State of Connecticut
Single Audit Report

For The Year Ended June 30, 2007

Auditors of Public Accounts
Hartford, Connecticut

STATE OF CONNECTICUT
Single Audit Report
For the Year Ended June 30, 2007

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Letter of Transmittal

March 25, 2008

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, 2007.

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, 2007. 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 Section II of the Schedule of Findings and Questioned Costs, which includes financial statement findings that were required to be reported in accordance with *Government Auditing Standards*. We reported in Section II of the Schedule deficiencies in internal control related to the Core-CT system.

We also call to your attention Section III of the Schedule of Findings and Questioned Costs relating to the State's administration of Federal Financial Assistance Programs. Section III of 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, 2007.

Respectfully submitted,

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

State of Connecticut
Financial Statements

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, 2007, 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 account within the University of Connecticut and Health Center, the Connecticut State University, Connecticut Community/ Technical Colleges, 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 96 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 40 percent of the assets and 33 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 Special Transportation Fund, Transportation Special Tax Obligations Fund, 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, and 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008, 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 and budgetary comparison information on pages B-5 through B-15 and B-28 through B-29 are not a required part of the basic financial statements but are 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 the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kevin P. Johnston

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 28, 2008
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial position, the financial statements and footnotes should be viewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:
As of June 30, 2007, the State had a total net asset deficit of $0.2 billion, an improvement in net assets of $553 million occurring this fiscal year. This improvement resulted from increases of $232 million and $321 million in the net assets of governmental activities and business-type activities, respectively.

During the year, revenues of governmental activities exceeded expenses by $1,098 million. However, this excess was reduced by transfers of $866 million, resulting in an increase of net asset of $232 million.

For business-type activities, expenses exceeded revenues by $545 million. However, this deficiency was offset by transfers of $866 million, resulting in an increase in net assets of $321 million.

Fund Level:
The governmental funds had a total fund balance of $3.3 billion at year end. Of this amount, $3.7 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of $0.4 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 $349 million this year.

The Enterprise Funds had total net assets of $4.6 billion, substantially all of which was invested in capital assets or restricted for various purposes.

Debt Issued and Outstanding:
Total long-term debt was $18.5 billion for governmental activities, of which $13.7 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 2007, compared to the prior year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006*	2007	2006*
ASSETS:						
Current and Other Assets	$ 5,315	$ 5,110	$ 4,006	$ 3,733	$ 9,321	$ 8,843
Capital Assets	9,952	9,755	3,263	3,230	13,215	12,985
Total Assets	15,267	14,865	7,269	6,963	22,536	21,828
LIABILITIES:						
Current Liabilities	2,900	2,835	700	700	3,600	3,535
Long-term Liabilities	17,211	17,106	1,968	1,983	19,179	19,089
Total Liabilities	20,111	19,941	2,668	2,683	22,779	22,624
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	4,269	3,469	2,455	2,412	6,724	5,881
Restricted	1,385	1,497	1,872	1,705	3,257	3,202
Unrestricted	(10,498)	(10,042)	274	163	(10,224)	(9,879)
Total Net Assets	$ (4,844)	$ (5,076)	$ 4,601	$ 4,280	$ (243)	$ (796)

* Restated for comparative purposes. See Note 21.

The State had a total net asset deficit of $0.2 billion at year end, an improvement in net assets of $553 million occurring in this fiscal year. This improvement resulted from increases of $232 million and $321 million in the net assets of governmental activities and business-type activities, respectively.

