Grants-In-Aid	15.904	616,793
Outdoor Recreation-Acquisition, Development and Planning	15.916	1,070,210
Total Department of the Interior		8,832,295
Department of Justice		
Miscellaneous Programs	16.000	40,113
Law Enforcement Assistance_Narcotics and Dangerous Drugs_Lab. Analysis	16.001	186,357
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	760,892
Law Enforcement Assistance-FBI Crime Laboratory Support	16.301	921,726
Law Enforcement Assistance_FBI Field Police Training	16.302	243,148
Services for Trafficking Victims	16.320	39,333
Juvenile Accountability Incentive Block Grants	16.523	2,198,461
Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	1,711
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	796,086
Part D- Research., Evaluation, Technical, Assistance and Training	16.542	337,512
Title V-Delinquency Prevention Program	16.548	63,532
Part E-State Challenge Activities	16.549	228,049
National Criminal History Improvement Program	16.554	268,560
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	824,996
Crime Victim Assistance	16.575	4,369,989
Crime Victim Compensation	16.576	901,456
Edward ByrneMemorial Formula Grant Program	16.579	3,250,821
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	505,523
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	8,845,060
Violence Against Women Formula Grants	16.588	1,056,645
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	259,403
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	53,880
Local Law Enforcement Block Grant Program	16.592	305,696
Residential Substance Abuse Treatment for State Prisoners	16.593	584,613
State Criminal Alien Assistance Program	16.606	779,697
Community Prosecution and Project Safe Neighborhoods	16.609	102,173
Public Safety Partnership and Community Policing Grants	16.710	721,469
Police Corps	16.712	127,195
Enforcing Underage Drinking Laws Program	16.727	797,097
Edward Byrne Memorial Justice Assistance Grant Program	16.738	864,494
Total Department of Justice		30,435,687
Department of Labor		
Employment Services Cluster:		
Employment Service/Wagner-Peyser Funded Activities	17.207	9,730,002
Disabled Veterans' Outreach Program	17.801	974,306
Local Veterans' Employment Representative Program	17.804	857,373
Total Employment Services Cluster		11,561,681

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
WIA Cluster:		
WIA Adult Program	17.258	7,111,245
WIA Youth Activities (See Note 11)	17.259	8,161,120
WIA Dislocated Workers	17.260	11,411,540
Total WIA Cluster		26,683,905
Labor Force Statistics	17.002	1,687,258
Unemployment Insurance (See Note 1 and Note 9)	17.225	639,996,657
Senior Community Service Employment Program	17.235	953,812
Trade Adjustment Assistance	17.245	2,832,052
Workforce Investment Act (See Note 11)	17.255	84,124
WIA Pilots, Demostrations, and Research Projects (See Note 11)	17.261	151,176
Occupational Safety and Health-State Program	17.503	614,000
Consultation Agreements	17.504	1,238,918
Mine Health and Safety Grants	17.600	45,628
Disability Employment Policy Development	17.720	1,000
Total Department of Labor		685,850,211
Department of State		
Miscellaneous Programs	19.000	65,568
Department of Transportation		
Federal Transit Cluster:		
Federal Transit-Capital Investment Grants	20.500	34,247,599
Federal Transit-Formula Grants	20.507	43,429,943
Total Federal Transit Cluster		77,677,542
Miscellaneous Programs	20.000	10,881
Airport Improvement Program	20.106	4,730,769
Highway Planning and Construction (See Note 11)	20.205	431,413,352
Highway Training and Education	20.215	6,911
National Motor Carrier Safety	20.218	2,826,675
Recreational Trails Program	20.219	299,812
Federal Transit-Metropolitan Planning Grants	20.505	287,703
Formula Grants for Other Than Urbanized Areas	20.509	1,887,334
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	833,213
Public Transportation Research	20.514	280,272
State Planning and Research	20.515	(32)
Job Access-Reverse Commute	20.516	3,219,715
State and Community Highway Safety	20.600	12,692,219
Pipeline Safety	20.700	363,837
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	153,074
Total Department of Transportation		536,683,277
Department of the Treasury		
Low-Income Taxpayer Clinics	21.008	101,117
Equal Employment Opportunity Commission		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	2,064

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National Aeronautics and Space Administration		
Miscellaneous Programs (See Note 11)	43.000	63,585
Aerospace Education Services Program (See Note 11)	43.001	49,354
Total National Aeronautics and Space Administration		112,939
National Endowment for the Arts		
Promotion of the Arts-Partnership Agreements	45.025	516,414
National Endowment for the Humanities		
Promotion of the Humanities-Fellowships and Stipends	45.160	20,000
Grants to States	45.310	2,473,218
Total National Endowment for the Humanities		2,493,218
Institute of Museum and Library Services		
National Leadership Grants	45.312	23,704
National Science Foundation		
Miscellaneous Programs (See Note 11)	47.000	4,600
Mathematical and Physical Sciences	47.049	131,576
Geosciences (See Note 11)	47.050	155,703
Computer and Information Science and Engineering (See Note 11)	47.070	14,899
Biological Sciences (See Note 11)	47.074	312,236
Social, Behavioral, and Economic Sciences	47.075	165
Education and Human Resources (See Note 11)	47.076	1,175,448
Polar Programs	47.078	1,117
Total National Science Foundation		1,795,744
Small Business Administration		
Miscellaneous	59.000	77,247
Small Business Development Center	59.037	1,024,441
Total Small Business Administration		1,101,688
Department Of Veterans Affairs		
Veterans State Domiciliary Care	64.014	3,370,405
Veterans State Hospital Care	64.016	3,238,949
Burial Expenses Allowance for Veterans	64.101	79,100
All-Volunteer Force Educational Assistance	64.124	223,495
Total Department Of Veterans Affairs		6,911,949
Environmental Protection Agency		
Miscellaneous Programs (See Note 11)	66.000	186,254
Air Pollution Control Program Support	66.001	2,070
State Indoor Radon Grants	66.032	149,985
Ozone Transport Commission (See Note 11)	66.033	17,965
Healthy Communities Grant Program	66.110	122,512
State Public Water System Supervision	66.432	1,160,875

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Long Island Sound Program	66.437	1,647,901
Water Quality Management Planning	66.454	146,830
Nonpoint Source Implementation Grants	66.460	1,068,403
Regional Wetland Program Development Grants	66.461	96,140
Water Quality Cooperative Agreements	66.463	55,461
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	3,466
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	259,631
Beach Monitoring and Notification Program Implementation Grants	66.472	56,870
Water Protection Grants to the States	66.474	199,355
Science To Achieve Results (STAR) Fellowship Program	66.514	12,165
Performance Partnership Grants	66.605	10,009,209
Surveys, Studies, Investigations and Special Purpose Grants	66.606	2,255,639
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	500,000
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	11,206
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	202,638
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	304,166
Pollution Prevention Grants Program	66.708	127,187
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	251,361
Leaking Underground Storage Tank Trust Fund Program	66.805	669,868
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	(42,297)
Brownfield Pilots Cooperative Agreements	66.811	53,749
State and Tribal Response Program Grants	66.817	1,074,598
Brownfields Assessment and Cleanup Cooperative Agreement	66.818	24,445
Total Environmental Protection Agency		**20,627,652**
Nuclear Regulatory Commission		
Miscellaneous Program	77.000	2,857
Department of Energy		
National Energy Information Center	81.039	13,148
State Energy Program	81.041	654,477
Weatherization Assistance for Low-Income Persons	81.042	2,310,653
Regional Biomass Energy Programs	81.079	25,990
Conservation Research and Development	81.086	28,989
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	60,823
Energy Efficiency and Renewable Energy Info. Dissem., Outreach, Training and Tech. Analysis/Assistanc	81.117	24,452
State Energy Program Special Projects	81.119	184,375
Total Department of Energy		3,302,907
Department of Education		
Special Education Cluster:		
Special Education-Grants to States	84.027	116,812,228
Special Education-Preschool Grants	84.173	5,589,816
Total Special Education Cluster		122,402,044
TRIO Cluster:		
TRIO-Student Support Services	84.042	638,961
TRIO-Talent Search	84.044	248,895
TRIO-Upward Bound	84.047	501,594
Total TRIO Cluster		1,389,450

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Miscellaneous Programs	84.000	392,370
Adult Education-State Grant Program	84.002	4,887,294
Title 1 Grants to Local Educational Agencies	84.010	108,697,328
Migrant Education-State Grant Program	84.011	1,863,033
Title 1 Program for Neglected and Delinquent Children	84.013	861,518
Higher Education-Institutional Aid	84.031	414,163
Vocational Education-Basic Grants to States	84.048	10,182,985
Leveraging Educational Assistance Partnership	84.069	344,697
Fund for Improvement of Postsecondary Education (See Note 11)	84.116	603,503
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	18,263,561
Rehabilitation Services_Client Assistance Program	84.161	127,715
Independent Living-State Grants	84.169	203,546
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	408,128
Special Education-Grants for Infants and Families with Disabilities	84.181	4,111,277
Safe and Drug-Free Schools and Communities - National Programs (See Note 11)	84.184	(72,864)
Byrd Honors Scholarships	84.185	477,875
Safe and Drug-Free Schools and Communities-State Grants	84.186	4,112,755
Supported Employment Services for Individuals with Severe Disabilities	84.187	128,761
Education for Homeless Children and Youth	84.196	470,384
Javits Gifted and Talented Students Education Grant Program	84.206	84,428
Even Start-State Educational Agencies	84.213	1,659,900
Fund for the Improvement of Education (See Note 11)	84.215	96,668
Assistive Technology	84.224	226,466
Program of Protection and Advocacy of Individual Rights	84.240	186,490
Tech-Prep Education	84.243	880,500
Literacy Programs for Prisoners	84.255	235,156
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	117,653
Charter Schools	84.282	13,954
Twenty-First Century Community Learning Centers	84.287	8,138,433
Foreign Language Assistance	84.293	75,089
State Grants for Programs	84.298	2,563,548
Education Technology State Grants (See Note 11)	84.318	4,152,154
Special Education-State Personnel Development	84.323	812,157
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325	344,478
Special Education-Tech Assist/Dissemination to Impr Srvc/Results for Child w/ Disabilities	84.326	456
Advanced Placement Program	84.330	774,404
Grants to States for Incarcerated Youth Offenders	84.331	272,920
Comprehensive School Reform Demonstration	84.332	2,628,019
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3,020,015
Teacher Quality Enhancement Grants	84.336	821
Assistive Technology_State Grants for Protection and Advocacy	84.343	68,043
Vocational Education-Occupational and Employment Information State Grants	84.346	125,584
Early Childhood Educator Professional Development	84.349	487,894
Transition to Teaching	84.350	16,750
Tech-Prep Demonstration Grants	84.353	159,349
Reading First State Grants	84.357	7,024,129
Rural Education	84.358	3,466
English Language Acquisition Grants	84.365	4,748,699
Mathematics and Science Partnerships	84.366	831,450
Improving Teacher Quality State Grants	84.367	26,370,443
Grants for State Assessments and Related Activities	84.369	8,795,231

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Statewide Data Systems	84.372	44,160
Hurricane Education Recovery	84.938	243,190
Total Department of Education (See Also Student Financial Assistance Cluster)		355,471,620
Elections Assistance Commission		
Help America Vote College Pollworker Program	90.400	2,774
Department of Health and Human Services		
Medicaid Cluster:		
Medical Assistance Program	93.778	2,176,047,595
State Survey and Certification of Health Care Providers and Suppliers	93.777	4,422,635
State Medicaid Fraud Control Units	93.775	725,205
Total Medicaid Cluster		2,181,195,435
Child Care Cluster:		
Child Care and Development Block Grant	93.575	14,357,158
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	36,895,189
Total Child Care Cluster		51,252,347
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	4,850,810
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	7,689,434
Nutrition Services Incentive Program	93.053	1,413,071
Total Aging Cluster		13,953,315
Miscellaneous Programs	93.000	434,942
Public Health and Social Services Emergency Fund	93.003	452,477
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	68,252
Special Programs for the Aging-Title III Part D-Disease Prevention and Health Promotion Services	93.043	288,036
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	93.048	43,823
Alzheimer's Disease Demonstration Grants to States	93.051	313,608
National Family Caregiver Support	93.052	2,073,269
Comprehensive Community Mental Health Services for Children with Serious Emotional Dist.	93.104	3,398,162
Maternal and Child Health Federal Consolidated Programs	93.110	491,161
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 3)	93.116	833,346
Nurse Anesthetist Traineeships	93.124	9,044
Emergency Medical Services for Children	93.127	123,707
Primary Care Services-Resource Coordination and Development	93.130	110,396
Injury Prevention and Control Research and State and Community Based Programs	93.136	608,234
Protection and Advocacy for Individuals with Mental Illness	93.138	453,992
Projects for Assistance in Transition from Homelessness (PATH)	93.150	700,122
Grants To States for Loan Repayment	93.165	192,820
Research Related to Deafness and Communication Disorders	93.173	253,477
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	719,927
Research on Healthcare Costs, Quality and Outcomes	93.226	179,022
Consolidated Knowledge Development and Application (KD&A) Program	93.230	1,741,088
Traumatic Brain Injury-State Demonstration Grant Program	93.234	75,000
Abstinence Education Program	93.235	355,382
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	40,808
State Capacity Building	93.240	415,776
Mental Health Research Grants	93.242	884,385

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	3,801,041
Universal Newborn Hearing Screening	93.251	153,519
State Planning Grant-Health Care Access for the Uninsured	93.256	99,562
Rural Access to Emergency Devices Grant	93.259	93,572
Occupational Safety and Health Programs	93.262	61,195
State Grants for Protection and Advocacy Services	93.267	53,203
Immunization Grants (See Note 3)	93.268	15,802,449
Alcohol Research Programs (See Note 11)	93.273	12,309
Substance Abuse and Mental Health Services-Access to Recovery	93.275	12,986,284
Drug Abuse and Addiction Research Programs	93.279	975,624
Mental Health National Research Service Awards for Research Training	93.282	28,336
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3)	93.283	22,930,306
Advanced Education Nursing Traineeships	93.358	53,636
Nurse Education, Practice and Retention Grants	93.359	48,317
Food Safety and Security Monitoring Project	93.448	124,558
Abandoned Infants	93.551	41,861
Promoting Safe and Stable Families	93.556	2,701,552
Temporary Assistance for Needy Families	93.558	238,308,477
Child Support Enforcement (See Note 10)	93.563	45,055,133
Refugee and Entrant Assistance-State Administered Programs	93.566	1,037,579
Low-Income Home Energy Assistance	93.568	62,530,844
Community Services Block Grant	93.569	7,770,857
Refugee and Entrant Assistance-Discretionary Grants	93.576	423,419
State Court Improvement Program	93.586	222,325
Community-Based Child Abuse Prevention Grants	93.590	596,673
Grants to States for Access and Visitation Programs	93.597	120,527
Chafee Education and Training Vouchers Program (ETV)	93.599	532,104
Head Start	93.600	226,324
Child Support Enforcement Demonstrations and Special Projects	93.601	49,048
Voting Access for Individuals with Disabilities-Grants for Protect and Advocacy Systems	93.618	40,770
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,251,372
Developmental Disabilities Projects of National Significance	93.631	32,831
Children's Justice Grants to States	93.643	238,039
Child Welfare Services-State Grants	93.645	1,770,997
Social Services Research and Demonstration	93.647	30,000
Adoption Opportunities	93.652	409,753
Foster Care-Title IV-E	93.658	78,305,033
Adoption Assistance	93.659	24,311,338
Social Services Block Grant	93.667	45,017,879
Child Abuse and Neglect State Grants (See Note 11)	93.669	505,455
Family Violence Prevention and Services/Grants for Battered Woman's Shelters Grants States, Ind. Tribes	93.671	995,216
Chafee Foster Care Independence Program	93.674	1,608,238
State Children's Insurance Program	93.767	20,082,763
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	692,915
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	1,435,003
State Pharmaceutical Assistance Program	93.786	3,756,794
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	13,002
Diabetes, Endocrinology and Metabolism Research	93.847	12,940
Allergy, Immunology and Transplantation Research	93.855	54,477
Microbiology and Infections Diseases Research	93.856	24,756
Medical Library Assistance	93.879	3,204
Health Care and Other Facilities	93.887	885,093

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National Bioterrorism Hospital Preparedness Programs	93.889	5,291,215
Alcohol Research Center Grants	93.891	15,173
Rural Health Care Services Outreach and Rural Health Network Dev. Program	93.912	1,808
HIV Emergency Relief Project Grants	93.914	40,326
HIV Care Formula Grants	93.917	18,522,294
Health Start Initiative	93.926	12,217
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	215,257
HIV Prevention Activities-Health Department Based	93.940	5,483,270
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	271,815
Human Immunodeficiency Virus /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	1,004,128
Assistance Programs for Chronic Disease Prevention and Control	93.945	315,791
Trauma Care Systems Planning and Development	93.952	50,733
Block Grants for Community Mental Health Services	93.958	3,700,820
Block Grants for Prevention and Treatment of Substance Abuse	93.959	15,028,486
Geriatric Education Centers (See Note 11)	93.969	50,982
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	1,167,448
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	282,386
Preventive Health and Health Services Block Grant	93.991	1,708,663
Maternal and Child Health Services Block Grant to the States	93.994	5,121,940
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		2,918,264,607
Corporation for National and Community Service		
State Commissions	94.003	189,749
Learn and Serve America-School and Community Based Programs	94.004	200,165
AmeriCorps	94.006	1,380,713
Training and Technical Assistance	94.009	94,034
Total Corporation for National and Community Service		1,864,661
Social Security Administration		
Miscellaneous Programs	96.000	213
Social Security-Disability Insurance	96.001	17,621,383
Social Security-Work Incentives Planning and Assistance Program	96.008	259,354
Total Social Security Administration		17,880,950
Department of Homeland Security		
Miscellaneous Programs	97.000	13,057
State Domestic Preparedness Equipment Support Program	97.004	9,257,945
Urban Areas Security Initiative	97.008	2,311,272
Boating Safety Financial Assistance	97.012	632,789
Hazardous Materials Assistance Program	97.021	(7,970)
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023	194,448
Flood Mitigation Assistance	97.029	97,237
Community Disaster Loans	97.030	295,407
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	16,379,784
Hazard Mitigation Grant	97.039	15,447
National Dam Safety Program	97.041	40,924
Emergency Management Performance Grants	97.042	1,820,141
Pre-Disaster Mitigation	97.047	160,107
Citizen Corps	97.053	120,873

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Community Emergency Response Teams	97.054	224,656
State Homeland Security Program (SHSP)	97.073	7,264,908
Law Enforcement Terrorism Prevention Program	97.074	1,703,783
Buffer Zone Protection Plan	97.078	308,067
Total Department of Homeland Security		40,832,875
United States Agency For International Development		
Non-Governmental Organization Strengthening (See Note 11)	98.004	44,712
USAID Development Partnership for University Cooperation and Development	98.012	33,009
Total United States Agency For International Development		77,721
Miscellaneous Programs		
Other Federal Assistance (See Note 11)	99.125	2,057,481
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants	84.007	2,573,339
Federal Family Education Loans (See Note 6)	84.032	174,569,489
Federal Work-Study Program	84.033	3,221,397
Federal Perkins Loan Program-Federal Capital Contributions (See Note 4)	84.038	26,100,406
Federal Pell Grant Program	84.063	45,806,714
Federal Direct Student Loans	84.268	28,791,170
Total Department of Education		281,062,515
Department of Health and Human Services		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 5)	93.342	1,316,786
Total Student Financial Assistance Cluster		282,379,301
TOTAL NON RESEARCH AND DEVELOPMENT GRANTS		**5,439,096,941**
RESEARCH AND DEVELOPMENT CLUSTER:		
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 and NOTE 11)		
Department of Agriculture		
Agricultural Research Service	10.RD	1,502,205
Animal and Plant Health Inspection Service	10.RD	12,392
Cooperative State Research, Education, and Extension Service	10.RD	3,363,530
Food and Nutrition Service	10.RD	62,921
Foreign Agricultural Service	10.RD	21,038
Forest Service	10.RD	85,140
Natural Resource Conservation Service	10.RD	141,508
Risk Management Agency	10.RD	38,859
Miscellaneous Programs	10.RD	505,405
Total Department of Agriculture		5,732,998

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Commerce		
National Oceanic and Atmospheric Administration	11.RD	3,855,891
National Institute for Standards and Technology	11.RD	61,711
Miscellaneous Programs	11.RD	121,258
Total Department of Commerce		4,038,860
Department of Defense		
Department of the Navy, Office of the Chief of Naval Research	12.RD	1,819,027
U.S. Army Medical Command	12.RD	313,893
U.S. Army Materiel Command	12.RD	172,777
Office of the Secretary of Defense	12.RD	1,106
Department of the Air Force, Materiel Command	12.RD	361,648
National Security Agency	12.RD	965
Advanced Research Projects Agency	12.RD	312,945
Miscellaneous Programs	12.RD	2,680,109
Total Department of Defense		5,662,470
Department of Housing and Urban Development		
Office of Community Planning and Development	14.RD	85,776
Office of Policy Development and Research	14.RD	15,255
Total Department of Housing and Urban Development		101,031
Department of the Interior		
Geological Survey	15.RD	181,449
Miscellaneous Programs	15.RD	63,617
Total Department of the Interior		245,066
Department of Justice		
National Institute of Justice	16.RD	282,640
Violence Against Women Office	16.RD	1,365
Total Department of Justice		284,005
Department of Labor		
Employment and Training Administration	17.RD	149,645
Department of State		
Miscellaneous Programs	19.RD	10,875
Department of Transportation		
Federal Highway Administration	20.RD	33,047
Miscellaneous Programs	20.RD	164,112
Total Department of Transportation		197,159
Library of Congress		
Miscellaneous Programs	42.RD	99,689
National Aeronautics and Space Administration	43.RD	1,716,657

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National Endowment for the Humanities	45.RD	188,139
Institute of Museum and Library Services	45.RD	63,466
National Science Foundation	47.RD	12,357,568
Department of Veterans Affairs		
Miscellaneous Programs	64.RD	7,018
Environmental Protection Agency		
Office of Water	66.RD	336,582
Office of Research and Development	66.RD	1,995,675
Office of Administration	66.RD	104,251
Office of Prevention, Pesticides and Toxic Substance	66.RD	10,881
Miscellaneous Programs	66.RD	3,968
Total Environmental Protection Agency		2,451,357
Department of Energy	81.RD	2,391,514
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	247,102
Office of Elementary and Secondary Education	84.RD	191,014
Office of Educational Research and Improvement	84.RD	3,349,887
Office of Postsecondary Education	84.RD	824,545
Miscellaneous Programs	84.RD	68,195
Total Department of Education		4,680,743
Department of Health and Human Services		
Office of the Secretary	93.RD	489,435
Centers for Disease Control	93.RD	719,499
Health Resources and Services Administration	93.RD	320,538
Substance Abuse and Mental Health Services Administration	93.RD	139,682
National Institutes of Health	93.RD	13,968,045
Miscellaneous Programs	93.RD	970,723
Total Department of Health and Human Services		16,607,922
United States Agency for International Development	98.RD	1,263
Miscellaneous Programs	99.RD	440,089
TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT		**57,427,534**
UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS: (SEE NOTE 2 and NOTE 11)		
Department of Agriculture		
Cooperative State Research, Education, and Extension Service	10.RD	121,947

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Defense		
U.S. Army Medical Command	12.RD	1,885,724
U.S. Army Materiel Command	12.RD	17,302
Miscellaneous Programs	12.RD	(666)
Total Department of Defense		1,902,360
Department of Justice		
Miscellaneous Programs	16.RD	(1,227)
Office of Juvenile Justice and Delinquency Prevention	16.RD	189,602
National Institute of Justice	16.RD	1,203,857
Total Department of Justice		1,392,232
National Aeronautics and Space Administration	43.RD	356,749
National Science Foundation	47.RD	441,152
Department of Veterans Affairs		
Miscellaneous Programs	64.RD	(1,714)
Environmental Protection Agency		
Office of Air and Radiation	66.RD	46,359
Department of Education		
Office of Educational Research and Improvement	84.RD	166,409
Office of Special Education and Rehabilitative Services	84.RD	1,086,004
Total Department of Education		1,252,413
Department of Health and Human Services		
Substance Abuse and Mental Health Services Administration	93.RD	6,932
National Institutes of Health	93.RD	59,326,457
Health Resources and Services Administration	93.RD	1,854,099
Office of Population Affairs	93.RD	11,637
Centers for Disease Control	93.RD	566,008
Agency for Health Care Policy and Research	93.RD	205,766
Administration for Children and Families	93.RD	554,480
Centers for Medicare and Medicaid Services	93.RD	436,915
Miscellaneous Programs	93.RD	3,362,538
Total Department of Health and Human Services		66,324,832
TOTAL HEALTH CENTER RESEARCH GRANTS		**71,836,330**
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		**129,263,864**
TOTAL FEDERAL ASSISTANCE		**5,568,360,805**

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, 2005, the Connecticut Housing Finance Authority expended $61,543,483 and $1,381,741 in Federal awards under CFDA #14.856 and CFDA #14.103, respectively. During the fiscal year ended June 30, 2006, the State of Connecticut expended $19,764,049 and $6,535,797 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), *Lower Income Housing Assistance Program – Section 8 New Construction/Substantial Rehabilitation* (CFDA #14.182), *Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation* (CFDA #14.856), and *Section 8 Housing Choice Vouchers* (CFDA #14.871) programs, which are presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the State's basic financial statements. Such information, however, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Note 2 – Research Programs at the University of Connecticut

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

Note 3 – Non-cash Assistance

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

Department of Agriculture:	
Food Stamps (10.551)	$235,689,290
Food Distribution (10.550)	7,913,905
Department of Health and Human Services:	
Childhood Immunization Grants (93.268)	$12,242,028
Preventive Health Services - Sexually Transmitted Diseases Control (93.977)	$176,450
Diabetes Reduction (93.988)	$84,107
Bioterrorism (93.283)	$485,000
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)	$91,481
General Services Administration:	
Donation of Federal Surplus Personal Property (39.003)	$53,449

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, 2006, were $26,100,406.