Governmental activities had a total net asset deficit of $4.8 billion at year end, an improvement in net assets of $0.2 billion occurring in this fiscal year. Of this amount, $5.7 billion was invested in capital assets (buildings, roads, bridges, etc.) or was restricted for various purposes, resulting in an unrestricted net asset deficit of $10.5 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 $4.1 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 2007, compared to the prior year,

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

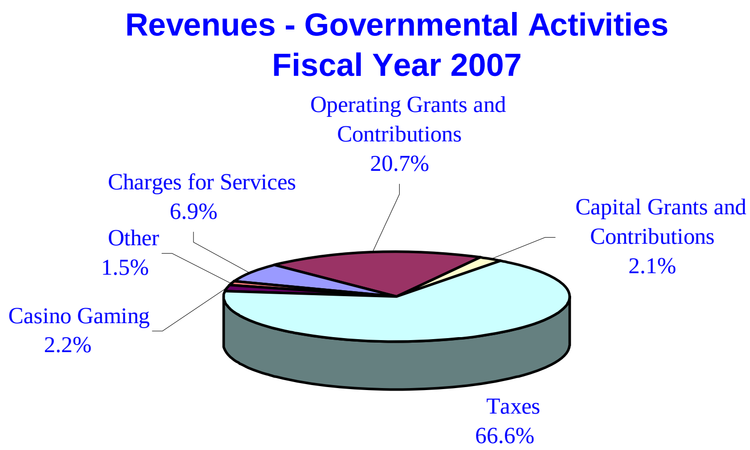
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006*	2007	2006*
REVENUES						
Program Revenues						
Charges for Services	$ 1,317	$ 1,379	$ 2,920	$ 2,898	$ 4,237	$ 4,277
Operating Grants and Contributions	3,974	4,035	297	277	4,271	4,312
Capital Grants and Contributions	412	542	14	80	426	622
General Revenues						
Taxes	12,803	11,855	-	-	12,803	11,855
Casino Gaming Payments	430	428	-	-	430	428
Other	280	213	128	113	408	326
Total Revenues	19,216	18,452	3,359	3,368	22,575	21,820
EXPENSES						
Legislative	97	97	-	-	97	97
General Government	1,731	1,353	-	-	1,731	1,353
Regulation and Protection	703	712	-	-	703	712
Conservation and Development	429	396	-	-	429	396
Health and Hospitals	2,004	1,923	-	-	2,004	1,923
Transportation	1,151	1,090	-	-	1,151	1,090
Human Services	4,828	4,941	-	-	4,828	4,941
Education, Libraries and Museums	4,009	3,889	-	-	4,009	3,889
Corrections	1,836	1,768	-	-	1,836	1,768
Judicial	695	655	-	-	695	655
Interest and Fiscal Charges	635	620	-	-	635	620
University of Connecticut & Health Center	-	-	1,519	1,464	1,519	1,464
State Universities	-	-	571	536	571	536
Bradley International Airport	-	-	67	63	67	63
CT Lottery Corporation	-	-	699	709	699	709
Employment Security	-	-	586	573	586	573
Clean Water	-	-	30	26	30	26
Other	-	-	432	417	432	417
Total Expenses	18,118	17,444	3,904	3,788	22,022	21,232
Excess (Deficiency) Before Transfers	1,098	1,008	(545)	(420)	553	588
Transfers	(866)	(712)	866	712	-	-
Increase (Decrease) in Net Assets	232	296	321	292	553	588
Net Assets (Deficit) - Beginning (Restated)	(5,076)	(5,372)	4,280	3,988	(796)	(1,384)
Net Assets (Deficit) - Ending	$ (4,844)	$ (5,076)	$ 4,601	$ 4,280	$ (243)	$ (796)