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, 2006, were $1,316,786.

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, 2006, totaled $171,205,502.

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 $11,500,215 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 $16,588 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 $241,774 cash and investment balance in the RLF at the end of the fiscal year in the amount of $1,630,182 and administrative expenses paid out of RLF income during the fiscal year in the amount of $121,113.

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 $561,231,852. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $11,287,746. The $67,477,059 in Unemployment Insurance program administrative expenditures was financed by the U.S. Department of Labor.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Note 10 – Child Support Enforcement Program

During the fiscal year ended June 30, 2006, the Department of Social Services expended a total of $45,055,133 (Federal share) to accomplish the goals of the Child Support Enforcement Program (93.563). However, the State received $14,666,742 of the $45,055,133 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $30,388,391 of the Federal share of expenditures is reimbursed to the State directly from the Federal government.

Note 11 - Pass - Through Grants

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

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
Department of Agriculture				
Cooperative State Research, Ed. & Ext. Service				
10.206	*ECSU*	Pennsylvania State University	SUB-2373-ECSU-USDA-2255	576
10.500	*UOC*	University of Vermont	AG021232	22,548
10.500	*UOC*	Cornell University	2002-41520-01498	11,935
10.500	*UOC*	National 4-H Council	2002-4520101528	635
	Total Department of Agriculture			35,694
Department of Commerce				
Miscellaneous Programs				
11.000	*UOC*	New York State Museum Institute	AG050672	6,925
11.000	*UOC*	Woods Hole Oceanographic Institution	M209644	8,600
	Total Department of Commerce			15,525
Department of Defense				
Defense Logistics Agency				
12.002	*CCSU*	South Eastern CT Enterprise Region	SP4800-01-2-0109	69,193
Department of the Air force, Materiel Command				
12.800	*CCSU*	CT Center for Advanced Technology	05-N006	65,800
	Total Department of Defense			134,993
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.244	*CCC*	Empower New Haven Inc.	AGR 12-9-02	68,609
14.244	*CCC*	Empower New Haven Inc.	AGR 1-1-03	180,258
Total Office of Community Planning and Development				248,867
Office of Public and Indian Housing				
14.866	*UOC*	City of Stamford , Housing Authority	AG060476	27,507
	Total Department of Housing and Urban Development			276,374
Department of Labor				
Employment and Traning Administration				
17.255	*CCC*	Greater Waterbury Workforce Inv. Board	Y-04-002	1,348
17.255	*CCC*	Greater Waterbury Workforce Inv. Board	ISY-05-003	82,776
17.259	*CCC*	Eastern CT Workforce Investment Board	LTR 1-26-05	32,186
17.259	*CCC*	NW Regional Workforce Investment Board	LTR 6-15-05	103,526
17.259	*CCC*	Eastern CT Workforce Investment Board	LTR 2-28-06	5,276
17.261	*CCSU*	CT Business and Industry	N/A	10,437
	Total Department of Labor			235,549

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
Department of Transportation				
Federal Highway Adminstration				
20.205	*UOC*	Capitol Region Education Council	PO#00056337-00	15,403
National Aeronautics and Space Administration				
43.001	*CCC*	University of Hartford	NGT5-40093	2,500
43.000	*UOC*	Infinity Fuel Cell and Hydrogen, Inc	OSP 05/172	16,563
		Total National Aeronautics and Space Adminsitration		19,063
National Science Foundation				
47.074	*CCSU*	Woods Hole Oceanographic Institution	A100179	39,852
47.050	*ECSU*	University of Texas	N/A	480
47.050	*UOC*	Joint Oceanographic Institutions	OSP 04/61	41
47.070	*CCSU*	University of Hartford	NSE# DUE-0409497	2,899
47.076	*UOC*	University of Massachusetts	02-522689 D 00	33,363
47.000	*UOC*	Woods Hole Oceanographic Institution	M209873	4,600
		Total National Science Foundation		81,235
Department of Environmental Protection				
66.033	*CCC*	West Virginia University	02-637-GCC	17,965
Miscellaneous Programs				
66.000	*UOC*	John Hopkins University	8408-2219	38,667
		Total Department of Environmental Protection		56,632
Department of Education				
Office of Elementary & Secondary Education				
84.184	*UOC*	Hartford Public Schools	OSP 05/205	4,552
84.184	*UOC*	Hartford Public Schools	AG060617	35,009
84.184	*CCSU*	Norwalk Public Schools	Q184B050079	16,562
84.215	*CCSU*	Newington Public Schools	U215X050260	89,738
84.215	*UOC*	Capitol Region Education Council	AG060592	6,930
84.318	*UOC*	Danbury Public Schools	OSP 04/08	2,614
84.318	*UOC*	Derby Public Schools	OSP 04/51	6
84.318	*UOC*	Area Cooperative Educational Services	OSP 04/67	4,675
84.318	*UOC*	East Hartford Public Schools	OSP 04/103	3,303
84.318	*UOC*	Greenwich Public Schools	OSP 04/82	1,188
84.318	*UOC*	Killingly Public Schools	OSP 04/75	499
84.318	*UOC*	Lebanon Public Schools	AG060394	3,257
84.318	*UOC*	CT Technical High School System	OSP 04/104	1,029
84.318	*UOC*	Metropolitan Learning Center	OSP 04/102	1,637
84.318	*UOC*	Town of New Britain	AG030933	6,532
84.318	*UOC*	Thomas Edison Middle School	OSP 04/07	679

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
84.318	*UOC*	Willington Public Schools	OSP 04/101	2,873
Total Office of Elementary & Secondary Education				181,083
Office of Post Secondary Education				
84.116	*CCC*	CT Distance Learning Consortium	N/A	10,972
Miscellaneous Programs				
84.000	*UOC*	National Writing Project Corporation	OSP 05/172	21,431
Total Department of Education				213,486
Department of Health and Human Services				
Miscellaneous Programs				
93.000	*UOC*	Portland State University	OSP 05/184	512
Health Resources & Service Administration				
93.969	*UOC*	University of Rhode Island	100605/0000751	20,484
National Institutes of Health				
93.273	*UOC*	University of Rhode Island	102405/0000807	12,309
Total Department of Health and Human Services				33,305
United States Agency for International Development				
98.004	*CCSU*	Association Liaison Office for University Cooperati	N/A	44,712
Miscellaneous Programs				
99.125	*UOC*	Massachusetts Institute of Technology	5710001979	7,989
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				**1,169,960**
RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS: (SEE NOTE 2)				
Department of Agriculture				
Cooperative State Research, Education, and Extension Service				
10.RD	*UOC*	Cornell University	42681-7236	34,225
10.RD	*UOC*	Cornell University	44085-7721	1,500
10.RD	*UOC*	Cornell University	46709-7928	4,418
10.RD	*UOC*	Edwin O Smith High School	OSP 05/065	2,702
10.RD	*UOC*	Harris Acoustic Products Corporation	4820-009P	5,628
10.RD	*UOC*	Hartford Food System	OSP 04/57	1,999
10.RD	*UOC*	Marine Biological Laboratory	26047	21,167
10.RD	*UOC*	N.Eastern Regional Aquaculture Ctr	OSP 05/107	333
10.RD	*UOC*	N.Eastern Regional Aquaculture Ctr	SUBCONT #557002	22,534
10.RD	*UOC*	National 4-H Council	OSP 05/195	11,572

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
10.RD	*UOC*	North Carolina State University	00-1320-3YRP-15	(767)
10.RD	*UOC*	Rutgers, State University of New Jeresy	#1750	2,439
10.RD	*UOC*	University of Delaware	5351	14,879
10.RD	*UOC*	University of Idaho	BKJE08-UCONN	56,841
10.RD	*UOC*	University of Maine	PO#U189000	2,662
10.RD	*UOC*	University of Maryland at College Park	Z507208	3,798
10.RD	*UOC*	University of Minnesota	Q6706392202	4,785
10.RD	*UOC*	University of Rhode Island	100504/0000516	96,145
10.RD	*UOC*	University of Rhode Island	AGMT#022603/535969	2,658
10.RD	*UOC*	University of Vermont	AG050707	144
10.RD	*UOC*	University of Vermont	LNE01-143	21,632
10.RD	*UOC*	Yale University	M00081	6,414
Total Cooperative State Research, Education, and Extension Service				317,708
Food and Nutrition				
10.RD	*UOC*	University of Rhode Island	011005/0000547	25,323
10.RD	*UOC*	University of Rhode Island	020906/0000877	36,691
Total Food and Nutrition				62,014
Miscellaneous Programs				
10.RD	*UOC*	American Egg Board	OSP 05/026	20,848
10.RD	*UOC*	Geremia Greenhouse	AG050015	4,000
10.RD	*UOC*	University of Massachusetts	UM#02-529029C00	26,523
Total Miscellaneous Programs				51,371
Total Department of Agriculture				431,093
Department of Commerce				
National Oceanic and Atmospheric Administration				
11.RD	*UOC*	Pacific Shellfish Institute	OSP 05/093	10,147
11.RD	*UOC*	University of Maine	UM-S550	8,166
11.RD	*UOC*	University of Mississippi	05-07-004	35,439
Total National Oceanic and Atmospheric Administration				53,752
Miscellaneous Programs				
11.RD	*UOC*	Nature Conservancy	CTFO-042006D	950
11.RD	*UOC*	Nature Conservancy	CTFO-080805	9,132
11.RD	*UOC*	Perot Systems Gov't Services	2004-S-012	81,119
11.RD	*UOC*	VKD Shoppe, Inc	OSP 05/004	9,415
Total Miscellaneous Programs				100,616
Total Department of Commerce				154,368
Department of Defense				
Department of the Air Force, Materiel Command				
12.RD	*UOC*	Connecticut Center for Advanced Technology Inc	05-N012	98,248
12.RD	*UOC*	Purdue University	531-0275-01	3,025

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
12.RD	*UOC*	Purdue University	531-0737-01	3,303
Total Department of the Air Force, Materiel Command				104,576
Miscellaneous Programs				
12.RD	*UOC*	Aptima Inc	0173-1128	101,881
12.RD	*UOC*	Aptima Inc	0268-1174-300	49,724
12.RD	*UOC*	Aptima Inc	0311-1244	6,014
12.RD	*UOC*	Battelle Memorial Institute	TCN 05078	26,380
12.RD	*UOC*	BOEING CO	PO#Z10661	(30,697)
12.RD	*UOC*	Design by Analysis Inc.	AG050780	15,708
12.RD	*UOC*	Inframat Corporation	AG050836	526
12.RD	*UOC*	North Carolina State University	2005-2030-01	6,712
12.RD	*UOC*	OPEL	37856	24,119
12.RD	*UOC*	OPEL	OSP 06/005	69,279
12.RD	*UOC*	RJM Semiconductor, LLC	7/25/2003	14,073
12.RD	*UOC*	Sky Research Inc	SKY-ESTCP 03	29,529
12.RD	*UOC*	Sonalysts Inc.	05MAB0471	121,573
12.RD	*UOC*	Triton Systems, Inc	TSI-2205-04-70711	146,120
12.RD	*UOC*	University of New Mexico	650089-87B6	37,033
12.RD	*UOC*	United Technologies - Pratt & Whitney	21153	29,998
12.RD	*UOC*	United Technologies - Pratt & Whitney	21153 TASK #18	41,037
12.RD	*UOC*	United Technologies - Pratt & Whitney	21153 TASK #19	22,088
12.RD	*UOC*	United Technologies - Pratt & Whitney	21153 TASK #29	30,481
12.RD	*UOC*	VeroModo Inc.	AG-050876	25,757
12.RD	*UOC*	General Dynamics Information Technology	USAF-A581-30-SC-00	29,455
12.RD	*UOC*	Yardney Technical Products	586281	61,499
Total Miscellaneous Programs				858,289
Total Department of Defense				962,865
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.RD	*UOC*	Town of Vernon	OSP 05/055	85,776
Department of the Interior				
Miscellaneous Programs				
15.RD	*UOC*	Science Applications International Corporation	4400125179	63,617
Department of Labor				
Employment and Training Administration				
17.RD	*UOC*	WA - State Workforce Train & Ed	020 PXG (033)	149,645
Department of Transportation				
Federal Highway Administration				
20.RD	*UOC*	Massachusetts Institute of Tech	5710001690	10,342
20.RD	*UOC*	Massachusetts Institute of Tech	5710001748	12,882
20.RD	*UOC*	New England Transportation Consortium	12.16-10(05)	4,225

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
20.RD	*UOC*	New England Transportation Consortium	6.08-01(05)NETC 04-1	5,598
Total Federal Highway Administration				33,047
Miscellaneous Programs				
20.RD	*UOC*	Connecticut Academy of Science and Engineering	500120596	10,000
20.RD	*UOC*	Massachusetts Institute of Tech	5710001747	4,216
20.RD	*UOC*	Massachusetts Institute of Tech	5710001977	28,092
20.RD	*UOC*	N.England University Transportation	5710001745	22,632
20.RD	*UOC*	N.England University Transportation	5710001746	28,351
20.RD	*UOC*	Texas A & M Research Foundation	S040060	69,350
Total Miscellaneous Programs				162,641
Total Department of Transportation				195,688
Library of Congress				
Miscellaneous Programs				
42.RD	*UOC*	University of Michigan	F012178	99,689
National Aeronautics and Space Administration				
43.RD	*UOC*	University of Hartford	OSP 05/132	149,224
43.RD	*UOC*	Ciencia Inc.	141205	38,237
43.RD	*UOC*	Georgia Institute of Technology	NNG04GB89G	60,346
43.RD	*UOC*	Infinity Fuel Cell and Hydrogen Inc.	AG060060	8,424
43.RD	*UOC*	Qualtech Systems Inc.	QSI-DSC-05-002-REV-N	14,400
43.RD	*UOC*	University Of Florida	UF-EIES-0236001-CON	7,891
43.RD	*UOC*	University of Hartford	303113	2,687
43.RD	*UOC*	University of Hartford	340102	25,753
43.RD	*UOC*	University of Hartford	31805 SUB-UCONN-MALL	9,538
43.RD	*UOC*	UT-Hamilton Sundstrand	2322388 07	42,890
Total National Aeronautics and Space Administration				359,390
National Science Foundation				
47.RD	*UOC*	Ciencia Inc.	803210	78,004
47.RD	*UOC*	Duke University	01-SC-NSF-1008	15,413
47.RD	*UOC*	Florida State University	R00283	42,265
47.RD	*UOC*	Joint Oceanographic Institutions	JSA-29	3,040
47.RD	*UOC*	Marquette University	3-Mar	115,345
47.RD	*UOC*	New England Board of Higher Ed	LTR 9/24/03	28,679
47.RD	*UOC*	Syracuse University	353-5953-S02	(3,000)
47.RD	*UOC*	Northeastern University	532460P20107	39,380
47.RD	*UOC*	Biological Services	501-0825-1	7,698
47.RD	*UOC*	Smithsonian Institution	06SUBC440-0000083232	14,795
47.RD	*UOC*	Syracuse University	353-5953-S01	10,914
47.RD	*UOC*	University of California at Davis	00RA2548	1,245
47.RD	*UOC*	University of California at Davis	RA 012679 UCT	19,550
47.RD	*UOC*	University of Georgia	RR229-208/2000817	142,310

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
47.RD	*UOC*	University of Hartford	342970	2,309
47.RD	*UOC*	University of Michigan	F011773	41,767
47.RD	*UOC*	University of Minnesota	R5286056108	51,511
47.RD	*UOC*	University of New Mexico	650061-87B6	31,139
47.RD	*UOC*	University of Puerto Rico	AAG060221	22,567
47.RD	*UOC*	University of Puerto Rico	AGR050119	10,128
47.RD	*UOC*	University of Wisconsin	148H466	71,346
47.RD	*UOC*	US Nanocorp Inc	OSP 05/073	8,079
47.RD	*UOC*	Williams College	2005-01-ECON	37,673
47.RD	*UOC*	Innovative Technology Inc.	AG050372	28,865
47.RD	*UOC*	University of Massachusetts	04-002354 A 00	69,530
	Total National Science Foundation			890,552
Department of Environmental Protection				
Office of Research and Development				
66.RD	*UOC*	John Hopkins University	8112-48274	63,564
66.RD	*UOC*	John Hopkins University	8201-48276	61,857
Total Office of Research and Development				125,421
Office of Administration				
66.RD	*UOC*	University of Massachusetts	06-003268 E 00	22,002
	Total Department of Environmental Protection			147,423
Department of Energy				
81.RD	*UOC*	Clemson University	02-01-SR097	30,641
81.RD	*UOC*	Biotechnology Research	GO12026-155	30,474
81.RD	*UOC*	Biotechnology Research	GO12026-221	50,667
81.RD	*UOC*	Fluent Inc.	FY00012UCT	(20,911)
81.RD	*UOC*	United Technologies	4997	177,497
81.RD	*UOC*	University of Utah	2212032	23,910
81.RD	*UOC*	Worchester Polytechnic Institute	02-218190-1-4	171,595
81.RD	*UOC*	University of Hartford	OSP 05/080	1,379
	Total Department of Energy			465,252
Department of Education				
Office of Special Education and Rehabilitation Services				
84.RD	*UOC*	Marquette University	H133E020729	50,226
84.RD	*UOC*	Mashentucket Pequot Tribal Nation	OSP 04/76	57,910
84.RD	*UOC*	University of Oregon	222841J	138,911
Total Special Education and Rehabilitation Services				247,047
Office of Elementary and Secondary Education				
84.RD	*UOC*	Eastconn	OSP 05/063	45,266
84.RD	*UOC*	Groton Public Schools	AGR 4/1/03	5,158

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
84.RD	*UOC*	Hartford Public Schools	552472	133,839
84.RD	*UOC*	Hartford Public Schools	AG050754	6,751
Total Elementary and Secondary Education				191,014
Miscellaneous Programs				
84.RD	*UOC*	Learning Point Associates	ED-01-CO-0011	65,461
Total Department of Education				503,522
Department of Health and Human Services				
Center For Disease Control				
93.RD	*UOC*	Sekos	OSP 05-141	3,727
Health Resources and Service Administration				
93.RD	*UOC*	NY/Health Resources Inc.	0002124-02	204,606
93.RD	*UOC*	NY/Health Resources Inc.	2124-01	(11,819)
Total Health Resources and Service Administration				192,787
National Institutes of Health				
93.RD	*UOC*	Center for Applied Linguistics	AG060568	12,425
93.RD	*UOC*	Children's National Medical Center	AG060026	18,937
93.RD	*UOC*	Children's Research Institute	PO#290699	28,276
93.RD	*UOC*	Dartmouth College	5-30063.5708	73,107
93.RD	*UOC*	Dartmouth College	5-30480.5708	9,229
93.RD	*UOC*	Emory University	5-24012-C5	17,199
93.RD	*UOC*	Evergen Biotechnologies Inc	AG050702	19,657
93.RD	*UOC*	Evergen Biotechnologies Inc	OSP 05/183	21,865
93.RD	*UOC*	HHS/NIH/Child Health and Human Development	AG031122	177,457
93.RD	*UOC*	HHS/NIH/Child Health and Human Development	AG031124	112,587
93.RD	*UOC*	HHS/NIH/Child Health and Human Development	AG031126	117,661
93.RD	*UOC*	Institute of Community Research	AG030939	5,317
93.RD	*UOC*	Iowa State University	PROJ.#430-24-29	94,277
93.RD	*UOC*	L2 Diagnostics, LLC	AGMT DTD 8/20/03	12,093
93.RD	*UOC*	Massachusetts General Hospital	OSP 05/083	66,449
93.RD	*UOC*	National Institute of Environmental Health	#753103	21,922
93.RD	*UOC*	Northeastern University	549503P523984	82,692
93.RD	*UOC*	Texas A&M University	60851	98,077
93.RD	*UOC*	University of Chicago	30180	10,390
93.RD	*UOC*	University of Florida	UF05104	47,893
93.RD	*UOC*	University of Houston	R-04-0663	12,709
93.RD	*UOC*	University of Michigan	F012025	100
93.RD	*UOC*	University of Michigan	PO 3000529513	16,046
93.RD	*UOC*	University of North Carolina	UNC-CH 5-50114	17,631
93.RD	*UOC*	University of South Carolina	06-1260 (13010 FB07)	1,210
93.RD	*UOC*	Yale University	A05655	18,623
Total National Institutes of Health				1,113,829

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
Miscellaneous Programs				
93.RD	*UOC*	Alexipharma Inc.	AG040413	1,090
93.RD	*UOC*	Promiliad Biopharma, Inc	AG060900	13,573
93.RD	*UOC*	Ciencia Inc.	752202	110,605
93.RD	*UOC*	John Snow Inc.	28012	41,693
Total Miscellaneous Programs				166,961
Total Department of Health and Human Services				1,477,304
United States Agency for International Development				
98.RD	*UOC*	USAID	C00012038-1	1,263
Miscellaneous Programs				
99.RD	*UOC*	Quinebaug - Shetucket Heritage Corridor	AGR. 1-11-01	167,333
99.RD	*UOC*	U. S. Agency for International Development	OSP 04/15	26,972
99.RD	*UOC*	University of Georgia	RC710-013/4092044	80,922
99.RD	*UOC*	United Technologies - Pratt & Whitney	21153 Task #15	56,360
99.RD	*UOC*	Yardney Tech	P.O.#0284042	15,704
Total Miscellaneous Programs				347,291
TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS				**6,334,738**
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	93,103
Department of Defense				
Miscellaneous Programs				
12.RD	*UHC*	Science Applications International Corp.	4400073138	(666)
U.S. Army Medical Command				
12.RD	*UHC*	Brigham & Women's Hospital	W81XWH-04-1-0553	14,262
Total Department of Defense				13,596
Department of Education				
Office of Special Education and Rehabilitative Services				
84.RD	*UHC*	SRI International	51-000498	16,753
Department of Health and Human Services				
Agency for Health Care Policy and Research				
93.RD	*UHC*	Mass General Hospital	1 R01 AI42402-03	1,128

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
Office of Population Affairs				
93.RD	*UHC*	Hill Health Corp	N/A	11,637
Administration for Children and Families				
93.RD	*UHC*	University of Illinois	A7402-208	17,566
Centers for Disease Control				
93.RD	*UHC*	Assoc of American Medical Colleges	MM 0552-03/03	8,622
93.RD	*UHC*	Harvard University	OH008416-01	9,825
93.RD	*UHC*	Worcester Memorial Hospital	U27 CCU116648	9,567
93.RD	*UHC*	Worcester Memorial Hospital	6058131/RFS5000037	27,489
Total Centers for Disease Control				55,503
Health Resources and Services Administration				
93.RD	*UHC*	Children's Hospital Boston	73652-01	21,583
93.RD	*UHC*	City of Hartford	3769K	114,436
93.RD	*UHC*	City of Hartford	3769H	150,810
93.RD	*UHC*	CT Primary Care Assoc	06-RWIV	173,931
93.RD	*UHC*	CT Primary Care Assoc	05-RWIV	15,453
93.RD	*UHC*	Hospital for Special Care	1 H46 MC04457-01	33,863
93.RD	*UHC*	Worcester Memorial Hospital	H30-MC00037-07-03	1,153
93.RD	*UHC*	UMASS	6058802 OCP/13	57,303
93.RD	*UHC*	Worcester Memorial Hospital	6042393/RFS200075	(1,203)
93.RD	*UHC*	Worcester Memorial Hospital	6053148/RFS20019	39,501
93.RD	*UHC*	UMASS	S11252533404000	(75)
93.RD	*UHC*	Yale University	T01 HP01399-01	7,872
93.RD	*UHC*	Yale University	5 D57HP10171-02	258
Total Health Resources and Services Administration				614,885
Substance Abuse and Mental Health Services Administration				
93.RD	*UHC*	Yale University	2 U79SM54318-04	6,932
National Institutes of Health				
93.RD	*UHC*	Brookside R&D	1 R43 AG21882-01	27,378
93.RD	*UHC*	Brown University	00000015	36,270
93.RD	*UHC*	Child Hlth & Dvlpmnt Inst.of CT	R01 DA15844	(3,365)
93.RD	*UHC*	CT Children's Medical Center	05-179108-01	19,446
93.RD	*UHC*	Children's Hospital Medical Center	37103-24M1	111,099
93.RD	*UHC*	CT Children's Medical Center	04-179546-06	(3,710)
93.RD	*UHC*	CT Children's Medical Center	05-179046-01	15,288
93.RD	*UHC*	CT Children's Medical Center	05-179551-06	13,128
93.RD	*UHC*	Duke University	128358-1	17,242
93.RD	*UHC*	Duke University	303-2118	(3,886)
93.RD	*UHC*	Duke University	303-2118	28,423
93.RD	*UHC*	Duke University	303-2118	3,457
93.RD	*UHC*	Harvard University	148121	50,099

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
93.RD	*UHC*	Infratec Inc.	1 R43 DK064494-01	(32,028)
93.RD	*UHC*	Interhealth Nutraceuticals Inc	1 R43 HL 75665-01	2,248
93.RD	*UHC*	Jackson Lab	AR45433-08	89,741
93.RD	*UHC*	John Hopkins University	8502-91909-X	112,831
93.RD	*UHC*	John Hopkins University	8506-03013	13,035
93.RD	*UHC*	Medical University of South Carolina	R01 DA15844	(914)
93.RD	*UHC*	Nanoprobes Inc.	1 R43DE016794-01	43,199
93.RD	*UHC*	Nanoprobes Inc.	4 R44 CA108013-01	(1,305)
93.RD	*UHC*	Nanoprobes Inc.	4 R44 HL076046-02	94,406
93.RD	*UHC*	Nanoprobes Inc.	4 R44 HL076046-02	9,866
93.RD	*UHC*	Onconova	1 R43 NS45418-02	163,699
93.RD	*UHC*	Americal Medical Student Association	1 R25 AT00529-01	30,520
93.RD	*UHC*	Reliable Biopharmaceuticals Corp	1 R41 HL067498-01	64
93.RD	*UHC*	SUNY-Brooklyn	37316	496,533
93.RD	*UHC*	SUNY-Brooklyn	SUNY 1009189/34462	177,310
93.RD	*UHC*	SUNY-Buffalo	R263976	145,850
93.RD	*UHC*	SUNY-Syracuse	SUNY1031799/28503	163,560
93.RD	*UHC*	Temple University	HL45700	418
93.RD	*UHC*	Tufts University	CA39088	26,631
93.RD	*UHC*	UMASS	6061298/RFS500074	9,431
93.RD	*UHC*	UMASS	MH055278	79,863
93.RD	*UHC*	UMASS	RFS200125	128,163
93.RD	*UHC*	UMASS	RFS500079	22,599
93.RD	*UHC*	UMASS	S1118650S300008	1,641
93.RD	*UHC*	Univ Med/Dent of New Jersey	1 RO1 DE14897-01	27,342
93.RD	*UHC*	University of California-Berkeley	SA2918PGN	(4,299)
93.RD	*UHC*	University of Illinois	MH68455	923
93.RD	*UHC*	University of Michigan	F014171	34,255
93.RD	*UHC*	University of Nebraska-Lincoln	24-0524-009-003	7,341
93.RD	*UHC*	Oregon Health & Science University	GBIMO0069A	129,338
93.RD	*UHC*	Penn State University	HD044144A	5,133
93.RD	*UHC*	University of Pittsburgh	400401-2	(23,812)
93.RD	*UHC*	University of Pittsburgh	P5400-5425	7,451
93.RD	*UHC*	University of Rochester	411581-003-G	1,353
93.RD	*UHC*	University of Rochester	411649-004G	(399)
93.RD	*UHC*	University of Rochester	413332-G	1,989
93.RD	*UHC*	University of Rochester	5 R37 DE008921-16	25,036
93.RD	*UHC*	University of Rochester	RO1 DE014730-02	17,124
93.RD	*UHC*	University of Utah	2302132	91,983
93.RD	*UHC*	University of Washington	634570	1,503
93.RD	*UHC*	University of Washington	891152	(1,261)
93.RD	*UHC*	University of Wisconsin	644F770	89,764
93.RD	*UHC*	Vanderbuilt University	30617-R/2	(14,583)
93.RD	*UHC*	Vanderbuilt University	5 P01 CA77839	190,808
93.RD	*UHC*	Vanderbuilt University	5 P01 CA77839	10,221
93.RD	*UHC*	Yale University	2 P50 DA092410-11	1,014
93.RD	*UHC*	Yale University	2 R01 AA11197-05	102,892

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 11 - Pass-through Grants:				$
93.RD	*UHC*	Yale University	2 R01 AA11330-04	208,043
93.RD	*UHC*	Yale University	5-R01 DA15215-01	(1,749)
93.RD	*UHC*	Yale University	A06057	398,844
93.RD	*UHC*	Yale University	A06057	1,980
93.RD	*UHC*	Yale University	A06106	217,174
93.RD	*UHC*	Yale University	A06212	3,280
93.RD	*UHC*	Yale University	DA12849-05	(3,236)
93.RD	*UHC*	Yale University	DKP1082233	30,124
93.RD	*UHC*	Yale University	R01 DA12690	4,403
93.RD	*UHC*	Yale University	R01 DA12849-06	(110)
Total National Institutes of Health				3,648,099
Miscellaneous Programs				
93.RD	*UHC*	Johnson, Bassin and Shaw Inc	270-03-1000	89,462
93.RD	*UHC*	Onconova	HL085034-01	46,621
93.RD	*UHC*	PHIL GR Bridgeport Adolescent PP	SAMHSA	1,187
93.RD	*UHC*	Population Council	B02.110N	13,433
93.RD	*UHC*	UMASS	N01-DK-2326	199,887
93.RD	*UHC*	University of Virginia	GC10743	73,094
93.RD	*UHC*	University of Virginia	GC10641	176,589
93.RD	*UHC*	Yale University	N/A	5,853
Total Miscellaneous Programs				606,126
Total Department of Health and Human Services				4,932,673
TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS				**5,085,328**
TOTAL PASS-THROUGH GRANTS				**12,590,026**

*	- **Identification of State Agencies:**
UOC	- University of Connecticut
UHC	- University of Connecticut Health Center
CCSU	- Central Connecticut State University
ECSU	- Eastern Connecticut State University
CCC	- Connecticut Community Colleges

Schedule of Findings and Questioned Costs

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2006
INDEX OF SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATUS

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

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2006
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 *Adoption Assistance* (CFDA # 93.659), which is qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
17.225	Unemployment Insurance
17.258, 17.259, 17.260	WIA Cluster
20.205	Highway Planning and Construction
20.500 and 20.507	Federal Transit Cluster
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, and 93.342	Student Financial Assistance Cluster
84.010	Title 1 Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
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
96.001	Social Security–Disability Insurance
97.036	Public Assistance Grants
N/A	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $16,705,082

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.

With 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.

For an audit to be conducted in accordance generally accepted governmental auditing standards, sufficient time must be provided to completely audit and render an opinion on the financial statements published in the State's Comprehensive Annual Financial Report. In order to be able to issue an audit opinion by a specific date, it is generally expected that it will take a minimum of six or more weeks from the time a complete set of draft statements are received by the Auditors of Public Accounts to the time those financial statements will be available for publication.

Condition: The Comptroller did not prepare and issue audited financial statements for its CAFR until April 25, 2007, almost ten months after the fiscal year end, two months after the date they were needed by the State Treasurer and one month after the date they were required by the Federal government.

Effect: The Comptroller was only able to provide unaudited CAFR financial statements to meet the February 28, 2007, SEC continuing disclosure requirement. Credit rating agencies may consider, but have not been publicly critical, of 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.

As a result, in March 2007, the Office of Policy and Management requested and received an extension from the U.S. Department of Health and Human Services, extending the State's reporting deadline from March 31 to May 31, 2007.

Cause: Because of the extensive delay in reporting for the 2003-2004 and 2004-2005 fiscal years, the Budget and Financial Analysis Division of the State Comptroller's Office was not able to begin the process of preparing the financial statements for the 2005-2006 fiscal year until October 2006. The full set of final CAFR financial statements were not presented for audit to the Auditors of Public Accounts until February 28, 2007.

There were delays in issuing the *Annual Report of the Office of State Comptroller - Budgetary Basis* upon which the preparation and audit of the CAFR is based. By necessity, the preparation of CAFR financial statements must follow the extensive manual compilation and adjustment effort necessary to produce accurate budgetary basis statements. The cause of such efforts was the result of various problems in the Core-CT system as detailed in the findings below.

Conclusion: We note that given the record of improvement, it appears that the Comprehensive Annual Financial Report, for the fiscal year ended June 30, 2007, which is required by February 28, 2008, is likely to be made in a timely manner. At this time we will not repeat the previous Recommendation.

Agency Response: "Because of the significant delay in reporting on Fiscal Year 2004, work on the preparation of financial statements in subsequent years had to be delayed. A new year could not be closed until the old year was closed. Therefore, the initial Fiscal Year 2004 problem created a "snowball" effect moving forward. It is anticipated Fiscal Year 2007 will be on time.

Unaudited annual financial reports were produced in Fiscal Years 2004, 2005 and 2006 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 accepted and utilized by credit rating agencies. The final audited statements contained no changes of a material nature.

Numerous edits, monthly closing procedures and business process changes have been implemented in Core-CT to reduce the number of agency coding errors to the general ledger that must be corrected at year end. Additional edits are being evaluated. It is anticipated that the delays will not recur in Fiscal Year 2007."

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 Office of State Comptroller, provides formal written accounting policies and procedures, and establishes the definitions of authority and responsibility between State departments and agencies, and the Office of State Comptroller.

Condition: Previous audits, covering the fiscal years ended June 30, 2004 and 2005, have disclosed that many of the controls the Office of State Comptroller had previously maintained over account postings were eliminated with the implementation of the Core-CT system. Internal controls over the posting of interagency transfers, correct account coding, and budgetary accounting to statewide account records was significantly diminished since the Core-CT system went on line in July 2003.

To address these findings some corrective action has been made. 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 State Comptroller's Office to better monitor and control system entries, identify transaction errors and control posting dates. Transaction changes by user agencies must now be made during the current accounting period (month) rather than affecting past posted transactions.

In January 2006 edits were added to the Core-CT system to ensure that certain invalid coding combinations cannot be processed. In July 2006, the State Comptroller's Office implemented the review of all user agency journal vouchers on a monthly basis in order to add the proper cash account coding and ensure that other account coding is correct. 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 made by Core-CT system users. The Budget and Financial Analysis Division have proposed further system edits, but these have yet to be implemented by the Core-CT project staff.

At the time of our review (March 2007), the Office of State Comptroller has still not provided user agencies with an updated version of its State Accounting Manual, almost four years after the Core-CT conversion. The first revision, an on line chart of accounts for the Core-CT system, was not made available to agency users until January 2006. As an alternative, other on line information for system users has been provided; these include copies of training materials, job aids, and daily emails. However, a unified document providing a complete set of standards and instructions for Core-CT system users to follow has not been made available.

Our previous reports also 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 of the Office of State Comptroller, which is empowered to establish accounting controls and standards on a statewide basis, was frequently in the position of accepting what the Core-CT project could provide, rather than a system more directly meeting their 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. It is our observation that this change did not significantly improve the responsiveness of the Core-CT project staff to the needs of the State Comptroller in implementing system changes. It may not be until the final module is implemented (planned for the 2007-2008 fiscal year), with the role of consultant contractors minimized, and with the final disposition of project management settled, will the reorganization actually show significant 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 audit for the fiscal year ended June 30, 2004, the initial year the Core-CT system was implemented, 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 at the time of our review (March 2007) 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.

We note that in November 2006, the Gartner Group, a private information technology consultant, made a historical and forward-looking study of the Core-CT implementation. Their report, issued in February 2007, concluded that the Core-CT team needed reorganization to better respond to line agency users. The report also stated that a new strategy is needed to improve the training offered to system users, that improvements are needed in the reporting and query functionality, and key and mandatory line agency functions required better support. More specifically, the report cited the problems with inconsistencies in the commitment control function, and the lack of field level edits and validation over those transactions entered by agency users.

Accordingly, we also note that at the time of our review (March 2007) the Governor's biennial budget proposal for the 2007-2009 fiscal years included plans to transfer the operation of the Core-CT system (105 employee positions) to the supervision of the State Comptroller by creating a Core-CT Division within the Office of State Comptroller. At the same time we noted legislation was proposed to establish a Core-CT Support System Division within the Office of State Comptroller, and to establish a Core-CT Policy Board.

Effect: With the decentralization inherent in the Core-CT system, we found State agencies can enter data onto statewide accounting ledgers without the review and authorization of the Office of State Comptroller. As a result, accounting entries are frequently made by user State agencies that do not conform to proper governmental accounting practices.

The Core-CT system has not adequately served line State agency users. The State of Connecticut has not received the full benefit of its significant investment in the Core-CT system. The consultant report included a list of Core-CT functionality gaps that included the areas of commitment control, Federal billing, reporting and the lack of screen edits and validation controls.

Cause: Because the Core-CT project is still under the administration of the joint committee responsible for the system's initial implementation, with no organizational plan established for ongoing administration, 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 Office of 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.

Our previous audit recommended the establishment of basic "edit checks" to prevent erroneous transactions from being entered to the wrong account and fund combinations. We found the basic version of these controls was not implemented until January 2006, two and one half years after the Core-CT system was brought on line.

Recommendation: The Office of 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 to address the Core-CT environment.

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. At that point, Core-CT will be emerging from its implementation phase and entering its support and enhancement phase.

As you observe, the Gartner Group produced a report in February 2007 that, among its many findings, recommended elimination of the multiple director group management of Core-CT in favor of a single director. This organizational change was reflected in the Governor's biennial budget proposal for Fiscal Years 2007-2009, with the single director and Core-CT division consolidated in the Comptroller's Office. As the Core-CT system stabilizes under new management, redeployed resources will be available to implement new system edits, validations, and business process enhancements.

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 central data entry control and, as noted in this report, the need to increase internal controls and monitoring of system entries.

The Comptroller's Office has already implemented numerous system and business process enhancements designed to both increase internal controls and better monitor transactions. In November 2004, a monthly closing process was implemented that eliminated the post dating of accounting transactions thus facilitating monthly reconciliations. In February 2005, a billing module was added to the system that, among other functionality, implemented hard coding of revenue based on billing type, thus enhancing central tracking of interagency transfers. In January 2006, combination edits were implemented that eliminated some of the most common agency coding errors. Also in January 2006, an on-line chart of accounts user guide was made available to agencies to assist them in determining proper central coding requirements. This coding guide supplements state accounting practice detail for each of the Core-CT modules that is contained within the job aides, training material, user group material and Q&A topics presented on the financial user section of the Core-CT web page.

In July 2006, the Comptroller's Office centralized the process of entering cash lines on Journal Vouchers in order to ensure proper coding and balancing of such journals.

As noted above, as Core-CT evolves from a system implementation project to a more stable support and enhancement function, opportunities will exist to implement additional edits and controls. The Comptroller's Office will continually seek enhancements to better meet agency needs and will continue to ensure that necessary internal controls and edits are incorporated within those enhancements."

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 meet their needs and provide for the reconciliation of accounts.

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

Condition: Previous audits, covering the fiscal years ended June 30, 2004 and 2005, have 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. Although significant improvements have been made in respect to general reporting, the basic system design of Core-CT has left users with the inability to obtain reports in certain areas.

Our current audit conducted an informal survey among a number of users of the Core-CT system. Several reported a need for a grants receivable trial balance, which was a functionality lost with the implementation of the Core-CT system. Without it, proper Federal grant billing and accounting is made more difficult. In addition, respondents stated that it is still not possible for users to receive reports that identified s.i.d. codes (special identification code) pertaining to restricted appropriations, particularly Federal grants. It is still difficult for users to receive delivered reports that are sorted by fund and/or s.i.d. code. Certain on line reports, particularly revenue and available cash reports, were described as difficult to run by the average user when a delivered report was desired.

Complaints were also made about the difficulty and time required to “drill down” and find detailed information on a ledger entry, as well as inconsistencies observed when running a report with the same criteria successive times results in differing totals.

The Independent Public Auditor report for the Special Transportation Fund for the fiscal year ended June 30, 2006, reported the condition that “There was no automated procedure in place to properly account for grant expenditures, grant receipts, grants receivable and deferred grant revenue. The previous accounting system tracked grant expenditures and grant receipts and automatically determined grant revenue based on those amounts. During our audit, we noted 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. Consequently, a manual analysis had to be prepared using various reports from the Core-CT system to determine the required amounts for grants.”

Effect: Proper accounting for grant expenditures related to personal services costs, and certain cash, receivables and revenues reporting has continued to be problematic. 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.

Cause: The Core-CT system is based on PeopleSoft computer software that is an adaptation from the commercial accounting environment. That adaptation to the accounting needs of the State resulted in certain deficiencies in financial reporting.

Recommendation: The Office of State Comptroller should seek continued improvements in financial reporting from the Core-CT system, with specific emphasis on the accounting of grant revenues, expenditures and transfers.

Agency Response: "The Comptroller's Office disagrees with the emphasis of this finding. Essential reporting functionality has been available to Core-CT users throughout the audit period. 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 2005, the new report catalog website went online. Initially, this site included over 30 production reports covering six financial modules. At this writing, the number of reports has grown to over seventy. 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.

You note that certain reports are not sorted as desired. However, since the reports are downloadable to Excel, they can be sorted by the user as desired. You also note deficiencies in grant reporting. It is true that historical data, including cumulative receipts, are not available on a single report and compiling this information is time consuming. Efforts have been made to develop improved reporting in this area, but have not yet been fully achieved.

As in any financial environment, change is a constant. Reporting functionality will be revised and enhanced on an ongoing basis to adapt to change and to enhance the ease of user reporting functionality. Improved grant reporting remains a priority issue."

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 meet their needs and provide for the reconciliation of accounts.

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

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

Condition: Our previous audits cited the failure of the Core-CT system to process on-line 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 State Treasurer could not reconcile its cash accounts promptly after year-end, which contributed to the delays in preparation of both the State Comptroller's Annual and CAFR reports and the State Treasurer's Annual Report for the fiscal years ended June 30, 2004 and 2005.

In response to our previous audit, the Office of State Comptroller has added additional controls to reduce the problems encountered in reconciling cash activity. Effective with the 2006-2007 fiscal year, user agencies were prevented from entering cash postings to journal voucher transactions. Instead, this process has been recentralized by having the Budget and Financial Analysis Division manually add the cash lines to such transactions each month. In addition, the Core-CT system was modified to automatically code “on account” items, which are receipts pending identification as to the proper account to be credited to (referred to as “OA” items or pending receipts) directly to the Funds Awaiting Distribution Fund (34003 Fund). The State Comptroller planned to track these items monthly to ensure that revenue accounts reflect changes in cash. These changes have resulted in some improvement; however, as described below, it has also caused problems with the Accounts Receivable Maintenance/ Transfer Control Account (11500). At the time of our review (March 2007) an improvement to the method of handling on account receipt items was a matter still pending with the Core-CT project staff.

Our current audit observed that the State Treasurer has made progress in completing its monthly bank reconciliations in a timely manner. At the time of our review (March 2007) the State Treasurer was generally completing its bank reconciliations within the 15th day of the following month for the smaller accounts, and within the end of the following month for the payroll and vendor accounts. For the fiscal year ended June 30, 2006, there were still offsetting items between accounts that the State Treasurer could not reconcile or explain. These items did not affect the overall financial reporting of cash balances by the State Comptroller, but still require correction

We also observed that the implementation of an on-line process discussed in our prior report remains to be accomplished. The State Treasurer is relying upon a manual alternative that uses downloaded bank information. This method is more labor-intensive, and information on cleared and outstanding items is not available to users on the Core-CT system. We note that the State Treasurer is required to reconcile 17 different bank accounts each month, with an additional six being reconciled by various State agencies.

Our prior audit also noted deficiencies with the Interagency Transfer Account (10436) used as a clearing account to process transfers between State agencies. This account should, once all pending items have been processed, maintain a net zero balance. Our previous audit found that this account has not been reconciled on a current basis by the State Comptroller. Our current audit again found outstanding billings and payments have not been researched and resolved in a timely manner, and no edit controls have been implemented to enforce the proper use of this account.

During the initial preparation of the financial statements for the 2005-2006 fiscal year, the Budget and Financial Analysis Division of the Office of State Comptroller encountered erroneous balances in the Core-CT Accounts Receivable Maintenance/Transfer Control Account (11500). This was the result of on account revenue items being automatically posted to the 11500 account in the general ledger by the accounts receivable module of the Core-CT system, as described above. The Office of State Comptroller explained that changes in the method of processing on account receipt items, or the elimination of their use would eliminate this problem. As noted above, the State Comptroller was requesting such changes from the Core-CT project staff.

Effect: 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; a more labor intensive method that should have been automated as part of the Core-CT conversion.

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

The problems with the Accounts Receivable Maintenance/Transfer Control Account involved numerous transactions, which required the attention of two staff accountants for two months to be identified and corrected. Without the correction of these mispostings, it would be impossible to prepare accurate cash statements. The additional time required for this effort contributed to the delays in financial reporting.

Cause: The design of the Core-CT system contains deficiencies pertaining to the efficient reconciliation of bank accounts and the processing of interagency transfers and on-line account receipt items. In addition a lack of controls over account mispostings by department and agency users contributed to the conditions noted.

Recommendation: The Office of State Comptroller, working with the Office of the State Treasurer, should provide an automated method to reconcile cash activity within the Core-CT system. It should also address the need to review and reconcile the Interagency Transfer Account, and the need to improve the processing of on account receipt items.

Agency Response: “Reconciliation of cash to bank totals is a function of the State Treasurer’s Office. The Comptroller’s Office and Core-CT staff have been working jointly with the Treasurer’s Office to resolve the general ledger cash to bank reconciliation problems that have existed since the implementation of Core-CT. As you discuss, numerous business process and system changes have been implemented to facilitate cash reconciliation.

It should be recognized that from a combined cash perspective, cash flows are materially in balance in all funds. The problem is within specific cash account reconciliations. Therefore, it is logical to assume imbalances between accounts are offsetting.

The Treasurer's Office reached agreement with Bank of America to receive daily cleared and outstanding check data in file format. This file must be configured to Core-CT. The final agreement with Bank of America for provision of this file coincided with the upgrade of Core-CT, and sufficient resources were not available to configure the file at that time. At this writing, the configuration of the file is a high priority task. Although this file provides an additional reconciliation tool, it will not result in a spontaneous reconciliation of cash accounts by fund since it contains no information on the accounting code distribution of cash.

With respect to interagency cash, despite exhaustive research, no system based edits have been found to ensure the consistent recording of interagency cash transfer transactions. Centralization within the Comptroller's Office of all interagency cash transactions was considered. The system functionality that allows agencies to move money without central oversight cannot be readily eliminated from the Core-CT system option. In addition, agencies have come to depend on this functionality. Therefore, even if a policy decision was made to centralize the transfer process, it could not be effectively enforced.

Substantial resources have been dedicated to ensure that depository cash accounts can be balanced for Fiscal Year 2007 reporting. Additional controls are being sought for interagency cash transactions."

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: Previous audits, covering the fiscal years ended June 30, 2004 and 2005, have found that 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. With the implementation of the billing module of Core-CT in February 2005, improvements were made in system controls.

However, our current audit found department and agency users were still improperly coding interagency transfers. Prior audits have also noted that billed State agencies will at times not approve interagency transfers that were posted to their accounts by a billing agency. This would leave the transaction uncompleted, resulting in outstanding charges and incomplete or incorrect transactions posted to accounts.

At the time of our review (March 2007) there were no system controls implemented to positively prevent system users from miscoding interagency transfers or to prevent uncompleted ones.

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. Coding problems have made interagency transfer reporting an error prone and labor-intensive activity.

Cause: Deficiencies in the system controls, and a decentralized environment that did not enforce compliance with standard policies and procedures allowed users to believe that if a transaction could be entered and processed through the system, it was properly coded.

Recommendation: The Office of 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 as discussed above. Despite these problems the Comptroller's Office has been able to provide required reports and reconciliations on Federal and State interagency transfers. Additional controls are being sought for interagency cash transactions."

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: Previous audits, covering the fiscal years ended June 30, 2004 and 2005, have 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 enter onto the State's general ledger many types of erroneously coded transactions without being blocked by internal controls that include edits and validation based at the field level.

In a limited solution to this condition in January 2006, the Office of State Comptroller implemented combination editing for certain fund and 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 (March 2007) 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 Office of State Comptroller has relied upon and emphasized continued training of department and 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's Office must maintain a manual process to apply the proper account code itself and then post the journal voucher for the user agency. Hard edits or other controls have not been built into the Core-CT system to prevent department and agency users from continuing to enter erroneous account coding.

Cause: The Core-CT system is decentralized and, by necessity, the Office of State Comptroller must rely on department and agency users to make the correct accounting entries onto the system. Reliance was placed on the training of Core-CT users rather than fixed system edits. Deficiencies in the system design and the failure to initially establish standardized procedures have allowed users to enter erroneous account or date information.

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

Agency Response: "Additional system edits and control, as discussed below, have resolved the most common and troublesome coding errors. Enhanced user training has also been helpful in this regard. However, it is simply 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 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.

Additional system edits and controls are periodically examined. The benefits of additional system edits must be fully tested and weighed against the potential negative impact on system performance and user requirements."

II.A.7. Failure of System Controls Over Ledger Posting:

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

Condition: Previous audits have noted a deficiency in Core-CT system controls that affected commitment and general ledger reporting. The Core-CT system uses a system of a general ledger and a commitment control ledger to provide for the budgetary control used by State government. We found that the "budget check" that was established as an internal control to prevent the posting of transactions to the general ledger without first being posted to the commitment control (budget) ledger, was being affected by various "system bugs" or other problems causing it to be bypassed and/or creating other posting problems.

Our current audit noted some improvement has been made. However, throughout the audited period certain budget check problems would appear. The Core-CT system would, at times, allow a payment to be posted prior to the posting of the applicable voucher, leaving vouchers in the system that were not associated with an applicable payment, and possibly deleted after a payment was made. Also, the Core-CT system did not always automatically generate the proper entries to all accounts when a journal voucher was entered into the system. Department and agency users were required to prepare them manually, which sometimes resulted in their failure to be properly posted to budgetary or other accounts.

Effect: System users and the staff of the Budget and Financial Analysis Division are required to manually identify and correct differences that result between the general ledger and the commitment control ledger as part of a monthly closeout and reconciliation process.

Department and agency users of the Core-CT system have reported inconsistent and cumbersome functionality when processing purchase orders and applying the budget check process.

Cause: Deficiencies in the system design ("system bugs") and the failure to adequately control user-entered transactions have created weaknesses in internal controls that allowed erroneous transactions to be processed in the system. The Office of State Comptroller has studied the feasibility of building hard edits into various Core-CT module applications to eliminate the ability of agencies to enter coding that would bypass the budget check process. However, other than the combination edits for fund and s.i.d. coding that was implemented in January 2006, no corrective action has been implemented. We do note that beginning in July 2006, the accounts payable module in Core-CT was modified to prevent payments from being processed on an unposted voucher.

Recommendation: The Office of 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 aggressive in seeking vendor resolution of the commitment control "system bugs" that you discuss. The upgrade to PeopleSoft version 8.9 addressed many of the deficiencies within commitment control.