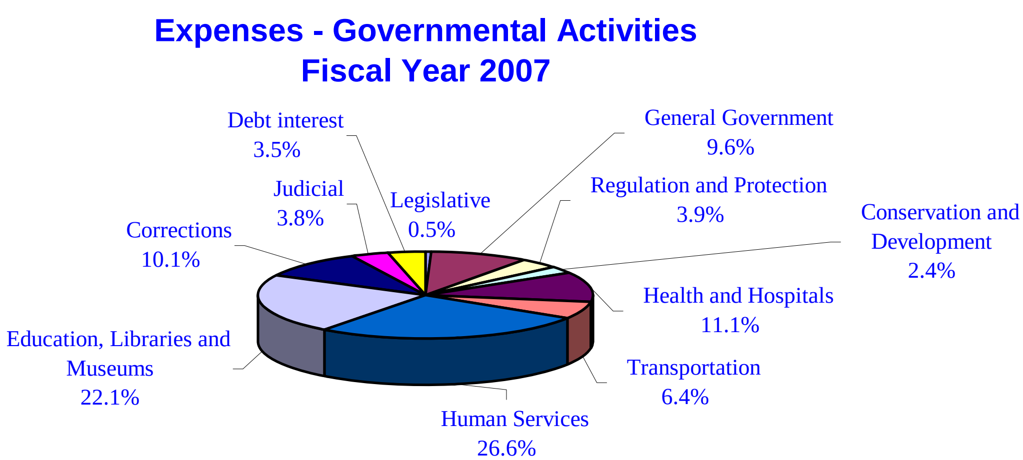
* Restated for comparative purposes. See Note 21.

Total revenues of the State increased, by $0.8 billion, to $22.6 billion. Most of this increase was due to an increase in tax revenues. Total expenses increased by $0.8 billion to $22.0 billion. This increase can be attributed mainly to an increase of $0.4 billion in governmental activities' expenditures. Total net assets of the State increased by $553 million during the fiscal year.

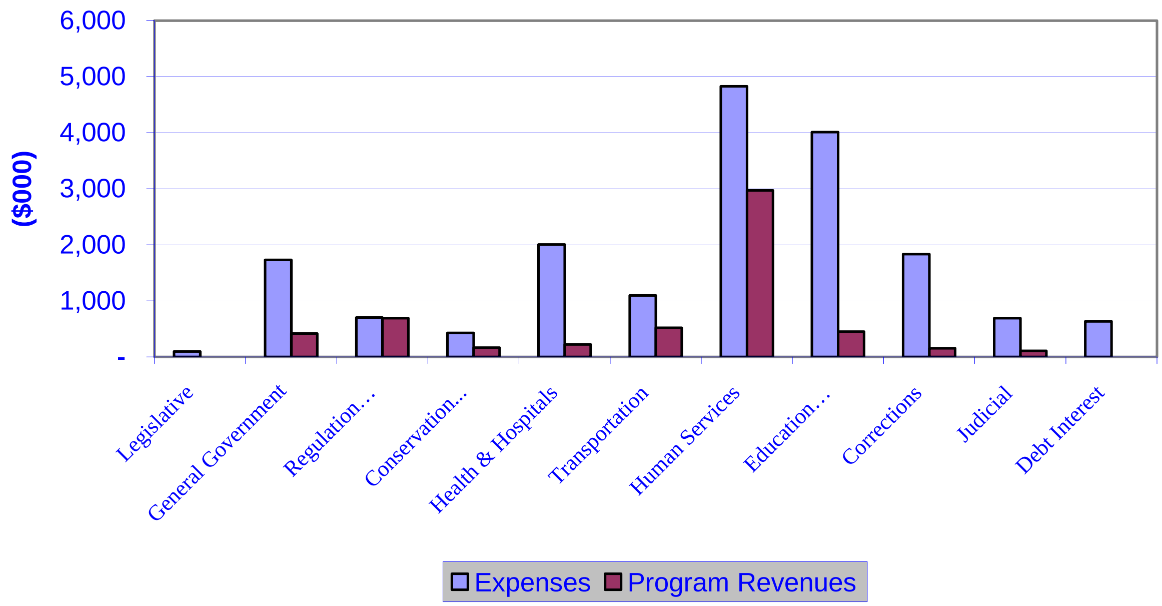
GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2007.





Expenses and Program Revenues - Governmental Activities
Fiscal Year 2007



Total revenues for the governmental activities increased, by $0.8 billion, to $19.2 billion. This increase was due mainly to an increase in tax revenue of $0.9 billion being offset by a decrease in operating and capital grants of $0.2 billion. Total expenses increased by $0.7 billion to $18.1 billion. This increase can be attributed mainly to increases in general government and education expenses of $0.5 billion. Even though total revenues exceeded total expenses by $1,098 million, this excess was reduced by transfers of $866 million, resulting in an increase of net assets of $232 million.