The problem that you identify with payments in some cases posting prior to the voucher has been resolved. The system will no longer permit payment posting prior to voucher posting. In addition, and as noted above, in July 2007 a manual review of journal vouchers was implemented by the Comptroller's Office to limit posting errors.

The version 8.9 software will be closely monitored to ensure that the promised improvements in commitment control functionality are realized. Other corrective steps as noted in the response have already been implemented."

THIS PAGE LEFT INTENTIONALLY BLANK

SECTION III

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. DEPARTMENT OF SOCIAL SERVICES

III.A.1. 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 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

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 all installations that are involved in the administration of HHS programs.

Effect: The Department's assurance that its ADP installations are secure is lessened.

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

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

Agency Response: "The Department agrees with this finding. The Department 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.2. Eligibility – Medicaid Eligibility 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 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Background: States are required to operate a Medicaid Eligibility 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 May 2006 for the six-month review period October 2004 – March 2005. This report should have been submitted in December 2005. The report for the six-month review period April 2005 –

September 2005, which should have been submitted in June 2006, has not been submitted as of December 2006.

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 System reports to the Department of Health and Human Services in a timely manner in accordance with Federal regulations.

Agency Response: "The Department agrees with this finding. The MEQC System Payment Error Rate report for the six-month period ended September 2005 was submitted in November 2006. Also, the three vacant staff positions in the Quality Control Unit were refilled and there is now adequate staff to address the workload."

III.A.3. 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 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

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.

Condition: We reconciled the Form CMS-64 submitted for the quarter ended December 31, 2005, to supporting documentation. We performed analytical procedures for the additional three Financial Reports submitted during the State fiscal year ended June 30, 2006. Our review disclosed numerous errors on all of the Forms submitted to CMS. The net effect of the errors is a $3,863,415 overstatement of gross expenditures. This net amount is based on an overstatement of gross expenditures totaling $3,934,140 and an understatement of gross expenditures totaling $70,725. This resulted in the Federal share being overstated by $1,915,330. The following is a summary of the errors noted during our review of the CMS-64 reports.

Our review of the Form CMS-64 Summary Sheet submitted for the quarter ended December 31, 2005, disclosed that the Department overstated gross expenditures by $3,056,910 ($1,517,301 at the applicable Federal financial participation rates). We noted the following:

- The gross amount reported as *Medical Assistance Payments* on Line 6 “Expenditures in this Quarter” was $1,091,028,085. The correct amount is $1,089,430,363. This resulted in an overstatement of $1,597,722.

- The gross amount reported as *Medical Assistance Payments* on Line 9D “Collection: Other” was $18,062,846. The correct amount is $19,566,648. This caused the “Collection: Other” amount to be understated, which resulted in an overstatement of $1,503,802 to the reported expenditure amount.

- The gross amount reported as *State and Local Administration* on Line 7 "Adjustments Increasing Claims For Prior Quarters" was $26,343,632. The correct amount is $26,388,246. This resulted in an understatement of $44,614.

In addition, our review of the Form CMS-64 Summary Sheet submitted for the quarter ended December 31, 2005, disclosed that the Federal share amount reported as *State and Local Administration* on Line 6 "Expenditures in this Quarter" was $22,602,750. The correct amount is $22,607,974. This resulted in an understatement of $5,224. This error had no effect on the total gross amount reported on Line 6.

Our review of the Form CMS-64 Summary Sheet submitted for the quarter ended September 30, 2005, disclosed that the Department overstated gross expenditures by $348,741 ($174,371 at the applicable Federal financial participation rates). We noted the following:

- The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" was $1,088,641,210. The correct amount is $1,088,667,321. This resulted in an understatement of $26,111.

- The gross amount reported as *Medical Assistance Payments* on Line 9D "Collection: Other" was $33,069,609. The correct amount is $33,444,461. This caused the "Collection: Other" amount to be understated, which resulted in an overstatement of $374,852 to the reported expenditure amount.

Our review of the Form CMS-64 Summary Sheet submitted for the quarter ended March 31, 2006, disclosed that the Department overstated gross expenditures by $280,000 ($140,000 at the applicable Federal financial participation rates). We noted the following:

- The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" was $1,087,652,181. The correct amount is $1,087,472,181. This resulted in an overstatement of $180,000.

- The gross amount reported as *Medical Assistance Payments* on Line 9D "Collection: Other" was $22,688,531. The correct amount is $22,788,531. This caused the "Collection: Other" amount to be understated, which resulted in an overstatement of $100,000 to the reported expenditure amount.

Our review of the Form CMS-64 Summary Sheet submitted for the quarter ended June 30, 2006, disclosed that the Department overstated gross expenditures by $177,764 ($88,882 at the applicable Federal financial participation rates). We noted the following:

- The gross amount reported as *Medical Assistance Payments* on Line 9D "Collection: Other" was $29,727,240. The correct amount is $29,905,004. This caused the "Collection: Other" amount to be understated, which resulted in an overstatement of $177,764 to the reported expenditure amount.

Effect: The four CMS-64 Forms submitted to CMS during the State fiscal year ended June 30, 2006, had errors. As a result, the Department overstated the amount reported as *Medical Assistance Payments* and understated the amount reported as *State and Local Administration* on Line 11 "Net Expenditures Reported In This Period (Sum of Items 6, 7 and 8 Less 9 and 10)" by $3,908,029 and $44,614, respectively. Based on applying the applicable Federal financial participation rates to these errors, the Department overstated its Federal share of Medicaid by $1,915,330. 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 Response: "The Department agrees with the finding. The Department agrees with the discrepancies cited and correcting entries will be included in the CMS 64 Claim for the quarter ended December 31, 2006."

III.A.4. 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 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

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, 2006. 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, 2006, the Department claimed for Federal reimbursement $20,510,412 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 costs 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 Response: "The Department agrees with the finding. The Department's target date for finalization of 2001 through 2006 rates has been revised to June 30, 2007. The completed rates for these periods will be in accordance with OMB Circular A-87."

III.A.5. Eligibility – Social Security Numbers

Medical Assistance Program (Medicaid, Title XIX) (CFDA # 93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Background: The Department maintains a data warehouse of various information related to Medicaid clients. The data contained in the data warehouse is downloaded from the Department's Medicaid Management Information System (MMIS). Client information is entered into the Department's Eligibility Management System (EMS). On a weekly basis, this information is downloaded to MMIS. We obtained the data included in the data warehouse for the quarter ended September 30, 2005. We reconciled this data to the claims made by the Department for Federal reimbursement. This data included the clients' name and social security numbers.

We used an audit software to extract all clients who did not have social security numbers listed. Our review disclosed that there were 3,121 out of 142,495 clients in which a social security number was not listed on the file obtained from the data warehouse. The total payments made on behalf of these 3,121 clients during the quarter ended September 30, 2005, was $8,140,354. We selected ten clients to determine whether the social security numbers were included in MMIS as a verification of the file obtained from the data warehouse. The total payments made to these ten clients was $16,906. We also reviewed the case files of eight clients to determine whether the case files included the clients' social security numbers even though the Department did not enter the numbers into MMIS. We did not review two of the ten cases files because the cases were closed and we did not request the case files.

Criteria: Title 42 United States Code Section 1320b-7 requires, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish his or her social security account number (SSN) and the State shall utilize the SSN in the administration of the program. This Section also requires the Department to use the income and eligibility verification system (IVES) to verify eligibility using wage information available from such sources as the agencies administering State unemployment compensation laws, Social Security Administration, and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits.

Title 42 Code of Federal Regulations Part 435 Section 910 provides that the Department must not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by the Social Security Administration (SSA).

Condition: Our review disclosed that the SSN was not entered into EMS in all ten cases tested. Out of eight case files reviewed, there was one instance in which the Department did not obtain the SSN from the client. In three cases, the clients provided the SSN but the Department did not enter the SSN into EMS. For the remaining four cases, the SSN were not required because the clients were illegal aliens and were provided a one time emergency service.

Effect: In one instance the Department did not comply with Federal regulations because it did not obtain the SSN. Without entering the SSN into EMS, the Department is not able to use the IVES to verify eligibility using wage information as required by Federal regulations

Cause: The errors appeared to be oversights by the Department's eligibility workers.

Recommendation: The Department of Social Services should ensure that it obtains the social security numbers of all Medicaid clients and enters the social security numbers in its Eligibility Management System.

Agency Response: "The Department agrees with the finding. The Department will review its current procedures for recording the Social Security Numbers (SSN) of Medicaid recipients and explore the development of additional Eligibility Management System (EMS) edits to ensure that SSN's are recorded. Current system edits at the time of Medicaid application require either the recording of a SSN or the recording of the date that the client applied for a SSN. In those instances where the application date versus the SSN is entered, the Department is considering a subsequent system generated alert to remind the caseworker to obtain the SSN. Also, the Department will review edits at time of redetermination to assure that they require the updating of SSN's when they are missing."

III.A.6. Allowable Costs/Costs Principles – Duplicate Payments

Medical Assistance Program (Medicaid, Title XIX) (CFDA # 93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Background: The State of Connecticut submitted a proposal under Section 1915(b) of the Social Security Act to provide comprehensive medical and social services to the State's Medicaid population. The State was approved to operate a managed care program for children and families receiving Medicaid.

The Department provided to us a monthly file of individual capitated payments made to the managed care organizations (MCOs) on behalf of clients who meet the Medicaid eligibility requirements. We reconciled the total payments recorded on this file to the amount of expenditures claimed for Federal reimbursement. We selected the July 2005 payment file to perform procedures using audit software to review the validity of the data included on the file. This file had 316,141 unique client identification numbers. The Department assigns each client with an identification number at time of eligibility. We extracted from the file payments made on behalf of clients with the same first and last name and same birth date. These three fields were the only fields on this file that we were able to use to perform this review. There were 76 such clients. Each of these 76 clients had at least two different client identification numbers. Further review of these 76 clients disclosed that the Department paid more than one capitated rate on behalf of some of these clients.

Criteria: The Office of Management and Budget (OMB) Circular A-87 includes factors affecting allowability of costs. To be allowable under Federal awards, costs must be necessary and reasonable for the performance and administration of Federal awards.

Title 42 Code of Federal Regulations Part 435 Section 910 provides that the State has 60 days from discovery of an overpayment for Medicaid services to recover or attempt to recover the overpayment from the provider before adjustment in the Federal Medicaid payment to the State is made; and that adjustment will be made at the end of the 60 days, whether or not recovery is made, unless the State is unable to recover from a provider because the overpayment is a debt that has been discharged in bankruptcy or is otherwise uncollectable.

Condition: Our review of the 76 managed care clients who had similar names and birth dates disclosed 39 of these clients were listed on the file of capitated payments more than once. As a result, our review disclosed that the monthly payment made in July 2006 to the MCOs included duplicate payments totaling $6,914.

The Department was aware of duplicate payments totaling $4,164 associated with 20 of these 39 clients. However, the Department did not credit the Federal government for these overpayments.

Effect: Based on the 50 percent Federal financial participation rate, the Department improperly claimed $3,457 for Federal reimbursement under the Medicaid program. We consider these payments to be unallowed under the Medicaid program.

Cause: The errors appeared to be oversights by the Department's eligibility workers.

Recommendation: The Department of Social Services should establish procedures to ensure that duplicate payments are not being made on behalf of Medicaid clients who are in managed care. In addition, overpayments discovered by the Department should be returned to the Federal government.

Agency Response: "The Department agrees with the finding. The cited discrepancies do appear to be the result of oversights by eligibility workers. Given there were only 39 duplicate records in the 316,141 records examined, pursuing corrective action by reminding eligibility staff to be more careful when adding new clients is unlikely to remedy the problem. Instead the Department will explore the development of an exception report to identify duplicate client records on a regular basis for immediate correction. The Department will also establish internal procedures to arrange for the return of any overpayments to the Federal Government."

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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

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 (CFR) Part 206 Section 10 requires that at least one face-to-face redetermination must be conducted for each TANF case every twelve months.

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.

Title 45 CFR Part 261 Section14 provides that if an individual refuses to engage in work required under 407 of the Act, the State must reduce or stop the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. This section also provides that the State must, at a minimum, reduce the amount of assistance otherwise payable to the family pro rata with respect to any period during the month in which the individual refuses to work. The State may imposed a greater reduction, including stopping assistance.

The TANF State Plan provides that the program attempts to direct clients to employment sufficient to move them off assistance within 21 months. If a family member refuses to participate in Employment Services activities the family is penalized through grant reduction. Section 8530.55 of the Department's Uniform Policy Manual outlines the penalty reductions. This Section provides that for those assistance units that are not in an extension of the 21 month limit, the benefits should be reduced for the first violation by 25 percent for a three month period and assistance units that are in the extension of the 21 month limit are not eligible for cash assistance.

Condition: We randomly selected 40 benefit payments totaling $15,387 made on behalf of TANF recipients from a total of 226,236 claims totaling $95,451,426. These payments consisted of commingled Federal TANF funds and State funds. Of this $95,451,426, $5,454,004 (or six percent) was claimed as direct Federal expenditures and $89,997,422 (or 94 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:

1. In one case, assistance was provided to an individual who refused to engage in work where benefits were not appropriately reduced or terminated when good cause or an exemption was not established, as follows:

    - An employment services penalty was properly imposed on the participant for an employment services sanction prior to the assistance unit's extension of the 21 month time limit. However, with a penalty start date of August 1, 2005, the benefit amount of $588 for the month of August was not reduced by 25 percent, or $147, as required by Department policy.

    - Further review of the payments made to this client disclosed that the payments made for September 2005 and October 2005 were properly reduced by 25 percent. However, with no evidence that the participant complied with employment services requirements following the first penalty period imposed on the client, the assistance unit should have been deemed ineligible for any further cash assistance effective November 1, 2005. As result, the Department continued to improperly pay benefits totaling $3,085 to this assistance unit for the period November 2005 through July 2006. These payments were not part of the original sample.

2. We were not able to confirm that the Department completed the required annual eligibility redeterminations within 12 months prior to the benefit issuance dates for six recipients. In addition, Department eligibility workers did not sign the completed eligibility documentation in five

cases to indicate that the documents were reviewed. The eligibility documentation consists of the applications received from clients.

3. There were 10 instances in which the cases did not contain documentation from clients indicating whether the individual, or any member of the household of the individual, had been convicted of a Federal or State felony, had been convicted of a drug felony, is running to avoid prosecution or custody or confinement, or was violating a condition of parole or probation.

Effect: The first condition resulted in payments totaling $3,232 that did not meet the TANF eligibility requirements. Based on the Department claiming for Federal reimbursement only six percent of total assistance payments, the errors resulted in questioned costs totaling $194. 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 ten 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 Response: "The Department agrees with the finding. The revised application form includes the law enforcement information that is on the W-1129; accordingly, compliance should increase as the outdated forms are destroyed and not replaced. In addition, concerning maintaining the redetermination documents, adhering to the employment services penalties, and use of the W-1129 when appropriate, the Department will ensure that the Office of Staff

Development stresses these items during training classes and that regional management is aware of these deficiencies and staff will be notified to improve performance in these areas."

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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

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

Criteria: Title 42 United States Code (USC) Section 608(a)(2) states that if the state agency responsible for administering the state plan approved under Title 42 USC Section 651determines that an individual is not cooperating with the state in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, the state agency (A) shall deduct from the assistance that would otherwise be provided to the family of the individual under the state program funded under this part an amount equal to not less than 25 percent of the amount of such assistance, and (B) may deny the family any assistance under the state program. The Department of Social Services' Uniform Policy Manual (UPM) Section 8540.65 requires that, if an individual does not cooperate with the establishment of paternity and the securing of child support without good cause, the entire assistance unit is ineligible.

Condition: Our review of ten randomly selected F0024S IV-A Sanction Notices revealed one instance in which the TANF recipient was not cooperating with child support requirements and the eligibility worker failed to comply with the penalty requirement for child support non-cooperation as set forth in the Department's UPM.

Effect: We determined that $443 in benefit payments made during the State fiscal year ended June 30, 2006, should not have been paid to the recipient because the recipient was not cooperating with child support requirements at the time the payments were made. Of this $443, $26 is considered to be questioned costs. The questioned costs amount is based on the Department claiming for Federal reimbursement only six 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 $3,101 made subsequent to State fiscal year ended June 30, 2006, should not have been paid to the recipient for not cooperating with child support requirements. Of this amount, $186 is considered to be questioned costs.

Cause: Regional office eligibility workers do not always comply with the requirements of Section 8540.65 of the Department's UPM.

Recommendation: The Department of Social Services should ensure that all regional office staff are aware of, and comply with, the penalty requirements for non-cooperation with child support efforts as required by Federal regulations.

Agency Response: "The Department agrees with the finding. The Department has recently notified staff of the penalty requirements for non-cooperation with child support in order to reduce instances of non-compliance with this policy."

III.A.9. Reporting – Annual Report On TANF Programs and 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 2004-2005
Federal Award Number: G0501CTTANF

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 TANF program maintenance of effort (MOE) programs for that year. This section further provides that the State must provide information on the State's programs for which the State claims MOE expenditures.

The Department of Health and Human Services (DHHS) issued Program Instruction TANF-ACF-PI-01-06 to clarify instructions for completing the TANF and MOE reports. The Program Instruction provides that DHHS intends to use the information on these reports in Congressional hearings about how TANF programs are evolving, in assessing State MOE expenditures, and in assessing the need for legislative changes. Attachment A provides guidance on the Annual Report On TANF Programs and Attachment B provides guidance on the Annual Report on State Maintenance-of-Effort Programs (Form ACF-204).

Attachment A instructs the State to provide the information on its TANF program regardless of the funding source. If the State elects to report on other benefits or activities provided through other program funding streams, mention them after the TANF-funded benefits or activities.

Condition: We reviewed the Department's Annual Report On TANF Programs for Federal fiscal year 2004-2005. We noted that the Department reported eight programs on this report for which it did not report any expenditures on the ACF-196 Financial Report. However, the Department did not list these programs after the TANF-funded benefits or activities as required in the TANF Program Instruction. The ACF-196 is used to report the amount of funds expended by the State for benefits or services provided under TANF. The expenditures reported on the ACF-196 consists of segregated Federal TANF funds, segregated State TANF funds, or commingled funds.

We reviewed the Department's Annual Report On State Maintenance-of-Effort Programs (ACF-204) for Federal fiscal year 2004-2005. We noted that the Department did not maintain adequate documentation to support the following reported amounts:

- Total Number of Families Served under the "Temporary Rent Subsidy Program with MOE Funds" reported on Line 9 of Section 4.
- Total Number of Families Served under the "Safety Net Services and Safety Net Basic Needs Programs with MOE Funds" reported on Line 8 of Section 5.
- Total Number of Families Served under the "Hispanic Human Resources Development Program with MOE Funds" reported on Line 8 of Section 13.

Effect: The Federal Government cannot ascertain whether funds are being used as required. Information being used by DHHS might not be accurate.

Cause: The Department did not have procedures to obtain or maintain adequate documentation to support the information being reported.

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

Agency Response: "The Department agrees with the finding. The Department has instituted a new internal review process. Staff from the program and financial units now monitor consistency of the information submitted via the approved TANF State Plan, the ACF-196, the TANF Annual Report and the TANF Maintenance of Effort report.

With regard to report documentation, back-up documentation and information is within the contractor's tracking system. The Department will explore the possibility of securing hard copy documentation."

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 Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

Food Stamps (CFDA # 10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
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, 2005, and December 31, 2005, disclosed problems. As of September 15, 2006, 2,413 alerts for the Medicaid, TANF and Food Stamps programs that were generated during the quarter ended December 31, 2005, had not been dispositioned (investigated, resolved and removed as appropriate). The dates that these alerts were due to be dispositioned ranged from October 31, 2005, and February 14, 2006. Each alert is assigned a specific due date generated by the system. It should be noted that the report dated September 15, 2006, that was provided to us only includes those alerts that were originally generated during the quarter ended December 31, 2005, that have not been dispositioned as of the report date. Those alerts that have been dispositioned are no longer on this report. We did not determine the total number of actual alerts that were generated for this quarter. This information is not readily available at the time of our review.

We did, however, request an alert report that was more current in order to determine the number of alerts that are issued on a quarterly basis. A request was made by us for the alerts that were generated during the quarter ended September 30, 2006. Based on the alert report dated November 2, 2006, that was provided to us, the total number of alerts generated during this quarter was 23,298. This data is being provided for informational purposes only.

Our review of 30 alerts generated during the quarter ended December 31, 2005, that have not been dispositioned as of September 15, 2006, did not disclose any clients who did not meet the eligibility requirements of the aforementioned programs.

Effect: Conditions exist that allow Department determinations of eligibility and benefit amounts for applicants and beneficiaries of public assistance programs to be completed without an adequate and thorough review of all available income and eligibility information.

Cause: Matches routinely performed cause numerous system alerts, many of which are based on out-dated information. Because of these large numbers, proper review and disposition of alerts is not taking place. The alert errors were due to the fact that 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 Response: "The Department agrees with this finding. Given the number of alerts and the Department's reduced staffing level, the Department continues to work on this condition via an alerts workgroup.

The alerts workgroup has identified that information received from the IEVS matches involving the Department of Labor (DOL) wage information consistently provides outdated information. The work group is developing a procedure to help staff streamline their research process in determining if the DOL IEVS match is valid. In addition, in 2004 the Department changed the match process to take into consideration the employer's Federal Identification Number when determining if the employment was reported and properly entered into DSS' Eligibility Management System (EMS). This change reduces the number of invalid and outdated alerts that were previously generated and deleted.

In 2005, the Department made a change to the IEVS DOL Unemployment Compensation Benefits (UCB) match. This change will notify staff only when a payment amount is found on the DOL UCB file that has been made in the last 60 days. Previously, staff was notified when a payment was made at any point in the past and when a claim was filed without any payment being issued. This change also reduces the number of invalid alerts received by staff so that only alerts pertinent to current eligibility and benefit amounts are received.

Also in 2005, the Department made substantial changes to the BENDEX interface specifically related to SSA suspended and uninsured clients. These clients are now treated as having no SSA benefit payment but still being considered as 'recipients' of SSA benefits. This corrected how the matched data was reflected on EMS for automatic updates and therefore reduced the number of alerts associated with payment amounts. Previously, suspended clients were treated as terminated and denied SSA clients were treated as having benefits. In addition, the Department modified the relationship between SSA communication codes and payments status codes to correctly reflect active SSA recipients.

In reference to the Social Security wage and earnings files and IRS unearned income files, the work group will be providing staff with clarification of each income type and how to process this data.

The Department is confident that the alerts work group's recommendation for modifying the current match processes will ultimately provide staff with the most valid and current data necessary to ensure correct payments are made. In addition to making recommendations to update the IEVS match process, where applicable, alerts training will continue to be delivered to interested staff."

III.A.11. 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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

Background: Pursuant to Section 402 of the Social Security Act, the Department of Social Services has been designated to administer the Temporary Assistance for Needy Families (TANF) program. The Department of Social Services claimed, for Federal reimbursement under TANF, expenditures incurred by the Department of Children and Families and 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 $500,000 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) 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 program. Further, the contracts between DCF 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 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 and the State Department of Education have not established procedures to inform their subrecipients that the funds are being provided under TANF.

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 program to subrecipients have the information necessary to comply with OMB Circular A-133, Subpart D - Section 400 (d), concerning their responsibilities as pass-through entities.

Agency Response: "The Department agrees with the finding. Representatives from the Contract Procurement Division and the Fiscal Analysis Division are developing contract language to be included in agreements between sister State agencies that involve the award of TANF dollars. These contract provisions will require the recipients of TANF funds to notify subrecipients of the receipt of Federal funds awarded under the TANF program and the requirements that go along with the receipt of these Federal funds. The contract provisions will become standard terms in the contract template.

In addition, the Department has engaged a consultant to help address this issue. The consultant is currently reviewing Department programs to make sure we are compliant and will then proceed to other State agencies using the methods and processes developed during the internal Department review."

III.A.12. 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 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CTTANF and G-0601CTTANF

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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

Social Services Block Grant (SSBG) (CFDA # 93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G-050CTCOSR and G-0601CTSOSR

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 $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

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

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, 23 out of the 25 SSBG contracts tested, and ten out of ten Child Care contracts tested did not include all of the required information.

For the TANF program, desk reviews of the financial audit reports were not performed in two cases. We noted that some financial and programmatic reports, required by the contracts, were not on file for the five subrecipients tested.

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

For the SSBG program, we tested 25 contracts which were awarded to 23 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 16 (14 subrecipients) out of the 25 SSBG contracts tested. Our review disclosed that the Department did not have financial audit reports for four of the 23 subrecipients. Desk reviews of the financial audit reports received were not performed in 14 cases.

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

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

Cause: The Department does not have 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 Response: "The Department agrees with the finding. The Community Services Unit and Family Services Unit will work with Contract Administration to revise the contract template for SSBG to include the required Federal award information.

The Department will work on developing procedures, such as a tracking system, to ensure the submission of reports by contractors. However, due to limited staff and the large number of contracts they are responsible for, it is not always possible to ensure that all required reports are submitted in a timely manner."

III.A.13. 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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

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, 2006, child care payments totaled

$73,029,478. 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 $73,029,478, $35,229,491 (or 48.24 percent) was claimed as direct Federal expenditures and $37,799,987 (or 51.76 percent) was provided with State expenditures. The $35,229,491 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 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 $10,916 made to child care providers from the total population. The fees contributed by the 40 families represented by our sample totaled $3,124. The population of fees contributed during the State fiscal year ended June 30, 2006, by the families provided child care services totaled $11,539,103.

Our review disclosed that three of the 40 clients tested did not pay the correct family fees. Below is a summary of the errors:

- In two cases, the family fees were not calculated correctly 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. As a result, the two clients underpaid their share of the family fees by $21 ($10 based on the 48.24 percent of the total Federal expenditures).

- In one case, the client was supposed to pay a $26 ($13 based on the 48.24 percent of the total Federal expenditures) monthly family fee. However, our review disclosed that the client did not pay the family fee. It was concluded that the Department overrode the system. The Department could not clarify why it did not require the client to pay the family fee.

Effect: The above errors do not provide reasonable assurance that families receiving child care services are sharing the proper amount of costs. Although these errors must be considered questioned costs totaling $23, 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: Two errors were caused by workers entering the incorrect income information into CCMIS. For the third error, we could not determine why the Department did not require the client to pay the monthly family fee.

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 Response: "The Department agrees with the finding. The Department monitors the childcare contractor by performing quality control reviews on a quarterly basis. The most recently completed review indicated that the contractor's administrative error rate in this program was less than one-half of one percent. This error rate includes errors caused by underpaid family fees. The contractor is aware of these errors based on the quality control reports and communication with program monitoring staff. Accordingly, corrective action is taken as deemed appropriate."

III.A.14. Allowable Costs/Cost Principles and 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 Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

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: The Department provided to us documentation that was prepared in support of the amounts recorded on the Federal financial reports. Our review disclosed that expenditures totaling $578,800 made under the Child Care Facilities Loan Distribution program during the State fiscal year ended June 30, 2006, were claimed for Federal reimbursement under the Child Care Matching Funds of the Child Care and Development Fund Program. Further, additional expenditures totaling $578,800 made under this Loan program were used as the portion of State funds expended under the Matching Program. We could not determine how much of the $1,157,600 in expenditures was provided as loans for construction or substantial renovation of any building or facility.

Effect: The Department could have claimed expenditures totaling $578,800 for Federal reimbursement that were not allowable under Title 42 USC Section 9858d(b)(1). In addition, the State could have used unallowable expenditures as its State match. However, the Department of Social Services did expend additional State funds that could be claimed for Federal reimbursement and used for its State match.

Cause: The Department thought that expenditures were allowable because the Child Care Facilities Loan Distribution program was listed as an activity that the State will undertake in the State Plan, which was approved by the Department of Health and Human Services.

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

Agency Response: "The Department does not agree with the finding. OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments" provides basic guidelines for the use of Federal grant awards. It specifically states that no Federal funds may be used for construction purposes, however, nowhere in either the TANF or CCDF final regulations are there specific references to the use or disallowance of State funds for construction purposes. It is the Department's understanding that the reference to the word "Funds" indicates use of "Federal" funds. In addition, nowhere in the regulations does it say that when a program is claimed under CCDF Matching that the expenditures must be split so that 50 percent of the funds would fall in Federal Matching and 50 percent would fall in State Matching. The Department's actual claim reflected the full $1,157,600 as falling under State matching funds, not split as the auditors have indicated. In a letter sent to ACF on December 30, 2003, the Department identified the expenditures claimed from the CHEFA program as State Matching funds. Therefore, the State of 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.

The Department's documentation does not distinguish between which expenditures are used for the State match and which expenditures are made with Federal funds. Therefore, because all the State and Federal expenditures were commingled, we based our review on the Department using a 50 percent split between Federal and State funds to report its Child Care expenditures to the Federal government.

III.A.15. Procurement – Competitive Bidding

Temporary Assistance to Needy Families (TANF) (CFDA # 93.558)

Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CTTANF and G-0601CTTANF

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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

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 for administration of the Department information phone line. This contract was not the result of a competitive procurement. The total amount of the contract was $1,398,530. The Department paid the entire contract amount during the State fiscal year ended June 30, 2006.

Effect: Since the contract was not the result of a competitive procurement, 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 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 Response: "The Department does not agree with the finding. The contractor is providing direct client services; accordingly, competitive bids were not necessary per the State 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 manage the phone information line. Further, the Department was aware of an opinion issued by the State Office of the Attorney General prior to approving this contract. The opinion provides that contracts for providing direct services to clients are also subject to the competitive procurement provisions of the Connecticut General Statutes.

III.A.16. 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 2004-2005 and 2005-2006
Federal Award Numbers: G-050CTCOSR and G-0601CTSOSR

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). During the fiscal year ended June 30, 2006, the Department drew down TANF funds totaling $26,594,090 that were used 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 Response: "The Department agrees with the finding. The Department will work on reviewing and determining the best procedures to ensure that TANF funds transferred to SSBG are used for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline."

III.A.17. 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 2004-2005 and 2005-2006
Federal Award Numbers: G-050CTCOSR and G-0601CTSOSR

Low-Income Home Energy Assistance (CFDA # 93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G05B1CTLIEA and G06B1CTLIEA

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 that received LIHEAP funds. We determined whether the cash balances exceeded the weekly average of expenditures incurred by these subrecipients. Our review disclosed all six SSBG subrecipients and all six LIHEAP subrecipients had cash on hand during the year 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 Response: "The Department agrees with the finding. The Department's Energy and Refugee Services Division continues to work with providing LIHEAP funds to the Community Action Agencies (CAA) that will be expended within 72 hours of receipt in an attempt to avoid having cash balances in excess of amounts needed to cover actual fund requirements. The Budget/Payment Provisions of the contracts for the LIHEAP program includes a section where the Contractor agrees to release vendor payments, as approved by the

Department and identified on the CEAP Financial Reports, within 72 hours of receipt of funds.

In order to comply, the Department makes over 25 rounds or 200 payments within a six-month period to avoid leaving large cash balances at the agencies.

The cash balances mentioned in the review appeared to be when funds were received by the agencies to make payments on behalf of utility heated households. The large balances were due to the time when payments were processed to the agencies based on the reports, when the payments were received by the agencies, and the schedule by which they were going to be paid to the utility companies, which was usually on a bi-weekly basis.

It is difficult to determine compliance by basing the review on average weekly disbursements because the nature of the program does not provide for disbursements to be the same amount each time. There are periods when payments are to be made to utility companies and large amounts have been sent to the agencies to cover the total funds to be distributed.

The Department will continue to try and implement procedures to reduce the time that agencies receive and disburse their funds."

III.A.18. Reporting – Program Cost Report

Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2004-2005
Federal Award Number: H126A050007

Criteria: Per U.S. Department of Education's Policy Directive RSA-PD-06-08, 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 to the RSA by December 31st following the close of the Federal fiscal year. The RSA-2 report must reflect all expenditures made during the Federal fiscal year from Federal, State and other rehabilitation funds.

Per the RSA-2 instructions, line 4 on Schedule I of the RSA-2 reports the total expenditures of the Vocational Rehabilitation Program. The total reflected in line 4 is broken down into three spending categories identified on Schedule I as (1) *Administrative* costs (including indirect costs), (2) *Services* *to Individuals with Disabilities* (broken down further by provider), and (3) *Services to Groups of Individuals with Disabilities*. Additionally, Schedule II of the RSA-2 provides further detail by service category of those expenditures identified as *Services to Individuals with Disabilities*. Schedule II also provides the actual number of client's served within each service category.

Condition: The Annual Vocational Rehabilitation Program / Cost Report (RSA-2) for Federal fiscal year ending September 30, 2005, contained the following errors:

Schedule I – Total Expenditures

Line	Line Description	Reported Amount	Correct Amount	Difference
1	Administration	$3,546,073	$3,552,003	($5,930)
1b	Indirect Costs	$2,922,744	$2,928,674	($5,930)
2A2a	Assessment, Counseling, Guidance, and Placement	$11,753,870	$11,888,810	($134,940)
2B1 to 2B4	Services Purchased by State VR Agency	$7,808,481	$7,867,731	($59,250)
4	Total Expenditures	$23,108,424	$23,308,544	($200,120)

Schedule II – Number of Individuals Served and Expenditures by Service Category

Line	Line Description	Reported Amount	Correct Amount	Difference
1 to 9	Types of Services	$7,808,481	$7,867,731	($59,250)
10	Total Number of Individuals and Expenditures	$7,808,481	$7,867,731	($59,250)
14	Total Section 110 Funds Expended on Services	$7,786,964	$7,846,823	($59,859)
15	Total Title VI-B Funds Expended on Services	$21,517	$20,912	$605

Effect: Expenditures reported on the Annual Vocational Rehabilitation Program / Cost Report (RSA-2) for Federal fiscal year ending September 30, 2005, are not accurate.

Cause: Expenditure data maintained in the State accounting system was insufficient for providing complete and accurate expenditure information required for the RSA-2.

Recommendation: The Department of Social Services should improve its procedures for maintaining expenditure data information required for reporting purposes. Additionally, a revised Annual Program / Cost Report for Federal fiscal year ended September 30, 2005, should be prepared and submitted to the Rehabilitation Services Administration.

Agency Response: "The Department agrees with the finding. Total expenditures on Schedule I, Line 4 were underreported by $200,119. This was due in part to errors in transferring expenditure line items from the supporting schedules to the RSA-2 report, resulting in some expenditure items being reported on the wrong lines and the total amount being underreported. It is also due in part to missing values in the coding for some payments. The Chartfield 2 codes were created to track information for categorizing services expenditures for the RSA-2 report, and these values were absent on some payments. The Chartfield 2 values are not captured in the accounting system transaction data for refunds. Both of these omissions require manual research of payments to correctly classify these items. In the past some of these items have been included in the "Other" category because of the difficulty in researching these individual items. The Department will review its procedures to see how this can be addressed. The Department has made improvements in its procedures for maintaining expenditure data required for reporting purposes and continues to do so. The Division of Financial Management is coordinating this effort with staff in the program area to complete reports that are both timely and accurate. The Department will revise the RSA-2 report for FFY 2005 to include these corrections and will resubmit the reports to the Rehabilitation Services Administration."

III.A.19. Special Tests and Provisions – Housing Quality Standard Enforcement

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, 2006
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.

Criteria: Title 24 Code of Federal Regulations Part 982 Section 404 provides that the Public Housing Agency (PHA) must not make any payments for a dwelling unit that fails to meet the Housing Quality Standards (HQS), unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days.

Condition: We selected ten out of 292 units with failed HQS inspections listed on the PHA's log of failed HQS inspections during the audit period to determine whether the landlords corrected the deficiencies within the required timeframe provided under Federal regulations. For those deficiencies that were not corrected timely, we ensured that the housing assistance payments were properly stopped. Our review did not disclose any exceptions to these sampled units.

During our review of ten housing assistance payments to determine whether housing quality standard (HQS) inspections were performed in a timely manner, we noted two units that failed HQS inspections. For these two units, we determined whether the deficiencies were corrected in a timely manner or, if necessary, the housing assistance payments were stopped. We noted that in one of these two cases the deficiencies were not corrected in a timely manner and the PHA did not properly stop the housing assistance payments. This unit failed the inspection on July 30, 2005, and also failed the re-inspection on September 25, 2005. The unit subsequently passed the re-inspection on November 27, 2005. The housing assistance payments made to the owner were not stopped effective September 1, 2005, which was the stop date required by HUD policy. The delay in correcting the deficiency resulted in improper payments totaling $1,740 made on September 1, 2005 and October 1, 2005.

Effect: Our review disclosed that, for one out of the12 failed inspections tested, the landlord did not correct the HQS deficiencies within the specified correction period. Further, the State did not stop two housing assistance payments totaling $1,740 made to this landlord as required by Federal regulations. This finding is being reported only as an internal control deficiency because of the error rate. The eight percent error rate noted in this finding should not be used as a basis to extrapolate questioned costs because it is not practical to determine the total amount of housing assistance payments that were paid to the units listed on the log of failed inspections.

Cause: The accounting system of the Department's contractor does not allow for entries to be put into the system once the process for making the housing assistance payments begins, which usually starts around the 25^{th} of each month and ends sometime between the 30th of the month and 2nd of the following month. The PHA probably received the failed re-inspection report after September 25, 2005. As a result, the landlord was paid rent of $870.00 for October 2005. For the improper payment made on September 1, 2005, the re-inspection was not performed within 30 days of failing the initial inspection. As a result, the PHA was not aware that the housing assistance payment for September 1, 2005, should not have been paid.

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 landlord.

Agency Response: "The Department agrees in part with the finding. Property owners are given 30 days to make repairs in response to failed HQS inspections. The inspection was performed on a Saturday and the failure notice to the owner was not generated until Monday, August 1, 2005. September abatement would be incorrect since the property owner would not have had the full 30 days to effect repairs. Monthly close-out procedures were not a factor in the disposition of this payment. The Department will purse repayment of $870 versus the $1,740 cited in the audit.

Auditors' Concluding Comments:

The regulations provide that the corrections should be made within no more than 30 calendar days. The thirty day requirement is based on when the unit fails the inspection and not based on when the landlord is notified of the failed inspection. Further, using the August 1, 2005, date would mean that the corrections and reinspections should have been completed by August 31, 2005, and should still result in the cancellation of the September 1, 2005, rental assistance payment.

III.A.20. Eligibility – Ineligible Client and Inadequate Documentation

State Children's 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: 05-0505CT5021 and 05-0605CT5021

Background: In conjunction with administering the State Children's Insurance Program (SCHIP), the Department's contracts with Managed Care Organizations (MCOs). The MCOs are paid a monthly capitated rate for each child that is receiving medical services. In addition, the Department contracts a vendor to perform the eligibility determinations of families applying for services under

SCHIP.

Criteria: Title 42 United States Code Section 1397bb provides that the State's child health plan shall include a description of eligibility standards. In general, the plan shall include a description of the standards used to determine the eligibility of targeted low-income children for child health assistance under the plan. Such eligibility standards (i) shall, within any defined group of covered targeted low-income children, not cover such children with higher family income without covering children with a lower family income, and (ii) may not deny eligibility based on a child having a preexisting medical condition.

The State Plan provides that families will share the costs of services using a sliding scale based on income. This scale provides three different bands of client eligibility. Clients in Band 1 will not be required to pay a premium. Clients in Band 2 will pay the selected managed care organizations, depending on the number of children, a $30 monthly premium up to a maximum of $50. Clients in Band 3 will be required to pay the entire premium charged by the selected managed care organizations. The families would fall into one of these three bands based on the families calculated applied income.

Condition: We randomly selected 40 benefit payments totaling $5,970 made on behalf of SCHIP recipients from a total of 189,087 claims totaling $27,455,308. Of this $27,455,308, the Department reported $26,788,439 as total computable expenditures on the Federal expenditures report. The difference is due to refunds received and adjustments made for clients who were not eligible per the State Plan because they were not citizens. The Federal share of these expenditures is $17,845,950 (based on the 65 percent Federal financial participation rate). Our review disclosed the following:

1. In two cases, the applied income was calculated incorrectly due to mathematical errors. The errors did not effect these clients' eligibility.

2. In five cases, the applied incomes used to determine the premium bands were calculated incorrectly due to not applying the proper deductions or income. In four cases, the clients' eligibility was not effected. However, in one case the vendor calculated the self employment income incorrectly resulting in an understatement of applied income. The correct amount places the client in Band 2 instead of Band 1. As a result the family client did not pay its share of the costs. This resulted in the Department paying the full capitated rate to the Managed Care Organization.

Effect: The conditions noted above do not provide reasonable assurance that allowable costs are being claimed under the Federal program. In one case, we determined that the Department overpaid a Managed Care Organization $50. This $50 overpayment was based on two children. Our sample, however, only included one of the two children. We consider the Federal share of the overpayment, which is $32 ($16 per child), to be unallowable under the Federal program.

Cause: It appears that the internal controls of the vendor performing the eligibility determinations for the Department are not adequate.

Recommendation: The Department of Social Services should ensure that the procedures used by the vendor performing the eligibility determinations for the State Children's Insurance Program are adequate.

Agency Response: "The Department agrees with the finding. Both the Department and ACS (the Managed Care Vendor) will conduct a thorough review of all the Husky B eligibility procedures. In addition, the Department will continue to review randomly selected cases in an attempt to identify and correct eligibility errors."

III.A.21. Eligibility – Ineligible Clients and Inadequate Documentation

HIV Care Formula Grant (CFDA # 93.917)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 2 X07H00022-15-00 AND 2 X07H00022-16-00

Background: The Department of Social Services administers the Connecticut AIDS Drug Assistance Program (CADAP), which pays for HIV/AIDS medications and other drugs that may prevent the serious deterioration of the health of persons who have Human Immune-deficiency Virus (HIV) or Acquired Immune Deficiency Syndrome (AIDS). The State claims expenditures incurred under this program for Federal reimbursement under the HIV Care Formula Grant.

We tested 40 transactions totaling $9,550 to determine whether the clients met the eligibility requirements of the Federal program. This sample was selected from a universe of 68,960 transactions totaling $17,219,182. This amount consisted of $15,614,303 in Federal funds and $1,604,879 in State funds. Of these amounts, the net expenditures were 14,174,845 and 1,519,392, respectively. The differences were due to mostly cash refunds and funds received from third parties totaling $1,439,458 and $85,487, respectively. The Department does not identify which clients are being claimed under the HIV program and which clients are being paid from State funds. The gross Federal expenditures ($15,614,303) represent 90.67 percent of the total combined gross Federal and State funds ($17,219,182).

Criteria: Title 42 United State Code Section 300ff-26 (b) provides that to be eligible to receive assistance from the State under the HIV Care Formula Grant, an individual must have a medical diagnosis of HIV disease and be a low-income individual, as defined by the State.

The Department of Social Services Uniform Policy Manual Section 8035.20 states that to be eligible to receive assistance from the Connecticut AIDS Drug Assistance Program (CADAP), the total income of the individual's family must be equal to or below 400 percent of the Federal Poverty Level.

Condition: Our review of 40 transactions totaling $9,550 disclosed the following:

1) Three payments totaling $94 were made on behalf of clients who did not meet the eligibility requirements of the HIV Care Formula Grant. Our review of the wages included in the State Department of Labor's records disclosed that the family incomes of the three clients exceeded the 400 percent of the Federal Poverty Level requirement established by the State.

2) The Department did not have documentation on file to support medical diagnosis of HIV disease for 29 clients. At the start of the program, the Department did not retain the initial applications, which contained a section to be filled out by the client's physician. The Department does currently maintain the initial applications for new clients.

Effect: The above errors resulted in improper payments totaling $85 based on the 90.67 percent of Federal expenditures. Without the medical information, we could not specifically substantiate whether the 29 clients were eligible.

Cause: Income for applicants of the Connecticut AIDS Drug Assistance Program is self declared. Accordingly, the Department does not perform procedures to verify the applicants' income.

The Department did not retain the applications, which included the medical diagnosis information, that were submitted by the clients.

Recommendation: The Department of Social Services should establish and implement procedures to verify applicant's income to ensure that HIV Care Formula Grants funds are used for services for individuals who meet the income requirements defined by the State. In addition, the Department should obtain supporting documentation for those clients in which it does not have medical diagnoses on file.

Agency Response: "The Department agrees with the finding. In late 2004, the Department began maintaining all original application/redetermination forms for all clients. Prior to that, the Department maintained only the current eligibility forms therefore for the audit period many of the older applications were not available. In addition the diagnosis and doctor signatures were not found because subsequent CADAP redeterminations did not require the doctor to again provide the diagnosis code nor his signature.

Income is self-reported for CADAP with no verification provided. All CADAP applicants are required to complete an application for Title XIX. At that point in time, verification of income is completed. Currently there is no mechanism in place to support this function under CADAP. The Department is developing a computer work screen to capture this information but at this time it has not been completed."

III.A.22. 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 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

Child Support Enforcement (Title IV-D) (CFDA # 93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 0504CT4004 and 0604CT4004
State Children's Insurance Program (SCHIP) (CFDA # 93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006

Federal Award Numbers: 05-0505CT5021 and 05-0605CT5021

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 2004-2005 and 2005-2006
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 2004-2005 and 2005-2006
Federal Award Numbers: H126A050007 and H126A060007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 04-0504CTDI00 and 04-0604CTDI00

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. The Department contracted with a vendor to develop 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.
- 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 review of some of the allocation bases used in the Department's Cost Allocation Plan disclosed the following:

    - 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.

2. The Department's Cost Allocation Plan consists of a two-step process to allocate Department costs. The costs for certain organization units are first allocated to all units and programs. The costs that were allocated to each unit during the first step are then allocated to Federal and State programs. The allocation of the costs in the second step is affected by the hierarchy of the units. For example, a unit listed second in the hierarchy could receive costs from the first unit listed in the hierarchy but would not receive costs from the unit listed third in the hierarchy. Our review disclosed that the hierarchy used in the Department's CAP did not always provide an equitable basis for allocating costs to all benefiting programs.

3. The Department provided us a report of the random moment time study conducted by the Department for the quarter ended December 31, 2005. This report consisted of 2,898 responses received from applicable Department employees. This report listed the time of the observation, the Department employee, comments, client case number, and the program code. The comments, the client case number, and the program code were provided by the employee. We reviewed 26 observations to determine whether the program code provided by the employee is appropriate based

on the comments provided by the employee and the programs associated with the listed client case number. Our review disclosed three observations in which the program codes do not appear to be reasonable. In two cases, the program codes did not coincide with the services received by the clients. In one case the comments stated that the employee was working on an application in which a client applied for services under three different programs; however, the employee selected a program code that applied to only one program.

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.

Cause: For conditions 1 and 2, the errors were related to the Department's automated cost allocation process developed by the vendor. For condition 3, it appears that the employees made clerical errors in recording the correct program code.

Recommendation: The Department of Social Services should use statistics that would provide a proper base for distributing costs to benefiting programs and would thus will produce an equitable result in consideration of relative benefits derived.

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

Administrative Overhead Cost Distribution: The current Chart of Accounts and Core-CT [State Accounting System] coding structure does not allow Regional Office Ombudsman and Regional Office Vocational Rehabilitation Services to accept inbound costs from Regional Office overhead.

HIPAA costs allocated to Medicaid: The allocation basis used to allocate HIPAA costs pools was changed from direct allocation to Medicaid to Department Allocation (FTE [Full Time Equivalent]) with the submission of the new Public Assistance Cost Allocation Plan, effective July 1, 2006.

Inequities in Two Step Allocation Process: The double iteration (or step-down) approach to cost allocation is a commonly accepted and Federally approved methodology for allocating indirect costs. Through the double iteration of indirect costs, all entities receive an appropriate and proportionate share of allocated costs. Because central service departments provide services to other central service departments, a double step-down procedure allows all central service departments to allocate costs to all other central service departments. Since the central service departments cannot simultaneously allocate their costs, the process must be done sequentially, one department after another. The second allocation allows for the equitable allocation of the costs the central service departments receive from one another. The order of Central Service Departments in MAXCARS [Cost Allocation System] is based on the Chart of Accounts and organizational structures of the Department, which seems to be the most equitable manner for establishing the structure of the step-down allocation.

RMS Observations: The Department does not agree that EMS [Eligibility Management System] should be used to identify programs for purposes of random moment sampling. Nevertheless the contractor is looking at its quality assurance procedures to ensure the accuracy of the RMS data. In addition the Department is pursuing staff training to improve the validity of our sampling process."

Auditors' Concluding Comments:

Administrative Overhead Cost Distribution: 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.

Inequities in Two Step Allocation Process: Our review did not question the two step approach. Our review disclosed that the hierarchy used by the Department to allocate costs did not always result in an equitable distribution of costs. There were instances in which some programs were not receiving all of their entitled costs and other instances in which programs received more costs than they should.

RMS Observations: Our condition did not indicate that the Eligibility Management System should be used as a basis to identify which programs should be coded. Our review disclosed that based on the available information provided, three RMS codes provided by three employees do not appear to be reasonable.

III.A.23. 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 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5028 and 05-0605CT5028

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

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 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTCCDF and G0601CTCCDF

Child Support Enforcement (Title IV-D) (CFDA # 93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 0504CT4004 and 0604CT4004

State Children's Insurance Program (SCHIP) (CFDA # 93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 05-0505CT5021 and 05-0605CT5021

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 2004-2005 and 2005-2006
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 2004-2005 and 2005-2006
Federal Award Numbers: H126A050007 and H126A060007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 04-0504CTDI00 and 04-0604CTDI00

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.

We tested a sample of 40 non-payroll expenditures and a sample of 40 payroll transactions. Our tests disclosed errors with one payroll transaction and three non-payroll transactions.

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 non-payroll transactions totaling $689,527. This sample was randomly selected from expenditure transactions totaling $78,688,232 made during the fiscal year ended June 30, 2006. These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of these 40 payments disclosed the following:

- One expenditure for $48 was not assigned the proper expenditure code. This expenditure was for the mileage reimbursement for an employee of the Department. The improper coding of this expenditure resulted in the expenditure being allocated to the incorrect cost pool. This expenditure was allocated to all programs administered by the Department. However, the employee worked in a unit that only worked on some of these programs.

- One expenditure for $320 claimed for Federal reimbursement was not reasonable or necessary to administer Federal programs. The expenditure was for the payment of property taxes for out-of-State land that was signed over to the Department in 1984 by a client of the Department. The land is currently not being used by the Department and is not benefiting any Federal programs administered 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 Costs / (Unclaimed Costs)**
TANF	39	*10
Medicaid	112	56
SCHIP	11	*7
Food Stamps	86	43
Child Support Enforcement	5	4
Vocational Rehabilitation Services	3	3
Disability Insurance	3	3
Miscellaneous State Grants	61	NA
Net Total	$320	$116

The questioned costs are based on the Federal programs' financial participation rates except for the TANF program, which is based on the percentage used by the Department to claim a portion of the total administrative costs allocated to TANF. The net total of $320 was the result of removing the allocated costs related to the $320 exception from all Federal programs because this expenditure was improper for Federal reimbursement whereas the $48 exception was reallocated to the Federal programs based on adjusting the expenditure code.

*Although we identified questioned costs totaling $10 and $7 made to TANF and SCHIP, respectively, we noted that the Department did expend additional State funds that could be claimed for Federal reimbursement under these two programs, so the total amount eligible for Federal reimbursement would probably not change as a result of these questioned costs.

In addition, we sampled 40 payroll expenditure transactions totaling $97,867. This sample was randomly selected from payroll transactions that totaled $117,981,955 that were made during the fiscal year ended June 30, 2006.