As noted above, total revenue increased by 4 percent during the fiscal year, reflecting continued economic growth. Both State and national economic indicators were generally positive during the fiscal year. Preliminary estimates showed that 20,400 jobs were added to the State economy during the fiscal year, and the unemployment rate was a relatively low 4.3 percent. In the third quarter of the fiscal year, the State had the second highest personal income growth in the nation with a 3.5 percent increase. Annualized personal income growth through the same quarter was over 5 percent. Retail sales grew 3.8 percent, while major stock indexes grew at double digit rates and corporate profit growth was solid during the fiscal year. The housing market continued to show signs of weakness during the fiscal year both nationally and in the State.

Total revenues and expenses of business-type activities were virtually unchanged between fiscal years 2007 and 2006. Although, total expenses exceeded total revenues by $545 million, this deficiency was offset by transfers of $866 million, resulting in an increase in net assets of $321 million.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State completed fiscal year 2007 with a balance of $3.3 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 $281 million, this deficiency was offset by other financing sources of $438 million, resulting in an increase in fund balance of $157 million in governmental funds in fiscal year 2007.

General Fund

The General fund is the chief operating fund of the State. At the end of fiscal year 2007, the General fund had a fund balance of $1.3 billion. Of this amount, $2.3 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 $1,071 million, this excess was reduced by other financing uses of $593 million, resulting in an increase in fund balance of $478 million for the fiscal year.

Budgetary Highlights-General Fund

Early in the fiscal year, the General fund surplus was estimated to be $161 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 $910 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 $329 million.

Although actual fund revenues exceeded expenditures by $449 million, this excess was reduced by other financing uses of $100 million, resulting in an actual surplus of $349 million. A portion of the 2006 surplus in the amount of $41 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 $786 million. A tax revenue variance of $650 million accounts for much of the total variance. Some of the tax revenues that exceeded original estimates were: personal income, $321 million and corporations $184 million.

During the year, final appropriations exceeded original appropriations by $641 million. Some of the major adjustments to initial appropriations that occurred during the year were: $85 million to retire special obligation bonds; $300 million for deposit to the Teachers' Retirement Fund; and $37 million for aid programs for towns. Because of these additional appropriations, the State exceeded the constitutional spending cap.

Other Funds

The Debt Service fund had a fund balance of $677 million at year end, all of which was reserved. Fund balance increased by $2 million during the fiscal year.

The Transportation fund had a fund balance of $248 million at year end, of which $190 million was unreserved. Fund balance increased by $62 million during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

As of June 30, 2007 the State had an investment in total capital assets (net of accumulated depreciation) of $13.2 billion. During the fiscal year, capital assets of governmental activities and business-type activities increased by $197 million and $33 million, respectively. Depreciation charges for the fiscal year totaled $1.0 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	$ 1,354	$ 1,295	$ 59	$ 59	$ 1,413	$ 1,354
Buildings	1,090	1,138	2,390	2,335	3,480	3,473
Improvements Other than Buildings	175	192	254	296	429	488
Equipment	379	391	369	365	748	756
Infrastructure	4,994	5,080	-	-	4,994	5,080
Construction in Progress	1,960	1,659	191	175	2,151	1,834
Total	$ 9,952	$ 9,755	$ 3,263	$ 3,230	$ 13,215	$ 12,985

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	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	$ 10,597	$ 10,212	$ -	$ -	$ 10,597	$ 10,212
Transportation Related Bonds	2,822	3,094	-	-	2,822	3,094
Revenue Bonds	-	-	1,578	1,523	1,578	1,523
Premiums and deferred amounts	302	267	25	39	327	306
Total	$ 13,721	$ 13,573	$ 1,603	$ 1,562	$ 15,324	$ 15,135

In fiscal year 2007 the State increased outstanding bonds by $189 million. Bonds of governmental activities increased by $148 million while bonds of business-type activities increased by $41 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 February, 2007, the State had a debt incurring margin of $4.5 billion.