These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of payments disclosed the following condition:

- One payroll expenditure transaction for $2,938 was not assigned the proper expenditure code. The expenditure was coded to the Child Care Unit and allocated entirely to the Child Care Program. However, the employee worked on both the Child Care and TANF programs. We could not determine the amount of costs that should have gone to each program. However, the Department did expend additional State funds that could be claimed for Federal reimbursement under CCDF.

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 $56, $43, $4, $3, and $3 were charged to the Medicaid, Food Stamps, Child Support Enforcement, Vocational Rehabilitation, and Social Security-Disability Insurance programs, respectively.

We could not determine the amount of questioned costs charged to the Child Care program for the payroll expenditure that was coded incorrectly. Although this error would result in questioned costs charged to the Child Care Cluster, 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 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 Response: "The Department agrees with this finding.

The audit issues cited primarily revolve around the proper coding of expenditure transactions and payroll transactions and their subsequent treatment under the Department's cost allocation plan. Responsibility for coding of expenditure transactions resides with the staff processing payment requests. These errors occurred because staff used the wrong expenditure coding or made data entry errors. In the area of payroll coding issues, the

Department has a comprehensive process for identifying errors. Directors are now being requested to review coding of staff on a quarterly basis to identify any necessary corrections. In addition, during the past year, the Financial Management Division has held individual meetings with Directors to discuss their coding and to work with them to address any issues that needed attention."

B. DEPARTMENT OF MENTAL HEALTH AND ADDICITION SERVICES (DMHAS)

III.B.1. Level of Effort – Maintenance of Effort - Non Major Program

Substance Abuse Prevention and Treatment Block Grants (CFDA # 93.959)
Federal Award Agency: Department of Health and Human Services
Award Years: 2003, 2004, 2005 and 2006
Federal Award Numbers: 03B1CTSAPT, 04B1CTSAPT, 05B1CTSAPT, 06B1CTSAPT

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: For the State fiscal year ended June 30, 2006, the Department made improvements in compiling and documenting costs for maintenance of effort (MOE). However, our review noted discrepancies in the allocation of substance abuse and mental health expenditures resulting in an understatement of State substance abuse expenditures of about $12.5 million.

Although improvements have been made, weaknesses in calculating MOE in the prior fiscal year has resulted in the Department being unable to document compliance with MOE requirements that the substance abuse expenditure level for the current year is greater than the average of that for the prior two fiscal years.

Effect: The Department understated MOE levels by about $12.5 million for the current year and, due to prior year reporting weaknesses, is unable to substantiate compliance with level of effort requirements.

Cause: Agency personnel are continuing to develop and improve procedures in calculating the MOE that include utilizing the new Core-CT State accounting system.

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

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. DMHAS staff now retains 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. In addition, DMHAS has requested Technical Assistance from the Federal Government to assist the Department in the correct identification of expenditure funding to be used in our MOE calculation."

III.B.2. Subrecipient Monitoring – Non Major Program

Substance Abuse Prevention and Treatment Block Grants (CFDA # 93.959)
Federal Award Agency: Department of Health and Human Services
Award Years: 2003, 2004, 2005 and 2006
Federal Award Numbers: 03B1CTSAPT, 04B1CTSAPT, 05B1CTSAPT, 06B1CTSAPT

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 Grant (SAPT) was based on audit reports submitted for the State fiscal year ended June 30, 2005, 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 15, 2006, only five desk reviews were performed of the 36 audit reports that were received from subrecipients who had received SAPT Block Grant funding during the State fiscal year ended June 30, 2005.

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 which transferred 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: "DMHAS has hired a full time accounts examiner whose primary responsibility is the review of grant sub recipient audits.

Currently, efforts to alleviate this backlog are underway. DMHAS estimates that the review of FY 2005 audits will be completed by April 1, 2007 and the review of the FY 2006 audits will be completed by July 31, 2007.

The process for reviewing the sub recipient audits includes a review of the federal grants first to identify any audit findings and request a corrective action plan, if warranted."

III.B.3. Matching, Level of Effort, Earmarking – Non Major Program

Shelter Plus Care (CFDA # 14.238)
Federal Award Agency: Department of Housing and Urban Development
Award Years: Federal Fiscal Years
Federal Award Numbers:

Background: Prior audits disclosed that matching requirements could not be substantiated for some grants. DMHAS's management had developed a corrective action plan to address these issues that was to be implemented by July 1, 2006. During the implementation, unforeseen technical issues were discovered with two behavioral health providers. These technical issues are scheduled to be resolved by May 1, 2007.

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 Federal program participants.

Condition: Prior audit findings and the current review disclosed that the Department of Mental Health and Addiction Services did not document that matching requirements for some Shelter Plus Care grants were met.

Effect: Minimum Federal matching requirements for some grants could not be substantiated.

Cause: The Department has not fully implemented its action plan to modify system operations to accumulate costs that would meet the Federal matching requirements.

Recommendation: The Department of Mental Health and Addiction Services should take appropriate action to document that matching requirements are met for the Shelter Plus Care Federal program.

Agency Response: "In our previous response, we reported that DMHAS was negotiating with the Department of Social Services to access its' electronic Medicaid Utilization Information System which captures service/dollar data.

However, the Department subsequently discovered that some of our behavioral health providers were reporting insufficient service data. Effective July 1, 2006, DMHAS now contacts those providers for which it is determined that insufficient service data has been transmitted to the Department. Once the provider(s) transmit the corrected data this has the effect of accurately reporting Federally required matching requirements.

The Department has identified 2 behavioral health providers, which have technical issues in collecting the required service data. If the provider(s) technical issues cannot be resolved by May 1, 2007, we will resume negotiations with the Department of Social Services to be allowed access to the Medicaid Utilization system to capture the necessary data."

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 Years: State Fiscal Year 2004-2005 and 2005-2006
Federal Award Numbers: UI14425QD and UI15112TM

Criteria: The Unemployment Insurance Reports Handbook No. 401, ETA (Employment and Training Administration) 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 and 2006, 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 Department has had difficulty automating the ETA 227 report because it is geared towards states with a four-year collection period from initiation of the overpayment. Connecticut has an unlimited time period for collections of overpayments and the monies collected after the four-year periods do not adequately compute into the ETA 227 parameters. Our IT department has been working on a program that will correctly convert the data on the ETA 227 report. The final step in converting the aging statistics has not been completed. Our current estimate is the ETA 227 will be completed by the end of the second calendar quarter of 2007."

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 Years: Federal Award 2004-2005
Federal Award Numbers: XO7HA000-22-14, XO7HA000-22-15

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, 2004-2005
Federal Award Numbers: 5 U01 CI000307-02, U55/CCU121932-04, U90/CCU116996-05, and U90/CCU116996-06

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA # 10.557)
Federal Award Agency: United States Department of Agriculture
Award Year: Federal Fiscal Year 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) provides that if a grantee cannot meet the criteria for advance payments under 45 CFR 92.21(c), an awarding agency shall advance cash to a grantee to cover its estimated disbursement needs for an initial period with subsequent payments made to reimburse actual cash disbursements.

Condition: During the audit period, the Department of Public Health established different policies and procedures for compliance with Federal cash management requirements based on whether the contract meets a $300,000 threshold. We noted that for those contracts that exceed the threshold, the Department's policy provides advance funding for an initial period with subsequent payments based on bi-monthly estimates of need. For those contracts that are below the threshold, advance funding is also provided for an initial period, but subsequent payments are based on contractually established benchmarks, without considering the subrecipients' actual cash needs. Regardless of whether the payments were above or below the threshold, the DPH's policy does not comply with the requirements.

The following table summarizes the population, sample, and the results of our testing. In our sample of 24 payments totaling $5,707,660 we noted that 19 payments totaling $4,535,681 were not based on the contractors' cash needs. For example, the Department used CDC funds to pay the full amount of a contract, $1,530,868, three months after the one-year contract's expiration date. Ten days later, the Department received the contractor's quarterly financial reports that led to the recovery of a $136,687 overpayment.

CFDA #	Sample Size #	Sample Size Amount	Population	Audit Exception #	Audit Exception Amount	Amount Recovered
10.557	4	$ 841,750	$ 7,363,002		$ 0	$ 0
93.283	9	2,464,065	9,507,977	8	2,133,836	136,687
93.003	1	1,165,998	4,173,789	1	1,165,998	0
93.917	10	1,235,847	3,425,165	10	1,235,847	135,645
	24	$ 5,707,660	$ 24,469,933	19	$ 4,535,681	$ 272,332

Effect: Based on Core-CT, we estimate that during the 2006 State fiscal year there were 124 deposits from subrecipients who returned a total of $1,534,168 in excess funds.

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.

The Department will revise and strengthen its Federal cash management process through the following:

1. The Department will continue a planned progression of lowering the threshold used to trigger cash management monitoring to $200,000 for

the 2007 – 2008 fiscal year. Contracts greater than or equal to $200,000 will be monitored in accordance with the procedures established for cash management and have payments based on contractor cash needs as demonstrated by submitted cash needs statement. The Department is implementing this change effective July 2007.

2. The Department will modify contract terminology to enhance our ability to withhold scheduled payments, in whole or part, when contractor expenditure reports and/or cash needs statements do not support full payment. DPH will also modify its cash needs statements to include additional information that facilitates identification of funds required by the contractor. The Department is implementing this change effective July 2007.

3. The Department will provide additional training to strengthen contracting staff skills in procedures and processes for tracking and monitoring contractor cash needs and adjusting payments accordingly. The training will include all new procedures implemented in an effort to address this finding. The training is tentatively scheduled for early May, 2007.

The Department does not have the staffing resources to implement fully this recommendation, but is making its best effort to address it given current staffing levels."

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 Years: Federal Award 2004-2005
Federal Award Number: XO7HA000-22-14

Criteria: OMB Circular A-87 requires that the distribution of charges for the salaries and wages of employees working on multiple activities or cost objectives 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: We reviewed the certifications for nine employees, whose salaries were charged to the HIV program. We noted that one split-funded employee's salary was not supported by personnel activity reports.

CFDA	Amount Tested	Amount Unsupported	Total Payroll & Fringe
93.917	$ 320,797	$ 39,768	$ 512,174

Effect: In the absence of personnel activity reports, there is non-compliance with OMB Circular A-87. Questioned salary, fringe benefit, and indirect costs totaling $39,768 were not adequately supported by personnel activity reports.

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" monthly personnel activity reports or equivalent documentation.

Agency Response: "We agree with the finding.

The employee was maintaining records of her activities, but did not generate the required document. The employee has been notified of the need to prepare time and effort reports each month on file with the DPH time sheet. This action is completed."

III.D.3. Allowable Costs/Cost Principals – Equipment Purchases

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 2004-2005 and 2005-2006
Federal Award Numbers: U90/CCU116996-05, and U90/CCU116996-06

Criteria: OMB Circular A-87 allows capital expenditures for equipment as direct charges, as long as prior approval from the awarding agency exists.

Condition: We noted that two out of our sample of five equipment purchases did not comply with Federal budget and approval requirements.

- We noted an equipment purchase that was included in the 2004-2005 award but was charged to the 2005-2006 award. The narrative in the Department's request to carryover funds from the 2004-2005 award refers to this payment; however, the carryover amount cannot be reconciled to the payment amount. We are questioning $54,871, which is the difference between the total amount invoiced, $80,770, and the approved carryover amount of $26,899.

- A $9,216 purchase for six laptops was not included in any budgets.

CFDA #	Sample		Population	Audit Exception	
	#	Amount	Amount	#	Amount
93.283	5	$ 276,496	$ 508,949	2	$ 64,087

Effect: We question capital equipment costs totaling $64,087.

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

Recommendation: The Department of Public Health should comply with the requirements of Circular A-87 and improve internal controls over equipment purchases as part of Federal programs.

Agency Response: "We agree with the finding.

Item one - $9,216 – A purchase of laptops was processed without being included in the grant capital equipment line.

These new laptops were purchased for staff Epidemiologists who are out in the field four out of five workdays per week. The new laptops replaced older models that were in need of repair or significant upgrades to accommodate the software required for completion of duty assignments. Notice of the need for budgeting of capital equipment will be provided by April 30, 2007.

We agree in part with this finding.

Item two - $54,871 - The Department's monetary amount in the carry forward request for one of the two questioned purchases was insufficient. This resulted in a payment for this line item that was greater than the carry forward requested amount for the capital equipment line. The Department did meet the requirements of having approval for the item to be purchased in our original grant budget and carry forward request. The Department's final financial status report for the equipment line within the grant indicates expenditures remained within budget. The total equipment line amount was $223,553, expenditures were $148,343, and indicated an unexpended amount of $75,210."

III.D.4. Period of Availability, Cash Management, and Financial Reporting – Coding Errors and Adjustments

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 2005-2006
Federal Award Number: 4CT700700

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 2004-2005 and 2005-2006
Federal Award Numbers: U90/CCU116996-05, and U90/CCU116996-06

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

State Survey and Certification of Health Care Providers and Suppliers (Medicaid) (CFDA # 93.777)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Award 2005-2006
Federal Award Number: 05-0605-CT-5000

Criteria: 7 CFR 246.16(b)(3) and 45 CFR Part 92.23 require 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. This is referred to as the Period of Availability.

7 CFR 246.25(a)(2) and 246.25(d) establish that all financial reports shall be traceable to source documentation that shall be retained for a minimum of three years following the date of submission of the final expenditure report.

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. The State Accounting Manual establishes the Comptroller's records as the official accounting records of the State of Connecticut. A centralized information system (Core-CT) is used to maintain those records. It is the responsibility of the Chief Fiscal Officer of each state agency to reconcile the agency's records with those of the Comptroller. Any error discovered in this reconciliation

(other than one that affects only the agency records) should be reported.

Condition: We noted various concerns regarding the Department of Public Health's accounting for Federal awards. Numerous budget reference coding errors and to a lesser degree account coding errors were noted by our audit. The Department of Public Health uses a "budget reference" field to track the various grant years within each account. These errors and the timing of their correction affect the Department's ability to comply with Federal Period of Availability, Cash Management, and Financial Reporting requirements.

At the time of our audit, adjustments reflected in the financial reports for the WIC and HIV grants had not yet been posted to Core-CT as follows:

CFDA #	Award Period	Report Date	Audit Date
10.557	October 2004 to September 2005	Februry 2006	January 2007
93.283	August 2005 to August 2006	December 2006	January 2007

These adjustments relate mainly to personal services charged to grant years that were no longer available as follows:

CFDA #	Audit Exception	Population
10.557	$ 327,343	$ 966,515
93.283	1,479,994	4,499,009
93.917	60,648	327,309
	$1,867,985	$5,792,833

Adjustments to correct these miscoded transactions require increased effort on the part of staff. Our audit of salary costs only noted one exception regarding these adjustments as noted in the finding ***Allowable Costs/Cost Principles – Documentation of Salary Costs.***

In addition to payroll transactions, the following non-payroll transactions were also miscoded:

			Audit Exceptions				
CFDA	Sample		Questioned		Adjustment		Population
#	#	Amount	#	Costs	#	Pending	
10.557	10	$ 108,766				$ -	$ 732,840
93.283	42	2,696,025	18	69,258	5	4,015	4,958,608
93.917	11	3,780,103	1	424		-	4,150,737
	63	**$ 6,584,894**	**19**	**$69,682**	**5**	**$ 4,015**	**$ 9,842,185**

Coding errors could result in cash draws against incorrect Federal awards. To prevent overcharging an award, the Department does not draw Federal funds for charges erroneously recorded against closed awards. In most cases, the Department would not record an adjustment to correct such errors until the end of an award period, thereby delaying collection of the Federal liability.

Our testing of WIC transactions noted a $2,762,358 adjustment to the accounting records to correct a coding error. Due to a lack of adequate supporting documentation we were unable to determine why the DPH netted revenues against expenditures resulting in a reduction of each account. As a result of our inquiries, the Department decided to reverse the adjustment.

The amount of expenditures reported in quarterly financial reports for the Medicaid grant (CFDA #93.777) were significantly lower than the amounts recorded in Core-CT. The differences at the time of our audit suggested a $1,243,972 net overstatement of the accounting record that relates mainly to personal services costs. A disagreement between the business office and program staff over allowable costs has resulted in delays in adjusting the accounting record. It should be noted that Federal funds were originally drawn based on Core-CT. The DPH subsequently reduced its draws to coincide with the financial reports.

Effect: The $69,682 shown in the table above as non-payroll questioned costs consists of charges that were allowable for years other than the ones for which the agency documented them as support for the total costs claimed for each annual award. Of this $69,682, we found that funds totaling $29,944 should be refunded to the Federal government because funds are no longer available in the award years in which these costs were incurred. The following table summarizes these charges by Federal Award Period:

CFDA #	SID	Award Period Charged	Award Period Allowable	Amount	Net Questioned Cost
93.283	21053	2004-2005	2005-2006	$ 13,757	$ 13,757
	21096	2003-2004	2004-2005	12,067	12,067
		2004-2005	2005-2006	19,869	0
		2005-2006	2004-2005	22,410	2,541
	21556	2005-2006	2004-2005	1,155	1,155
93.917	20985	2004-2005	2005-2006	424	424
			Total	$ 69,682	$ 29,944

The net questioned cost column reflects the fact that the $19,869 of the $22,410 incorrectly charged to the 2005-2006 fiscal year Bioterrorism component (SID 21096) of the award should have been charged to the

Bioterrorism component of the 2004-2005 fiscal year award. Similarly, the $19,869 of the Bioterrorism component incorrectly charged to the 2004-2005 award year should have been charged to the Bioterrorism component of the 2005-2006 award year.

In addition to resulting in the aforementioned questioned costs, the need to correct coding errors creates inefficiencies and increases the risk that errors will not be detected. Subsequent delays in posting corrections for these errors, creates a risk for additional errors and further reduces the efficiency of staff.

Errors and delays in recordkeeping have also affected the Department's ability to accurately estimate their cash needs. They also make it more difficult to prepare accurate financial status reports in a timely manner and make it more difficult to monitor for compliance with Federal Period of Availability requirements.

Cause: A lack of administrative oversight appears to have contributed to this condition. The DPH's employees have stated that employee turnover has resulted in insufficient time to post the adjustments.

Recommendation: The Department of Public Health should comply with Federal Cash Management, Period of Availability and Financial Reporting requirements by improving controls designed to ensure that transactions are recorded in the proper grant award, and that adjustments are made in a timely manner. Adequate supporting documentation should be retained for all transactions.

Agency Response: "We agree with the finding.

The department manages 114 grant awards and 23 state appropriated accounts. The federal awards have overlapping award and periods of availabilities timeframes in relation to the three month closeout period that is co-existent with the beginning of new grant years. The controlling mechanism is a budget reference that designates the year of available obligation of the funds. This same designator is also used to code expenditures, previously obligated, to the correct grant award period. During the audit period, 19 items totaling $69,682 were found in the sample population of $9,842,185 to have an error of the budget reference designator. The department is aware of the need to properly code transactions to the correct grant award. We are constantly working towards improving the use of the complex accounting system that is available to maintain the fiscal integrity of the overlapping continuing grant awards and state appropriations. These actions will be on-going."

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 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CT1401 and G-0601CT1401

Adoption Assistance (CFDA # 93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CT1407 and G-0601CT1407

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G0501CTTANF and G0601CTTANF

Medical Assistance Program (Medicaid, Title XIX) (CFDA # 93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers 05-0505CT5028 and 05-0605CT5028

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 plan must include a listing of all Federal and non-Federal programs administered by the State agency submitting the plan. 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 following general criteria: Be allocable to Federal awards and be adequately documented. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. (OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments)

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 PACAP narrative did not identify all programs it administers.

The Department used an average cost basis rather than actual costs to allocate fringe benefit and non-payroll costs assigned to more than one cost pool. This cost allocation methodology is not specifically identified in the Department's PACAP.

Employee salaries allocated to multiple cost pools were not supported by personnel activity reports or equivalent documentation reflecting the actual activity of each employee.

The Department allocated workers' compensation costs ($9,523,275) using the number of full-time equivalent (FTE) personnel allocated to its various cost pools. The use of a FTE personal allocation cost basis distributes approximately 67 percent of workers' compensation costs to seven Federal cost pools. Analysis of workers' compensation cases and costs for the fiscal year ended June 30, 2006, disclosed that approximately 71 percent of the 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 25 percent of total Department staff.

Staff allocation percentages calculated and used to allocate costs to all PACAP cost pools excluded temporary employees and employees scheduled to Federal restricted accounts.

Training costs ($509,587) claimed for the fiscal year ended June 30, 2006, at the enhanced 75 percent Federal reimbursement rate, were not adequately supported. The Department did not require the outside contractor administering the training to provide subsidiary detail of training costs reported.

The Department used incorrect allocation percentages to allocate training costs ($631,257) incurred by its Training Academy unit for the quarter ended June 30, 2006. The Department claimed 100 percent of the unit's costs at the enhanced 75 percent Federal reimbursement rate. The Department did not consider the allowability of its training courses that were eligible to receive the enhanced reimbursement rate.

The Department erroneously allocated $246,396 in fringe benefit costs to Federal cost pools during the fiscal year ended June 30, 2006. Costs were incorrectly allocated in all four quarters.

We surveyed 10 observers out of 1180 observers responding to the RMTS conducted for the quarter ended June 30, 2006. We asked each observer six questions including questions on whether they understood how to complete the study, the purpose for completing the study and whether additional training was warranted. Two observers responded that they did not understand how to complete the study; five observers responded that they did not understand the purpose for completing the study; four observers responded that additional training was warranted and two observers did not respond to our survey.

Effect: The collective effect of the above conditions results in an inequitable distribution of costs to Federal and State programs. The erroneous allocation of $246,396 in fringe benefit costs to Federal cost pools resulted in the State over claiming Federal reimbursement from the following programs: Foster Care ($44,047), TANF ($42,291), Adoption Assistance ($7,702) and Medicaid (603).

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: We recommend that the Department:

- amend its cost allocation plan identifying all programs it administers in the narrative portion of the plan and include additional information on procedures used by it in situations where average costs are used to allocate costs,

- have employees prepare personnel activity reports or equivalent documentation when they work on multiple activities or cost objectives,

- amend its allocation basis for distributing workers' compensation costs and include all employee positions when calculating its full-time equivalent allocation base,

- amend its procedures to claim Federal reimbursement for training costs,

- improve its internal controls over the allocation of fringe benefit costs,

- provide additional training to RMTS observers explaining the process and purpose of RMTS.

Agency Response: "We agree with this finding.

The next update to the Cost Allocation Plan will include a listing of all federal accounts in the narrative portion. A clarification of allocation procedures for fringe benefits and other costs has been included in the plan amendment approved effective July 1, 2006.

Effective January 1, 2007, the department has commenced using personnel activity reports for employee salaries that are allocated across more than one Federal award or between a Federal and non-Federal cost pool.

The department has amended the plan, effective July 1, 2006, for the distribution of workers' compensation costs. A clarification related to the calculation of staffing levels has been proposed in an amendment submitted in December 2006.

Outside contractor training costs are estimated during the year and reconciled to actual reporting by the contractor after the close of the fiscal year. The adjustment to actual for SFY 2006 was posted as a retroactive adjustment in the September 2006 claim. The department also amended the plan effective July 1, 2006, to revise the methodology for claiming training expenses.

A retroactive adjustment was posted to the September 2006 claim to correct errors in reporting fringe benefit amounts.

The Training Academy is providing additional emphasis on RMTS in social worker training sessions."

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 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CT1401 and G-0601CT1401

Adoption Assistance (CFDA # 93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CT1407 and G-0601CT1407

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 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, 2006. We noted variances between the quarterly reports in each of the quarters. The differences were $46,415, ($15,449), $8,494 and ($5,670) for the quarters ended September 30, 2005, December 31, 2005, March 31, 2006, and June 30, 2006, which amounted to $33,790 more in payments reported from the Department's checking account than amounts reported on the consultant's reports.

Effect: Quarterly claims submitted to the Federal Department of Health and Human Services (DHHS) may not accurately reflect the Department's disbursements.

Cause: The Department does not reconcile the consultant reports to reports produced from its child welfare information system.

Recommendation: The Department should establish controls to ascertain that costs recorded on the report used to prepare the Federal financial report Form ACF-IV-E-1 agree with the disbursements made from the board and care checking account to ensure that the claims submitted to the DHHS for reimbursement are based on expenditures actually made by the Department.

Agency Response: "We agree with this finding.

The Department has recently posted an RFP for a new eligibility System. One of the requirements of the system (requirement CM.16) is to generate a Financial Reconciliation Report that will reconcile all financial inputs to the final claim computations. Until that system is functional, we will continue to make financial adjustments if necessary in accordance with the federally authorized methodology used in conjunction with the SFY 2003 state audit. No adjustments are required for SFY 2006."

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 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CT1401 and G-0601CT1401

Criteria: Foster care benefits may be paid on behalf of a child only if the following requirements are met:

The State must provide documentation that the foster family home provider has satisfactorily met a criminal records check with respect to prospective foster parents. (45 CFR 1356.30(a)(b))

The provider (whether a foster family home or a child-care institution) must be fully licensed by the State foster care licensing authority. Anything less than full licensure is insufficient for meeting IV-E eligibility requirements. (45 CFR 1355.20(a)(2)) (42 USC 672(c))

Condition: We randomly selected 40 foster care maintenance payments ($30,086) from "*Federal Claims Detail Reports*" prepared by the Department. The payments were selected from an audit universe of $29,564,058 in maintenance payments reimbursed by the Federal Foster Care program covering the State fiscal year ended June 30, 2006. Our testing identified the following conditions:

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 two transactions.

Documentation was not found in one foster family provider file indicating that the foster family home had a valid license for the service period under review.

Effect: The three transactions lacking adequate documentation represented $1,190 in questioned costs.

Cause: The Department's internal controls relative to ensuring that criminal records checks were performed and documented were inadequate.