Other Long-Term Debt

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Net Pension Obligation	$ 3,828	$ 3,737	$ -	$ -	$ 3,828	$ 3,737
Compensated Absences	474	471	128	124	602	595
Workers Compensation	382	344	-	-	382	344
Lottery Prizes	-	-	266	302	266	302
Other	68	230 *	171	181	239	411
Total	$ 4,752	$ 4,782	$ 565	$ 607	$ 5,317	$ 5,389

* Includes Economic Recovery Notes of $146 million.

The State's other long-term obligations decreased by $72 million during the year. This decrease was due mainly to a decrease in outstanding economic recovery notes of $146 million being offset by an increase in the Net Pension Obligation of $91 million.

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

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

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Basic Financial Statements

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Statement of Net Assets

June 30, 2007
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 1,605,433	$ 527,700	$ 2,133,133	$ 191,732
Deposits with U.S. Treasury	-	642,780	642,780	-
Investments	705,732	59,186	764,918	390,700
Receivables, (Net of Allowances)	2,277,395	609,623	2,887,018	63,215
Due from Component Units	2,619	-	2,619	-
Due from Primary Government	-	-	-	12,727
Inventories	56,329	10,868	67,197	3,439
Restricted Assets	-	110,719	110,719	1,457,699
Internal Balances	(284,786)	284,786	-	-
Other Current Assets	16,674	16,590	33,264	5,658
Total Current Assets	4,379,396	2,262,252	6,641,648	2,125,170
Noncurrent Assets:				
Cash and Cash Equivalents	-	280,405	280,405	-
Due From Component Units	10,701	-	10,701	-
Investments	-	282,507	282,507	56,862
Receivables, (Net of Allowances)	187,589	556,566	744,155	131,047
Restricted Assets	677,724	579,578	1,257,302	3,644,376
Capital Assets, (Net of Accumulated Depreciation)	9,951,984	3,262,835	13,214,819	433,729
Other Noncurrent Assets	59,464	44,462	103,926	10,344
Total Noncurrent Assets	10,887,462	5,006,353	15,893,815	4,276,358
Total Assets	15,266,858	7,268,605	22,535,463	6,401,528
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	710,709	272,633	983,342	103,212
Due to Component Units	12,727	-	12,727	-
Due to Primary Government	-	-	-	2,619
Due to Other Governments	70,745	115	70,860	-
Current Portion of Long-Term Obligations	1,262,425	199,178	1,461,603	162,989
Amount Held for Institutions	-	-	-	541,335
Deferred Revenue	11,982	161,862	173,844	-
Medicaid Liability	472,637	-	472,637	-
Liability for Escheated Property	164,867	-	164,867	-
Other Current Liabilities	193,851	65,927	259,778	28,903
Total Current Liabilities	2,899,943	699,715	3,599,658	839,058
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	17,210,552	1,967,793	19,178,345	3,774,944
Total Noncurrent Liabilities	17,210,552	1,967,793	19,178,345	3,774,944
Total Liabilities	20,110,495	2,667,508	22,778,003	4,614,002
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,269,038	2,455,118	6,724,156	301,090
Restricted For:				
Transportation	178,978	-	178,978	-
Debt Service	639,870	69,057	708,927	18,935
Capital Projects	-	149,225	149,225	-
Unemployment Compensation	-	773,906	773,906	-
Clean Water and Drinking Water Projects	-	614,797	614,797	-
Bond Indenture Requirements	-	2,810	2,810	753,039
Loans	-	6,200	6,200	-
Permanent Investments or Endowments:				
Expendable	2,829	-	2,829	137,773
Nonexpendable	93,115	15,998	109,113	234,332
Other Purposes	470,146	239,575	709,721	42,638
Unrestricted (Deficit)	(10,497,613)	274,411	(10,223,202)	299,719
Total Net Assets (Deficit)	$ (4,843,637)	$ 4,601,097	$ (242,540)	$ 1,787,526

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

Statement of Activities

For The Fiscal Year Ended June 30, 2007
(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	$ 97,492	$ 2,991	$ 114	$ -
General Government	1,731,215	371,502	47,089	-
Regulation and Protection	702,467	528,928	161,547	-
Conservation and Development	429,057	85,797	79,133	-
Health and Hospitals	2,003,994	62,454	159,190	-
Transportation	1,150,770	110,352	-	411,516
Human Services	4,828,418	13,617	2,955,228	-
Education, Libraries, and Museums	4,008,903	32,237	419,840	-
Corrections	1,836,147	10,474	142,887	-
Judicial	694,442	99,128	9,440	-
Interest and Fiscal Charges	635,113	-	-	-
Total Governmental Activities	18,118,018	1,317,480	3,974,468	411,516
Business-Type Activities:				
University of Connecticut & Health Center	1,519,026	830,182	177,540	3,030
State Universities	571,006	286,600	43,770	7,169
Bradley International Airport	67,244	55,242	-	3,536
Connecticut Lottery Corporation	698,628	957,215	-	-
Employment Security	585,803	571,390	-	-
Clean Water	30,183	15,627	12,737	-
Other	432,129	203,466	62,804	-
Total Business-Type Activities	3,904,019	2,919,722	296,851	13,735
Total Primary Government	$ 22,022,037	$ 4,237,202	$ 4,271,319	$ 425,251
Component Units				
Connecticut Housing Finance Authority (12-31-06)	$ 200,074	$ 170,439	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,832	6,293	-	-
Other	344,119	241,655	7,900	9,288
Total Component Units	$ 550,025	$ 418,387	$ 7,900	$ 9,288

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
Transfers-Internal Activities
Total General Revenues, Contributions, 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
$ (94,387)	$ -	$ (94,387)	$ -
(1,312,624)	-	(1,312,624)	-
(11,992)	-	(11,992)	-
(264,127)	-	(264,127)	-
(1,782,350)	-	(1,782,350)	-
(628,902)	-	(628,902)	-
(1,859,573)	-	(1,859,573)	-
(3,556,826)	-	(3,556,826)	-
(1,682,786)	-	(1,682,786)	-
(585,874)	-	(585,874)	-
(635,113)	-	(635,113)	-
(12,414,554)	-	(12,414,554)	-
-	(508,274)	(508,274)	-
-	(233,467)	(233,467)	-
-	(8,466)	(8,466)	-
-	258,587	258,587	-
-	(14,413)	(14,413)	-
-	(1,819)	(1,819)	-
-	(165,859)	(165,859)	-
-	(673,711)	(673,711)	-
(12,414,554)	(673,711)	(13,088,265)	-
-	-	-	(29,635)
-	-	-	461
-	-	-	(85,276)
-	-	-	(114,450)
6,270,806	-	6,270,806	-
831,688	-	831,688	-
3,509,164	-	3,509,164	-
1,513,855	-	1,513,855	-
609,427	-	609,427	-
67,888	-	67,888	-
430,476	-	430,476	-
113,691	-	113,691	-
165,472	129,317	294,789	137,661
-	-	-	34,392
(865,548)	865,548	-	-
12,646,919	994,865	13,641,784	172,053
232,365	321,154	553,519	57,603
(5,076,002)	4,279,943	(796,059)	1,729,923
$ (4,843,637)	$ 4,601,097	$ (242,540)	$ 1,787,526

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Governmental Fund Financial Statements

Major Funds

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

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

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

Nonmajor Funds
Nonmajor governmental funds are presented, by fund type beginning on page 90 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2007*, as issued by the State Comptroller.