The cause for the lack of a valid license for one foster family provider was not determined.

Recommendation: The Department should improve and/or establish internal controls that ensure that all required documentation supporting the Federal reimbursement of Foster Care Title IV-E maintenance payments is obtained and maintained in its records.

Agency Response: "We agree with this finding.

DCF is effecting a process change to address the above missing criminal background checks that involved relatives. The relative applicant process is being merged into the same process as the foster care, special study and adoptive applicants fingerprint checks. This merge avoids a separate communication to the Department of Public Safety (DPS) SPBI Unit and limits DCF's communication to the DPS Safety Background Investigation Unit, which has a proven track record of being more cooperative and responsive to DCF.

Historically, DCF has allowed the use of waivers for delays and instances where there has been difficulty with reading a provider's prints, such as the case with one of the above findings. DCF has purchased three computer LIVESCAN's that will significantly increase the accuracy and readability of the fingerprints and supply results within days. An additional three computers will be purchased during this fiscal year.

The IV-E eligibility will be changed to not eligible for the three transactions cited in the above audit finding and adjustments will be processed in the March 2007 quarter end claim.

To ensure proper ongoing documentation, effective January 1, 2007, the Office of Foster Care Services is reviewing each licensed provider's electronic and paper file for a variety of documentation, including the State and FBI fingerprint results and a hard copy of the license certificate. These reviews will occur during the Quarterly Home visit. In addition, the DCF SACWIS system will be modified to require finger print results be documented before a license can be issued."

III.E.4. Eligibility – Inadequate Documentation/Improper Payments

Adoption Assistance (CFDA # 93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: G-0501CT1407 and G-0601CT1407

Criteria: A State must provide documentation that criminal record checks have been conducted with respect to prospective adoptive parents. (45 CFR 1356.30(a) and (b))

Condition: We randomly selected 40 adoption assistance subsidy payments ($17,106) from "*Federal Claims Detail Reports*" prepared by the Department. The payments were selected from an audit universe of $16,087,433 in subsidy payments reimbursed by the Federal Adoption Assistance program covering the State fiscal year ended June 30, 2006. Our testing identified the following:

We were unable to determine whether the Department performed criminal records checks on two prospective adoptive parents because the Department could not locate the adoptive parent files.

Documentation was not found in one adoptive parent file indicating that the Department performed the criminal record checks.

Effect The three transactions lacking adequate documentation represented $1,444 in questioned costs.

Cause: The Department's record retention procedures for adoption cases were inadequate.

Recommendation: The Department should improve internal controls that ensure that required documentation supporting the Federal reimbursement of Adoption Assistance subsidy payments is obtained and maintained in its records.

Agency Response: "We agree with this finding.

All new adoption assistance cases are sent to the Subsidy unit upon finalization of the adoption. The area office is required to complete a checklist documenting that all federally required documents are included in the child's case record. These records are then checked by Subsidy staff and Revenue Enhancement staff to ensure that all required forms are in the file. The closed record is then sent to the storage facility with retrieval identifiers. The Department no longer purges adoption records regardless of their age. In addition, the Department is in the process of modifying its LINK computer system to require background checks prior to licensing."

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 2004-2005 and 2005-2006
Federal Award Numbers: S010A040007 and S010A050007

Special Education – Grants to States (IDEA Part B) (CFDA # 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H027A040021 and H027A050021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H173A040024 and H173A050024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: S367A040006 and S367A050006

Background: In our 2001 Single Audit report, we reported that the US Department of Education (USDOE) had issued an exception report on the Individuals with Disabilities Education Act (IDEA) – Part B Program (CFDA # 84.027), administered by the State Department of Education (DOE). This review noted that the State DOE did not have a process in place to determine the timing and amount of actual expenditures by subrecipients. Instead, the State DOE based payments on the subrecipients' predetermined or projected needs.

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, 2006. While the Department's monitoring controls were able to identify current period non-complying 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 15 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	15	$ 335,009
IDEA (Cluster)	12	1,536,770
ITQSG	14	251,380
		$ 2,123,159

The results reflect only those grant funds initially awarded during the fiscal year ended June 30, 2006. 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 an effective prevention control such as utilizing a reimbursement method for payments for those LEAs that remain significantly out of compliance.

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 and will continue efforts to improve controls over Federal cash management requirements.

While a significant reduction in LEA's not being in compliance has been realized through monitoring and advancements made to the agency's prepayment grant system, further corrective actions being considered by the agency to take, include but are not limited to, LEA's submitting periodic receipts for expenditures; establishing and imposing an interest liability methodology; concentrating efforts towards specific grant programs or LEA's prone to have cash management issues; and introducing revised shortened grant award period or a combination thereof."

III.F.2. Allowable Costs/ Cost Principles – Certification and Personal Activity Distribution Reports

Title 1, Part A Improving Basic Grants (CFDA # 84.010)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: S010A040007 and S010A050007

Special Education – Grants to States (IDEA Part B) (CFDA # 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H027A040021 and H027A050021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H173A040024 and H173A050024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: S367A040006 and S367A050006

Education of Homeless Children and Youth (CFDA # 84.196) Non Major Program
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: S196A040007 and S196A050007

Vocational Education – Basic Grants to States (CFDA # 84.048) Non Major Program
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: V048A040007 and V048A050007

English Language Acquisition Grants (CFDA # 84.365) Non Major Program
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: T365A040007 and T365A050007

State Grants for Innovative Programs (CFDA # 84.298) Non Major Program
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: S298A040007 and S298A050007

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 practices 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."

Further, 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 certifications for ten fully funded employees and the personal activity distribution reports for six split funded employees. Our testing found the following:

- Our sample of ten federally funded employees required the support of two certifications each (or a total of 20 certifications) for the audited period. Our review found that twelve out of twenty or 60 percent of the required Federally funded certifications were not filed by the Department. The total payroll and fringe benefit costs for the 10 fully funded employees were $1,089,733; the payroll and fringe benefit costs associated with the 12 missing certifications were $735,427.

- Our sample of six split funded employees required personal activity distribution reports for each split funded pay period for the audited period. Our review found that 75 out of 156 or 48 percent of the required personal activity distribution reports were not filed by the Department. The total payroll and fringe benefit costs for the six split funded employees were $504,711; the payroll and fringe benefit costs associated with the 75 incompletely supported personal activity distribution reports were $196,822.

- The following compares the amount of payroll and fringe benefit costs tested with the amount unsupported by certifications as a function of total payroll and fringe benefit costs by program:

CFDA/ Other	Amount Tested	Amount Unsupported	Total Payroll And Fringe
84.010	$ 208,594	$ 116,471	$ 1,046,975
84.367	219,418	166,072	730,455
84.027	692,881	519,717	2,441,508
84.173	101,622	9,422	221,818
84.048	29,000	29,000	29,000
84.365	126,229	19,921	259,989
84.298	49,653	21,618	415,343
Other Federal	102,392	18,146	308,347
Other State	64,655	31,882	1,528,865
Total	$ 1,594,444	$ 932,249	$ 6,982,300

Also, while reviewing related records, we noted that one non-sample employee who was fully funded from CFDA 84.196 – "Education of Homeless Children and Youth" had two certifications for the fiscal year that were unsigned by the Bureau Chief. Instead, the Bureau Chief wrote a note on the certification indicating that the employee "spends 65 percent [of his] time managing the State funded Family Resource Center Program." The employee's total payroll and fringe benefit costs charged to the indicated Federal program for the period were $115,055. Of that amount, 65 percent or $74,786 should have been charged to State funds.

Our testing also included a review of six adjusting journal entries made during the fiscal year. One of the six adjustments transferred $230,039 in payroll charges from the General Fund to Title I for the period June 23, 2005 to December 8, 2005. Our review found that:

- The explanation for the adjustment was that the Department had charged the six employees to the General Fund in error. Since they should have been charged to Title I, they were subject to the certification requirement.

- No certifications were filed by the Department for the six employees included in the adjustment.

Effect: In the absence of the required certifications and personal activity distribution reports, employees may be charged to incorrect funding sources and paid for hours not worked on Federal programs.

Cause: As noted in the prior audit, the tasks associated with the production of periodic certifications were not adequately performed. There was a lack of monitoring over the completion of certifications and the filing of the personal activity distribution reports.

Recommendation: Uniform procedures for certifications and personal activity distribution reports should be established and maintained by the Department. Certifications and personal activity distribution reports should be obtained for all Federally funded employees. The payroll for the employee charged entirely to the "Education of Homeless Children and Youth (CFDA # 84.196A)" program should be adjusted to reflect the actual time worked on the Federal program.

Agency Response: "We agree with the finding and have taken corrective actions to revise the uniform certification and the monitoring of the personal activity distribution reports to be in compliance with OMB Circular A-87. Further, the reassignment of responsibility for obtaining and keeping certifications on file has been made to the Bureau of Fiscal Services."

III.F.3. 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 2004-2005 and 2005-2006
Federal Award Numbers: S010A040007 and S010A050007

Special Education – Grants to States (IDEA Part B) (CFDA # 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H027A040021 and H027A050021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: H173A040024 and H173A050024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: S367A040006 and S367A050006

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 six of the 15 (40 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: The Department's process for examining key information on submitted SEFAs was not sufficient to detect and correct the errors noted above.

Recommendation: The Department should develop and implement formal controls specifically designed to prevent the recurrence of improperly reported Federal program expenditures by subrecipients.

Agency Response: "We agree with the finding and have taken the corrective action of developing a table of Codes of Federal Domestic Assistance (CFDA) that is used by the department's prepayment grant system to assist in the review by auditors of Federal grant award documents. Further, formal control specifications have been filed with the Bureau of Information Technology to include CFDA numbers as part of the electronic grant award notifications."

III.F.4. Reporting – Authentication Controls for Reimbursement Requests

School Breakfast Program (CFDA # 10.553)
National School Lunch Program (CFDA # 10.555)
Special Milk Program (CFDA # 10.556)
Federal Award Agency: U.S. Department of Agriculture
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 2004IN109844 and 2005IN109844

Criteria: Pursuant to 7 CFR §210.8 (c), §215.10 (d), and §220.11 (c) School Food Authorities must present a claim for reimbursement to the State Agency that contains data sufficient for the preparation of reports and is signed by a School Food Authority Official.

Acceptable use of electronic signatures for authorization requires authentication controls. Authentication controls are standards, policies and procedures that are used to verify that systems and the users of those systems are who they say they are. Such controls are designed to limit system access to only those identifiable users with proper credentials, such as passwords, in an effort to reduce the risk of unauthorized access, modification, loss or disclosure.

Condition: Beginning in 2004 a program was instituted by the Department to allow electronic signatures for form preparation and approval. Based on discussions with Department Staff, the electronic method has now been fully implemented and is the only method available for the approval and submission of the requisite forms. However, the forms submitted contain neither the space to display nor any other indication of proper approvals, electronic or otherwise.

Effect: The electronic form used by the Department does not have a space designated for the electronic signature of the approving party. As a result, when the forms are submitted by the School Food Authority, no approving signature is included.

Cause: Changes in forms and procedures at the School Food Authority level were not sufficiently tested to ensure compliance with regulations. Internal review procedures at the time of form submission performed by the School Food Authority were not sufficient to detect compliance issues. Further, the monitoring activities performed by the State Department of Education were not sufficient to detect these instances of non-compliance.

Additionally, State Department of Information Technology Policies, Procedures and Best Practices were not integrated into the plans for implementation of authorization by electronic signature.

Recommendation: The Department should redesign their implementation of authorization by electronic signature such that: user ids are tied directly to an individual, passwords are forced to change regularly and are allowed to be changed at any time by the user, and forms reflect the authorizer.

Agency Response: "We agree with the finding and the department is taking the corrective actions to modify the system to include a space in which the designated individual will provide their electronic signature."

G. UNIVERSITY OF CONNECTICUT SYSTEM

III.G.1. Allowable Costs/Cost Principles - Time and Effort Reporting (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2006
Research and Development Programs:

Criteria: OMB Circular A-21 establishes the methods available for verifying charges for personal services. Such methods require that "After the Fact Activity Records", also known as time and effort reports, be prepared no less frequently than every six months.

Condition: We noted, that based upon data compiled by the University's Office of Sponsored Programs, as of January 22, 2007, over 30 percent of the time and effort reports prepared for the period covering January 1, 2006 through June 30, 2006 had yet to be returned signed.

Effect: Charges to certain Federal awards are not properly documented.

Cause: Recent changes made to the University's time and effort reporting system caused delays in sending out the time and effort reports.

Recommendation: The University should send out their time and effort reports in a more timely manner.

Agency Response: "We agree with this finding."

III.G.2. Equipment and Real Property Management (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2006
Research and Development Programs:

Criteria: OMB Circulars A-21 and A-110 require that a physical inventory of equipment be taken at least once every two years and that the results of such inventory be reconciled with the equipment records.

Condition: Although University personnel had performed a physical inventory of equipment within the required time period, they did not reconcile the results of such inventory to the equipment records.

Effect: The University has not complied with the cost principals and administrative requirements established by OMB Circulars A-21 and A-110.

Cause: Staffing levels prevented the University from investigating differences in physical inventories with recorded amounts to the extent necessary to make adjustments to the equipment records.

Recommendation: The University should conduct a physical inventory of equipment at least every two years and reconcile the results of the physical inventory to the equipment records.

Agency Response: "We agree with this finding."

III.G.3. Cash Management (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2006
Research and Development Programs:
US Army Research Office (CFDA # 12.xxx)
Grant# DAAD19-02-1-0381
Account# 523143 "Center for Advanced Deployable Nano-Sensors"

Criteria: Federal cash management guidelines under OMB Circular A-110 require that recipients of Federal funds minimize the time lapsing between receipt of such funds and the related disbursement.

Condition: We tested 20 grants to determine if the University had received Federal funds in excess of its immediate needs. We noted one instance in which a grant had a cash balance of $765,787 on July 1, 2005. During fiscal year 2005-2006, expenditures were $539,563, and in accordance with a pre-determined schedule of payments, Federal funds received were $683,413, leaving a cash balance of $909,637 at June 30, 2006.

The grant award for this grant stated that the University was to advise the applicable Federal Grants Officer if an adjustment to scheduled payments was required due to a variance between projected and experienced expenditures.

Effect: The University received Federal funds in excess of its immediate needs for the grant noted.

Cause: The Federal funds received were paid to the University in accordance with a pre-determined schedule of payments.

Recommendation: For those grants for which the University receives Federal funds in accordance with a pre-determined schedule of payments and excess cash accumulates, the University should notify the appropriate Federal grants manager of the existence of the excess cash, in a timely fashion.

Agency Response: **"**We do not agree with this finding. UConn filed the required Federal Cash Transaction Reports (FCTR) on time for each quarter of the project beginning with September 30, 2002. The cash on hand at July 1, 2005, totaled $765,787, including the first payment for an amendment executed by the Federal Grants Officer (FGO) in June 2005. That amendment added additional funding of $942,628 to the project and extended it for an additional year. At that point in time, payments to UConn were commensurate with the project's record of expenditures and the FGO's intent for funding the project. In accordance with the amendment, two additional payments were sent to UConn in October and December 2005 and the final payment in March 2006. Project expenditures at the year ending June 30, 2006 ($539,563) were lower than for the previous fiscal year ($933,369). OSP, however, could not have predicted that project expenditures would deviate from the preceding fiscal year **before** the FGO sent the final payment on March 6, 2006. Thus, there was no issue or reason to modify the payment schedule. If additional payments had been due after July 1, 2006, the FGO would have been notified.

In addition, after reviewing the status of the project at the end of the fiscal year, the FGO granted UConn an extension of time without additional funds, allowing the principal investigator to use the unexpended balance to complete the project."

Auditors' Concluding Comments:

The University was unable to provide us with any information that would allow us to conclude that cash balances had been maintained in a manner that minimized the time lapsing between the receipt of funds from the grantor and disbursement of such funds by the University.

III.G.4. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2006
Research and Development Programs:
Catalog reference not provided (CFDA 43.000):
Account # 522862 – "Effects of Dehydroepi and Dosterone and Yoga on Muscle, Bone and Balance" – NNG04GK63G from the National Aeronautics and Space Administration, project period June 1, 2004 through May 31, 2007
National Center for Research Resources (CFDA 93.389):
Account # 522990 – "National Resource for Cell Analysis and Modeling" – 5 P41 RR013186-08 from the National Institutes of Health, project period September 30, 1998 through August 31, 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 \$89,657 of the \$29,932,612 in salary payments charged to Federal Research and Development Programs accounts during the 2005-2006 fiscal year. Of that amount, \$14,698 involved payments for the final quarter of the fiscal year. When we started our review on June 26, 2006, we found that \$4,176 of the remaining \$74,959, consisting of charges for two individuals to two awards, had not yet been certified. The \$4,176 was comprised of charges of \$2,154 to account 522862 for the pay period ended January 19, 2006 and

$2,021 to account 522990 for the pay period ended January 5, 2006. Though certifications were subsequently provided to us, the fact that they had not been completed in a timely fashion raises questions as to their authority.

In our previous review, we found that the integrity of the certifications made by five of the researchers included in our test check had been compromised, as their password had been disclosed to others. In our current review, we noted that one of the researchers included in our test check had disclosed his password. The results of our testing indicate improvement in this area; however, passwords should never be disclosed.

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: The University should continue 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, and investigate the feasibility of authentication by the identification of individuals based on measurable physical characteristics, such as fingerprints, that can be checked on an automated basis.

Agency Response: "We agree with this finding in part. Both reports in question cover the period January through March 2006. According to UCHC policy these reports "…must be completed and signed within 105 days following the end of a quarter." One report UCHC account 5-22862 meets our policy requirement as it was signed within 105 days of the end of the quarter. The second report, UCHC account 5-22990 was signed 5 days past our due date. Please note that our policy is more stringent than the Federal policy cited below. Both OMB A-21 Section J.10.c.(2)(e) and NIH Grants Policy Statement, Part II. Cost considerations, Allowability of costs/activities, Selected Items of Cost, Salaries and Wages: *Payroll Distribution*, Educational Institutions state, "For professorial and other professional staff, the activity reports will be prepared each academic term, but no less frequently than every 6 months." We have forwarded the name of the investigator who disclosed his password to the Office of Research Compliance for their review and counseling."

Auditors' Concluding Comments:

The Health Center's electronic time and effort reporting system produces reports for certification on a quarterly basis. We feel that delays in the certification process lessen the reliability of the documentation produced and that there was no real obstacle to completing the reports in a more timely fashion. Additionally, it should be noted that the reports referred to above were not completed until after we questioned their status.

III.G.5. Cash Management (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2006
Research and Development Programs:
Catalog reference not provided (CFDA 12.000)
Military Medical Research and Development (CFDA 12.420)
Basic Scientific Research (CFDA 12.431)

Criteria: The timing and amount of cash advances should be as close as administratively feasible to the actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs (31 CFR 205.33).

Condition: The aggregate cash balance held for Department of Defense awards increased from $1,791,685 as of June 30, 2005, to $2,363,556 as of June 30, 2006. Per the Schedule of Expenditures of Federal Awards, Department of Defense expenditures totaled $1,902,360 for the 2005-2006 fiscal year.

Effect: Excess cash balances were maintained for Department of Defense awards.

Cause: Payments were made under the awards in accordance with predetermined schedules. Program expenditures were not incurred at the rates envisioned when the payment schedules were set up.

Recommendation: The University should adjust the payment schedules for Department of Defense awards to avoid the accumulation of excess cash balances.

Agency Response: "We agree with this finding. All Department of Defense US Army Medical Research and Material Command cash advance payment schedules will be reviewed and, where appropriate, renegotiated to more closely align receipts to expenditures. In the interim, we continue to annually remit to DHHS all interest earned on Federal advances deposited in our interest bearing account."

III.G.6. Special Tests and Provisions – Key Personnel (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2006
Research and Development Programs

Criteria: Per the March 2006 OMB Circular A-133 Compliance Supplement, institutions are required to implement procedures for determining if key personnel specified in the application/proposal were involved in the project as required.

Condition: We reviewed the Health Center’s procedures for determining if key personnel specified in the application/proposal were involved in the project as required and requested documentation supporting the involvement of 13 employees listed on applications/proposals as key personnel. The Health Center provided us with documentation supporting the involvement of 10 of the 13 individuals; we were told that the other three did not meet the institution’s criteria for classification as key employees.

Effect: The institution did not obtain adequate assurance that all employees identified as key personnel in applications/proposals devoted the required level of effort to the related awards.

Cause: Those responsible for monitoring the committed effort of key personnel did not define key personnel in the same manner as the researchers that prepared the applications/proposals.

Recommendation: The University should revise procedures to incorporate the monitoring of the committed effort of all staff identified in applications/proposals as key personnel.

Agency Response: “We agree with this finding in part. The key personnel in question dated back to an NIH grant application in 2000. Since then Research Administration and Finance has communicated the definition of key personnel more definitively to the research community. We will continue to monitor the committed effort of key personnel on all the awards we receive to ensure that no one exceeds the maximum allowable effort and that all committed effort represents what has been agreed to with the sponsor.”

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, 2006:

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. Student Eligibility – Satisfactory Academic Progress

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: 34 CFR 668.16 sets standards of administrative capability and requires that institutions establish and apply reasonable standards for measuring whether a student is maintaining satisfactory academic progress (SAP) in their educational program.

Condition: In total, we selected 105 recipients for eligibility testing from several State universities and colleges. Of the 105 in total selected, we selected 12 Title IV recipients from Central CSU, 15 from Southern CSU, and 24 from the community colleges for SAP testing.

From the 12 recipients selected from Central CSU, we noted one student who did not achieve satisfactory academic progress. The University's SAP policy requires that a full-time student successfully complete 24 credits per academic year; the student completed 19 credits. There is no record of an appeal of SAP progress on file. We are treating the student's net receipts of $463 in Direct Loans as a questioned cost. Total Direct Loan funds in our sample were $43,189, while the total of Direct Loans at Central CSU was $28,791,170.

From the 15 recipients selected from Southern CSU, we noted one student who did not meet SAP requirements in order to receive financial assistance. The student enrolled for 15 credits in the Spring 2005 semester, but withdrew from all classes (five three-credit withdrawals are reflected on the student's transcript). This would make the student ineligible for Federal assistance in the 2005-2006 award year, yet the student received $900 in Federal Pell Grants and $6,426 in FFEL. We are treating these amounts as questioned costs. Total Pell Grant disbursements in our sample were $16,263 and total FFEL disbursements were $130,479. Total Pell Grant disbursements at the University for the award year were $4,587,864 and total FFEL disbursements were $36,942,094.

From the 24 recipients selected from the community colleges, we noted an instance in which a student exceeded the maximum allowable credits for the certificate program in which she was enrolled. This should have prevented the student from receiving aid. College policy requires the student to be ineligible for any additional financial aid. The College inadvertently granted the student a waiver of this policy without requiring the student to follow the College's published appeal process. The student received $1,275 in Federal Pell Grants, which we are treating as questioned costs. Total Pell Grant disbursements in our sample were $38,750. Total Pell Grant disbursements at the community colleges were $23,938,387.

Effect: These students received Title IV funds for which they were not eligible.

Cause: *Central CSU*: An automated process in Banner, the University's information system, failed to identify this student as not making satisfactory academic progress.

Southern CSU: An automated process in Banner, the University's information system, failed to identify this student as not making satisfactory academic progress.

Community Colleges: The Financial Aid Director did not comply with the College's SAP Policy.

Recommendation: These institutions should ensure compliance with Federal regulations related to Satisfactory Academic Progress.

Agency Response: *Central CSU:* "We agree with this finding. The student in question was offered a Direct Loan that should not have been offered a Direct Loan based on SAP policy. The Direct Loan for this student has been corrected and the student is no longer receiving a Direct Loan for the 2005 – 2006 financial aid award year."

Southern CSU: "We agree with this finding."

Community Colleges: "The Community Colleges agree with this finding. The Community Colleges have a uniform Satisfactory Academic Progress policy for all 12 colleges. Each college must have an appeals process available to students. Gateway CC has such an appeals process, but did not follow its policy in this one instance. It is standard practice for the financial aid office to have students begin their appeal with the proper supporting documentation attached to the SAP appeal form. The college regrets the error."

III.H.2. Cash Management

Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: 34 CFR 668.166(b)(1) states that if an institution draws down Title IV funds in excess of immediate cash needs, the institution may maintain the excess cash balance if the amount of the excess cash balance is less than one percent of its total prior-year drawdowns during a non-peak period and if the institution eliminates the excess cash balance in the next seven days.

Condition: In our review of cash management related to the Direct Loan program at Central CSU, we noted that the University maintained an excess cash balance in amounts ranging between $50,000 and $100,000 for approximately 15 days in July 2006.

Effect: The University was not in compliance with Federal regulations.

Cause: The excess cash situation occurred when the University was required to return funds for certificate students who had been inadvertently overawarded.

Recommendation: The University should develop procedures to ensure compliance with Federal regulations.

Agency Response: *Central CSU:* “We agree with this finding. The University did not comply with cash management policy during the period in question.”

III.H.3. Reporting – Pell Grant Disbursement Transmissions to the Common Origination and Disbursement System (COD)

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: Federal Register, Volume 70, Number 108, Pages 33134 – 33140, dated June 7, 2005, requires an institution to submit Pell Grant disbursement records no later than 30 days after making a Pell Grant disbursement or becoming aware of the need to adjust a student’s previously reported Pell Grant disbursement.

Condition: From our eligibility sample of 38 students at UConn, 12 students received Pell Grant awards. We reviewed the Pell Grant Payment Data for each of these 12 students. We noted that the Pell Grant disbursement transmission to COD for 10 of the 12 students for the Fall 2005 semester was between one and 17 days late. Pell Grant disbursements made by the University between August 19, 2005, and September 2, 2005, totaled $3,400,116.

Effect: The University was not in compliance with Federal requirements related to the timely submission of Pell Grant Payment Data.