Balance Sheet
Governmental Funds

June 30, 2007
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ 588,782	$ -	$ 196,144	$ 805,335	$ 1,590,261
Investments	566,800	-	-	138,932	705,732
Securities Lending Collateral	-	-	-	16,526	16,526
Receivables:					
Taxes, Net of Allowances	1,325,135	-	42,145	-	1,367,280
Accounts, Net of Allowances	153,262	-	11,533	34,589	199,384
Loans, Net of Allowances	-	-	-	187,589	187,589
From Other Governments	418,144	-	-	269,256	687,400
Interest	-	7,546	387	-	7,933
Other	-	-	-	6,235	6,235
Due from Other Funds	25,050	-	7,546	88,248	120,844
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	13,320	-	-	-	13,320
Inventories	34,056	-	17,878	-	51,934
Restricted Assets	-	676,894	-	830	677,724
Other Assets	-	-	-	81	81
Total Assets	$ 3,129,249	$ 684,440	$ 275,633	$ 1,547,621	$ 5,636,943
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	$ 346,065	$ -	$ 21,283	$ 217,695	$ 585,043
Due to Other Funds	113,453	7,546	-	226,169	347,168
Due to Component Units	-	-	-	12,727	12,727
Due to Other Governments	69,312	-	-	1,433	70,745
Deferred Revenue	453,822	-	6,181	66,612	526,615
Medicaid Liability	472,637	-	-	-	472,637
Liability For Escheated Property	164,867	-	-	-	164,867
Securities Lending Obligation	-	-	-	16,526	16,526
Other Liabilities	177,325	-	-	-	177,325
Total Liabilities	1,797,481	7,546	27,464	541,162	2,373,653
Fund Balances					
Reserved For:					
Petty Cash	918	-	-	-	918
Inventories	34,056	-	17,878	-	51,934
Loans	18,020	-	-	187,589	205,609
Continuing Appropriations	811,340	-	40,661	739	852,740
Debt Service	-	676,894	-	-	676,894
Restricted Purposes	-	-	-	450,419	450,419
Surplus Transfer to FY 08	80,000	-	-	-	80,000
Budget Reserve Fund	1,381,748	-	-	-	1,381,748
Unreserved Reported In:					
General Fund	(994,314)	-	-	-	(994,314)
Transportation Fund	-	-	189,630	-	189,630
Special Revenue Funds	-	-	-	539,357	539,357
Capital Project Funds	-	-	-	(171,645)	(171,645)
Total Fund Balances	1,331,768	676,894	248,169	1,006,459	3,263,290
Total Liabilities and Fund Balances	$ 3,129,249	$ 684,440	$ 275,633	$ 1,547,621	$ 5,636,943

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, 2007
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	3,263,290
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	2,785,552		
Equipment	1,265,024		
Infrastructure	12,934,311		
Other Capital Assets	1,278,406		
Accumulated Depreciation	(8,364,465)		9,898,828
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.			58,695
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.			514,762
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.			(14,502)
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	(3,827,916)		
Worker's Compensation	(382,128)		
Capital Leases	(56,244)		
Compensated Absences	(469,041)		
Claims and Judgments	(7,580)		(4,742,909)
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).			
Bonds Payable	(13,419,166)		
Unamortized Premiums	(539,893)		
Less: Deferred Loss on Refundings	238,069		
Accrued Interest Payable	(100,811)		(13,821,801)
Net Assets of Governmental Activities		$	(4,843,637)