Cause: The University experienced difficulties in transferring information in the recently implemented (in August 2005) PeopleSoft information system to the COD system.

Recommendation: The University should implement procedures to ensure compliance with the Federal regulations related to the timely submission of Pell Grant Payment Data.

Agency Response: *UConn:* "We agree with this finding. The difficulties related to the transmission of data from PeopleSoft to COD were the result of performing the function for the first time in a new system."

III.H.4. Reporting - Fiscal Operations Report and Application to Participate (FISAP)

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: The instructions for completing the FISAP are contained in the *Instructions Booklet for Fiscal Operations Report for 2005 – 2006 and Application to Participate for 2006 – 2007 (FISAP)*. These instructions provide guidelines for institutions to follow in completing the *Information on Enrollment* line on the FISAP.

Condition: Western CSU reported 2005-2006 enrollment figures on the FISAP of 5,195 undergraduate students and 712 graduate students. A review of the supporting documentation for these figures noted that they should have been reported as 6,399 undergraduate students and 1,027 graduate students.

Effect: Enrollment totals reported to the US Department of Education were incorrect.

Cause: The University did not follow the guidelines in the *Instructions Booklet* for reporting enrollment totals.

Recommendation: The University should follow the guidelines in the *Instructions Booklet* for reporting enrollment totals on the FISAP.

Agency Response: *Western CSU:* "The University agrees with this finding based on the State Auditor's interpretation of the instructions for completing the FISAP."

III.H.5. Special Tests: Disbursements to Students

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: 34 CFR 668.167 (b) (1) and (2) require FFEL funds to be disbursed by the institution to students or parents within three business days if the lender provided the funds by electronic funds transfer or master check or to return those funds to the lender promptly but no later than ten business days after the date the institution is required to disburse the funds.

Condition: From a sample of ten FFEL recipients at UConn, we noted one instance in which funds received via EFT by the institution were disbursed to the student 14 business days later than required. We also noted one instance in which funds were returned to the lender two business days later than required.

Effect: Disbursements to students and funds returned to lenders were not made within the required timeframe in certain instances.

Cause: The cause is not known.

Recommendation: The University should implement procedures to ensure compliance with Federal disbursements requirements.

Agency Response: *UConn:* "We agree with this finding."

III.H.6. Special Tests: Disbursements – Credit Balances

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2005-2006

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: We reviewed the student accounts of the 15 students in our eligibility sample from Southern CSU. In this review we noted five 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 between $250 and $1,572 were paid to the students between three days and 20 days later than required.

We reviewed the student accounts of the 24 students in our eligibility sample from the community colleges. In this review we noted that all three students in this sample from Norwalk CC had a credit balance in their accounts resulting from the payment of Title IV funds. None of these students received payment on these credit balances within the required timeframe. Credit balances between $217 and $862 were paid to the students between seven and 18 days later than required.

Effect: These institutions are not in compliance with the required timeframe for paying students the credit balance in their student accounts.

Cause: *Southern CSU:* The University set specific dates for the Fall 2005 and Spring 2006 distributions of credit balances; these dates did not always allow for compliance with the Federal regulation.

Community Colleges: The Business Office at Norwalk CC does not process payments to students with credit balances in their accounts until the bookstore posts charges to student accounts.

Recommendation: These institutions 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: *Southern CSU:* "We agree with this finding."

Community Colleges: "The Community Colleges agree with this finding. The Community Colleges have a uniform Title IV Federal funds cash management policy as well as a System Office calendar for the proper management of Federal financial aid dollars. Norwalk Community College regrets its error in not following the Federal cash management regulations and the System Office activity calendar."

III.H.7. Special Tests: Disbursements to Students - Notifications

Federal Family Education Loans (CFDA # 84.032)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: Pursuant to 34 CFR 668.165(a)(2), if an institution credits a student's account at the institution with FFEL, Federal Perkins Loan Program, or Direct Loan Program funds, the institution must notify the student, or parent [in the case of PLUS loans] 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 loan proceeds returned to the holder of that loan; and (iii) The procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement.

Condition: *UConn:* We were informed that the University did not send out FFEL loan notification letters to students for the Fall 2005 semester. As of January 16, 2006, a process on the PeopleSoft Student Financial System was created to send an email notification to the student's husky mail account when his/her account is credited with FFEL loans.

Also, during the audited period, parents were not notified of the date and amount of disbursement of PLUS Loan funds to the student's account, or the parent's right to cancel all or a portion of that loan disbursement, and the procedures and the time by which the institution must be notified that he or she wishes to cancel the loan or loan disbursement.

From our sample of 10 students, we noted that two students who received Federal Perkins Loan Program funds in the fall semester, after the initial scheduled disbursement on August 19, 2005, were not notified of the date and amount of the disbursement of FPL funds to their accounts.

Central CSU: We found that the University did not notify parent borrowers who received Direct Loans of this information. We also found that student Direct Loan borrowers weren't notified of the date and amount of the disbursement. These students received mass notification through the Central "Pipeline" advising them that they have the right to cancel or reduce their loan award and to contact the Financial Aid Office if they wished to do so. The loan disbursement was not mentioned in this notification. Students who received Direct Loan disbursements after the mass notification received no notification of any kind.

Western CSU: We found that the University did not provide recipients who received FFEL funds with written notification of the following: the date and amount of the disbursement, the right to cancel all or a portion of the loan, and the procedures by which the student must notify the institution that they wish to cancel any portion of the loan. The University relied on verbal communication with the student during the entrance interview as well as encouraging the student to access their account through the University website.

Effect: These universities were not in compliance with Federal regulations.

Cause: *UConn:* During our audited period, the University switched from the student financial system previously used, Student Accounts Receivable System (SARS), to PeopleSoft. The memo screen that was used in SARS to indicate that emails of loan notifications had been sent to students was no longer used, and similar comments were not generated on PeopleSoft until January 16, 2006. Currently, an email is sent to the student's university email account notifying them that FFEL and/or FPL funds have been received. Also, the University is presently notifying students, rather than the parent borrower, of credit of a PLUS loan to his or her account as the PeopleSoft PLUS Loan notification letter to parents that has been created has not been put into production as of October 5, 2006.

Central CSU: The cause is not known.

Western CSU: The University has not implemented a procedure to notify the student or parent in writing of these requirements.

Recommendation: These universities should implement procedures to ensure compliance with Federal regulations related to FFEL, Perkins Loan Program, and/or Direct Loan Program fund notifications.

Agency Response: *UConn:* "We agree with this finding."

Central CSU: "We agree with this finding."

Western CSU: "We agree with this finding."

III.H.8. Special Tests: Disbursements to Students – Pell Grant Underaward

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: 34 CFR 690.80 requires an institution to recalculate a Pell Grant award for the entire year if the student's expected family contribution (EFC) changes at any time during the award year. The change may result from either a clerical error or from information obtained during the verification process.

Condition: From a sample of ten students at Tunxis CC, we noted that one student's Pell Grant award was $88 less than it should have been because the incorrect EFC was used in the awarding process.

Effect: The student received a Pell Grant underaward of $88.

Cause: Numerous errors and corrections to the student's FAFSA processing resulted in differing EFCs during the awarding period.

Recommendation: The College should comply with Federal Pell Grant disbursement procedures.

Agency Response: *Tunxis CC:* "We agree with this finding. The audit of 2005-2006 student aid found that we had underpaid a student's Pell grant by inadvertently basing his payment on an EFC that was higher than the verified EFC.

Our initial response to this finding during the auditors' field work explained that a very unusual combination of three factors resulted in this error:

- The student applied for aid after our enrollment census date, resulting in award changes due to subsequent changes in his enrollment status.

- The college and the student both made changes to the processed need analysis data. One of the student's changes did not include the required parent signature, resulting in a rejected Institutional Student Information Record (ISIR).

- The student's name was spelled differently on his Federal aid application and his Tunxis student record. This resulted in the import of his ISIR records into our data system being delayed, which added another complication to his processing. In this situation, the ISIR is held in a suspense file and has to be manually coded for import into our data system.

Our initial response also showed that, since the error was found in time, we were able to correct the student's Pell grant disbursement to the full amount he was entitled to.

The first two factors are not subject to our control. Fortunately, it is unusual for students to make Federal aid application data changes after we have completed our processing. The third factor – handling suspended records – is one we do control."

III.H.9. Special Tests: Return of Title IV Funds

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria:

- The requirements for the timely return of unearned Title IV funds are contained in 34 CFR 668.173(b). This regulation generally requires the institution to return Title IV funds to the USDOE or the lender (for FFEL funds) within 30 days of determining that a student has withdrawn from the institution.

- The criteria for calculating the return of unearned Title IV funds are contained in 34 CFR 668.22.

Condition:

At UConn, we tested the return of Title IV funds to ten students who had withdrawn from the University. Testing consisted of five calculations from both the Fall 2005 and Spring 2006 semesters. We noted the following:

- The returns of Title IV funds for the students who withdrew in the Spring 2006 semester were not in compliance with the timeliness requirements contained in 34 CFR 668.173(b). We determined that these payments were made between five and six months later than required.

- FFEL amounts determined by the return of Title IV funds calculations for two students were not supported by other institutional documentation.

Effect:

- The University was not in compliance with the timeliness requirements for returning unearned Title IV funds.

- The amounts returned to lenders related to two students were not in agreement with other institutional documentation on these students.

Cause: In the Spring 2006 semester, the University converted to a new system for calculating the return of unearned Title IV funds. Problems in the conversion process included preparing the calculations and documentation of the calculation in the new system.

Recommendation: The University should comply with the requirements related to the return of unearned Title IV funds.

Agency Response: *UConn:* “We agree with this finding. The auditors have discovered a weakness, particularly at our branch campuses that permitted five untimely returns including two with amount discrepancies. This was exacerbated by the departure of two regional campus bursars and the death of a third during the award year. Nevertheless, it remains incumbent on the University to account for such scenarios.”

III.H.10. Special Tests: Student Status Changes

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: 34 CFR 682.610 (c) requires that changes in the enrollment status of a FFEL recipient be reported through the NSLC within 60 days of the change in status or directly to lenders within 30 days of the change in status.

Condition: From a sample of 25 FFEL recipients who separated from UConn, we noted that the change in enrollment status for seven students was not reported to the National Student Loan Data Service (NSLDS) within 30 days (a roster would not be expected to be filed within 60 days). These borrowers had either graduated or withdrawn from the University.

From a sample of ten students who separated from Western CSU, we found that the change in status was not reported to the NSLC within 60 days for five students. Four of these students were reported as full-time rather than withdrawn; one of these students was reported as withdrawn rather than graduated.

Effect: Enrollment information for certain students was not provided to lenders in a timely and accurate manner. Because student enrollment status determines the date a Federal loan borrower enters a grace or repayment period, the timing of the government’s payment of interest subsidies, and whether a borrower is eligible for in-school deferment privileges, timely reporting of enrollment data for Federal student loan borrowers is critical.

Cause: *UConn:* Because of the timing difference between the date the University entered the change in enrollment in PeopleSoft and the date the enrollment data was certified by the institution, there were instances in which the change in enrollment status was not reported to the NSLDS within the required timeframe.

Western CSU: The cause is not known.

Recommendation: These universities should comply with the reporting requirements related to student status changes.

Agency Response: *UConn:* "We do not agree with this finding. Our records and the records of the National Student Clearinghouse show that the changes in enrollment were submitted to the NSC in a timely manner. We are working with the NSC and NSLDS to determine why their schedule for the SSCR [Student Status Confirmation Report] was not monthly in 2005-2006. We have been informed that the run is scheduled monthly in the current year."

Western CSU: "The University agrees with this finding."

Auditors' Concluding Comments:
UConn: Although changes in enrollment were submitted to the NSC in a timely manner for all but one student in our sample, for the seven students noted, an SSCR was not created within 60 days of the date it was discovered that the student was no longer enrolled at least half-time (PeopleSoft Action Date or Status First Started Date Reported to NSC, whichever was applicable). In these instances, the SSCR was created between a range of two days to over two months late. The University should consider that SSCRs are not created during the summer period.

III.H.11. Special Tests: Student Loan Repayments

Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Award Agency: Department of Education
Award Year: 2005-2006

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.

Condition: From a sample of ten borrowers at Central CSU 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 two and eight months later than required.

From a sample of five borrowers at Western CSU who entered repayment during the audited period, we noted that the change in enrollment status for one borrower was not reported to UAS in a timely manner. UAS received notification of the change in status for this borrower 15 months later than required.

Effect: These universities were not in compliance with Federal due diligence requirements.

Cause: Procedures in place at both universities were not sufficient to prevent these conditions from occurring.

Recommendation: These universities should develop procedures to ensure compliance with Federal regulations.

Agency Response: *Central CSU:* "We agree with this finding. We feel that with the corrective action taken and with the automated notification system in place we are confident that we are in compliance with due diligence requirements."

Western CSU: "The University agrees with this finding."

III.H.12. Cash Management – Pell Grant Drawdowns

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2005-2006

Criteria: In accordance with 34 CFR 668.166, cash management standards and practices should be established to ensure that no more than the minimum cash needed to cover immediate disbursements (within three business days following the date the school receives the funds) is maintained.

Condition: At UConn, the Pell Grant Award Year 2005-06 (P063P051228) initial drawdown of $3,750,098 was made on August 18, 2005, prior to disbursements posted to student accounts equaling that amount. Excess cash was on hand for forty business days, from August 19, 2005, through October 14, 2005.

Effect: The University maintained excess Pell Grant funds from August 19, 2005 until October 14, 2005.

Cause: The initial Pell Grant authorization for $3,750,098 received by the University for award year 2005-06 was drawn down in its entirety. The initial drawdown is an estimate by the U.S. Department of Education of the amount of funds the school would need to make its first disbursements to students. Pell disbursements did not equal/exceed the amount drawn until October 14, 2005.

Resolution: The University presented us with documentation for the Fall 2006 semester showing that controls have been implemented to prevent this condition from recurring. The matter has been resolved.

I. DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT

III.I.1. Eligibility – Ineligible Subrecipient

Public Assistance Grants (CFDA # 97.036)
Federal Award Agency: Department of Homeland Security
Award Year: Federal Fiscal Year 2005-2006
Federal Award Number: EM3200

Criteria: 44 CFR 206.202 requires that Public Assistance Grants grantees are responsible for submitting documents to the Federal Emergency Management Agency (FEMA) for the award of grants. 44 CFR 206.207 requires that the State shall develop a plan for the administration of the Public Assistance program that includes, among other responsibilities, assisting FEMA in determining applicant eligibility and compliance with the administrative requirements of 44 CFR Parts 13 and 206.

The Connecticut Public Assistance Program Administrative Plan requires that Department of Emergency Management and Homeland Security (DEMHS) identify eligible public entities and eligible non-profit organizations affected by a disaster. The DEMHS shall secure adequate documentation from non-profit organizations to determine their nonprofit status and ensure their eligibility for the Public Assistance program.

44 CFR 206.222 states that the following entities are eligible to apply for assistance under the State public assistance grant:

(a) State and local governments.
(b) Private non-profit organizations or institutions which own or operate a private nonprofit facility, as defined in Section 205.221(e).
(c) Indian tribes or authorized tribal organizations and Alaska Native villages or organizations, but not Alaska Native Corporations, the ownership of which is vested in private individuals.

44 CFR 206.221(e) states that Private nonprofit facility means any private nonprofit educational, utility, emergency, medical or custodial care facility, including a facility for the aged or disabled and other facility providing essential governmental type services to the general public and such facilities on Indian reservations.

FEMA Public Assistance guidelines state that other State and local political subdivisions may be eligible if they are formed in accordance with State law as a separate entity and having taxing authority. These include, but are not limited to, school districts, irrigation districts, fire districts and utility districts.

Condition: We reviewed forty Public Assistance Expenditures totaling $1,426,841. These expenditures were selected from payments totaling $16,302,884. Our review disclosed one payment of $1,697 that was made to a condominium association that did not appear to meet the eligibility requirements of the program and for which there was no documentation to support that this entity was a private non-profit or local political subdivision. We did note that this payment was approved by FEMA based on documentation forwarded by DEMHS.

Effect: One payment of $1,697 was made to a subrecipient that did not appear to meet the eligibility requirements of the program resulting in questioned costs of $1,697.

Cause: It appears that the Department believed that the entity met the definition of a local government because it had the words “tax district” included in its name on its application. However, we noted that the payment was made to a condominium association, rather than a condominium tax district. We were unable to determine why the Department did not require documentation of the applicant to verify whether it was a taxing authority.

Recommendation: The Department should strengthen controls over determining applicant eligibility.

Agency Response: “We agree with this finding. The DEMHS Public Assistance Administrative Plan will be modified to include reference to Federal Form W-9 and State Form SP-26 and will be included in the standard “Public Assistance Application Packet” that subrecipients receive.

DEMHS will strengthen the review process and validate information submitted on W-9 and SP-26 forms by modifying the Agency’s “Review Sheet For Public Assistance Packets” and will forward copies of both forms to the Fiscal Division in order for a comparison to the Office of the State Comptroller (OSC) Central Accounts Payable information and update accordingly prior to any payment processing.”

III.I.2. Subrecipient Monitoring

Public Assistance Grants (CFDA # 97.036)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006

Federal Award Numbers: EM3200, EM3246, DR1619

Criteria: 44 CFR 14.2 requires that recipients of financial assistance from the Federal Emergency Management Agency (FEMA) comply with OMB Circular A-133.

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) 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;

(2) 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;

(3) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the Federal Single Audit Requirements for that fiscal year;

(4) 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.

The State of Connecticut Public Assistance Program Administrative Plan requires that the Department of Emergency Management and Homeland Security (DEMHS) distribute a List of Assurances form that outlines the FEMA regulations, policies, guidelines, requirements and OMB Circulars as they relate to the application, acceptance and use of Federal funds. The Subgrantees must acknowledge receipt of the List of Assurances.

Condition: Our review of files for thirty-eight subgrantees disclosed that in eleven instances the List of Assurances acknowledgements were not on hand. Our review also disclosed that the Department did not obtain audit reports from subrecipients during the audit period.

Effect: DEMHS has less assurance that expenditures made by subrecipients were used for allowable activities.

Cause: We were unable to determine why the List of Assurances acknowledgements were not on hand. Regarding audit reports, it appears that there was confusion on the part of Agency personnel as to which division of the Agency is responsible for obtaining and reviewing audit reports.

Recommendation: The Department should strengthen internal controls to ensure that the List of Assurances are provided to and acknowledged by subrecipients and should institute procedures to ensure that subrecipient audit reports are obtained and reviewed.

Agency Response: "We agree with this finding. The DEMHS Public Assistance Administrative Plan's "Applicant Assurances" section will be modified to add, in compliance with OMB Circular A-133, the submission of an audit report and a mandatory requirement to forward the "Receipt of List of Assurances" in order for any applicant's package to be considered for further processing.

DEMHS will also develop an internal procedure to monitor subrecipient submissions of audit reports as well as a procedure to review such audit reports rendering relevant management decisions in accordance with OMB Circular A-133.

DEMHS will also strengthen the review process by modifying the Agency's "Review Sheet For Public Assistance Packets" by adding in the "Receipt of List of Assurances" requirement."

III.I.3. Special Tests and Provisions – Large Projects

Public Assistance Grants (CFDA # 97.036)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Number: DR1619

Criteria: Public Assistance program awards to subgrantees are made based upon a Project Worksheet (PW) approved by the Federal Emergency Management Agency (FEMA) that documents the eligible scope of work and cost estimate. In accordance with 45 CFR 206.203, projects are classified as large or small projects according to the cost of the eligible work for the individual project. The distinction between large and small projects is important because there are different requirements for the payment of claims. 45 CFR 206.203 requires that funding for small projects is to be based on the Federal share of the approved *estimate* of eligible costs. Funding for large projects is based on *actual costs* to complete the eligible scope of work. For the period October 1, 2005 through September 3, 2006, large projects were defined as projects with costs that equal or exceed $57,500.

: 45 CFR 206.207 requires that the State shall develop a plan for the

administration of the Public Assistance program. The State Plan must include, at a minimum, compliance with the administrative requirements of 44 CFR Parts 13 and 206.

The State of Connecticut Public Assistance Program Administrative Plan requires that for large projects, final payment does not occur until the applicant completes all approved work, pays all related bills for approved projects, and submits a claim for payment. The Department may advance funds to meet the current expenditures for approved work. The total amount advanced against a project application is limited to a percentage of the completed work. Such advances are limited to fifty percent of the total amount of the project worksheet.

Condition: We reviewed six large project payments totaling $605,921. Our sample was selected from a universe of twelve large project payments totaling $1,027,093. The remaining six large project payments were for projects that were completed prior to application and supporting documentation was reviewed and approved by FEMA during the application process.

Our review of six projects disclosed that the Department paid one hundred percent of the approved estimates of eligible work on the project worksheets prior to project completion. Three of the projects had not been started at the time of project approval and three projects were 77 percent, 44 percent, and 17 percent complete, respectively.

Effect: Payments were disbursed without verifying that work was complete, paid, and performed in accordance with grant conditions. We are considering payments totaling $476,653 to be questioned costs.

Cause: It appears that there was confusion on the part of Agency personnel regarding the differences in the requirements between large and small projects.

Recommendation: The Department should establish procedures to ensure that payments for large projects are based on actual costs that are adequately supported and in compliance with the Connecticut Public Assistance Program Administrative Plan.

Agency Response: “We agree with this finding. DEMHS will develop a “Large Project Tracking Worksheet” to monitor the percentage of completion of work, which will be submitted to the Fiscal Unit to ensure large project payments are based upon actual costs.”

III.I.4. Allowable Costs/Cost Principles – Program Certifications – Non Major Programs

State Homeland Security Program (CFDA # 97.073)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2003-2004 and 2004-2005
Federal Award Numbers: 2004GET44053 and 2005GET50016

Emergency Management Performance Grants (CFDA # 97.042)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2004-2005 and 2005-2006
Federal Award Numbers: 2005GET50016 and 2006EME60023

Criteria: OMB Circular A-87, Attachment B, Section 8(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 should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Condition: Our review of employee payroll expenditures disclosed that salaries and wages charged to the Emergency Management Performance Grants and the State Homeland Security Program were not supported by periodic certifications stating that each employee worked solely on one of the respective programs.

Effect: The absence of the periodic certifications lessens the assurance that salaries and fringe benefits charged to the Emergency Management Performance Grants and the State Homeland Security Program totaling $1,251,862 and $638,627, respectively, are accurate.

Cause: The Department is newly-established and has not implemented procedures to comply with the requirement.

Recommendation: The Department should complete periodic certifications for employees working solely on a Federal award or cost objective.

Agency Response: "We agree with this finding. DEMHS will develop a procedure and process to comply with periodic certification of work in accordance with relevant respective programs."

J. BOARD OF EDUCATION AND SERVICES FOR THE BLIND

III.J.1. Reporting – RSA-2 Program Cost Report

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Award Agency: Department of Education
Award Year: Federal Fiscal Year 2004-2005
Federal Award Number: H126A050008

Background: The Board of Education and Services for the Blind (BESB) is responsible for the administration of the Vocational Rehabilitation Program. As part of its responsibility for performing business office functions for BESB, the Department of Administrative Services (DAS) is responsible for the preparation of the RSA (Rehabilitation Services Administration)-2 Program Cost Report.

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 2005 disclosed the following.

- The payroll and fringe benefit expenditures reported on lines 1, 2.A.2.a and 2.A.2.b of Schedule I were not supported by figures in the state-wide accounting system. Lines 1 and 2.A.2.a were understated by $3,259 and $38,916, respectively, while line 2.A.2.b was overstated by $9,298.
- Although there was documentation to support the sum of the amounts reported on lines 2.B.2, 2.B.3 and 2.B.4 of Schedule I (Services purchased by State VR Agency), the supporting documentation did not provide sufficient detail to identify the amounts that were reported on the individual lines.
- Expenditures in the amount of $2,117,179 for the Business Enterprise Program, which were reported on line 3c of Schedule I, were not reconciled to expenditure figures in the state-wide accounting system.
- The amount reported on line 10 of Schedule II was $307,933 less than the sum of the amounts entered for line 2 of Schedule I (excluding lines 2.A.1.a and 2.A.2.a), although the instructions require that these amounts should equal each other.

- The figure reported on line 2 of Schedule V included cumulative expenditures when the instructions require that only amounts expended during the fiscal year covered by the report should be reported. Line 2 was overstated by $48,868

Effect: The RSA-2 Program Cost Report was not prepared accurately.

Cause: Automated reports have not been created that include all of the information that must be reported. Various manual calculations were performed resulting in clerical errors.

Recommendation: BESB and DAS should work together to ensure that the RSA-2 Program Cost Report is accurately prepared.

Agency Response: **"**BESB agrees with this finding. BESB continues to work collaboratively with the Department of Administrative Services to facilitate the smooth transition of this function and to provide client data that is needed to populate sections of the report. It should be noted that BESB received the draft prior audit finding on the 2004 RSA-2 report on November 22, 2005. The due date for the 2005 RSA-2 report was January 30, 2006, leaving only two months for DAS and BESB staff to design and modify database reports that would provide the level of supporting documentation sought by the State Auditors for each of the 65 line items on the report. Through this collaborative effort, a substantial amount of supporting documentation reports were developed for the 2005 RSA-2 submission, and these data reports were provided to the auditors. However, due to the timing of the reporting requirement after learning of the issues with the 2004 report, both agencies were concerned that insufficient time between reporting of the draft finding and the due date of the 2005 report was available to achieve full compliance of the documentation expectations sought by the auditors. In recognition of this concern, BESB and DAS staff have met with representatives of the State Auditors to review data that was utilized for the 2005 report to determine what areas require further substantiating documentation for the 2006 report submission. Subsequent to this meeting, additional efforts at both agencies have focused on further refinements to existing reports and developing additional reports to substantiate reporting data on future submissions."