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, 2007
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 12,037,099	$ -	$ 678,217	$ 27,491	$ 12,742,807
Assessments	-	-	-	22,841	22,841
Licenses, Permits and Fees	151,150	-	305,733	74,753	531,636
Tobacco Settlement	-	-	-	113,691	113,691
Federal Grants and Aid	2,785,983	-	-	1,619,177	4,405,160
Charges for Services	34,815	-	60,860	5,595	101,270
Fines, Forfeits and Rents	-	-	31,224	5,959	37,183
Casino Gaming Payments	430,476	-	-	-	430,476
Investment Earnings	83,044	35,255	14,754	32,849	165,902
Miscellaneous	171,338	-	24,215	462,521	658,074
Total Revenues	15,693,905	35,255	1,115,003	2,364,877	19,209,040
Expenditures					
Current:					
Legislative	94,994	-	-	2,389	97,383
General Government	1,084,605	-	696	637,075	1,722,376
Regulation and Protection	354,795	-	86,417	258,715	699,927
Conservation and Development	126,266	-	-	301,985	428,251
Health and Hospitals	1,788,172	-	-	202,334	1,990,506
Transportation	2,270	-	562,297	445,489	1,010,056
Human Services	4,445,542	-	-	346,093	4,791,635
Education, Libraries, and Museums	2,792,080	-	-	1,190,788	3,982,868
Corrections	1,798,266	-	-	30,782	1,829,048
Judicial	663,188	-	-	29,204	692,392
Capital Projects	-	-	-	304,964	304,964
Debt Service:					
Principal Retirement	964,803	265,964	609	-	1,231,376
Interest and Fiscal Charges	507,700	153,425	1,167	47,448	709,740
Total Expenditures	14,622,681	419,389	651,186	3,797,266	19,490,522
Excess (Deficiency) of Revenues Over Expenditures	1,071,224	(384,134)	463,817	(1,432,389)	(281,482)
Other Financing Sources (Uses)					
Bonds Issued	28,990	-	-	1,224,355	1,253,345
Premiums on Bonds Issued	1,129	36,794	-	48,836	86,759
Transfers In	384,473	414,495	40,440	258,466	1,097,874
Transfers Out	(1,007,420)	(31,352)	(441,795)	(485,347)	(1,965,914)
Refunding Bonds Issued	-	527,730	-	-	527,730
Payment to Refunded Bond Escrow Agent	-	(561,269)	-	-	(561,269)
Capital Lease Obligations	117	-	-	-	117
Total Other Financing Sources (Uses)	(592,711)	386,398	(401,355)	1,046,310	438,642
Net Change in Fund Balances	478,513	2,264	62,462	(386,079)	157,160
Fund Balances - Beginning	858,546	674,630	183,559	1,392,538	3,109,273
Changes in Reserves for Inventories	(5,291)	-	2,148	-	(3,143)
Fund Balances - Ending	$ 1,331,768	$ 676,894	$ 248,169	$ 1,006,459	$ 3,263,290

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, 2007

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$	157,160
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	(1,253,345)		
Refunding Bonds Issued	(527,730)		
Premium on Bonds Issued	(86,759)		(1,867,834)
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	1,231,376		
Payments to Refunded Bond Escrow Agent	561,269		
Capital Lease Payments	4,364		1,797,009
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of Net Assets			(117)
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	962,049		
Depreciation Expense	(767,448)		
Retirements	(41)		194,560
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories.			(3,143)
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	(1,242)		
Decrease in Interest Accreted on Capital Appreciation Debt	53,172		
Amortization of Bond Premium	47,367		
Amortization of Loss on Debt Refundings	(29,718)		
Increase in Compensated Absences Liability	(3,320)		
Increase in Workers Compensation Liability	(37,854)		
Decrease in Claims and Judgments Liability	10,838		
Increase in Net Pension Obligation	(90,780)		(51,537)
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			6,891
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			(5,671)
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	10,193		
Amortization of Debt Issue Costs	(5,146)		5,047
Change in Net Assets of Governmental Activities		$	232,365

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, 2007
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	Original	Final	Actual	(negative)
Budgeted:				
Taxes, Net of Refunds	$ 11,250,700	$ 11,862,900	$ 11,901,334	$ 38,434
Operating Transfers In	380,000	383,800	383,808	8
Casino Gaming Payments	438,700	430,500	430,476	(24)
Licenses, Permits, and Fees	140,200	151,800	151,738	(62)
Other	261,000	367,300	359,244	(8,056)
Federal Grants	2,573,300	2,610,900	2,602,774	(8,126)
Refunds of Payments	(600)	(500)	(513)	(13)
Operating Transfers Out	(86,300)	(86,300)	(86,300)	-
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	14,957,000	15,720,400	15,742,561	22,161
Expenditures				
Budgeted:				
Legislative	77,676	78,549	68,141	10,408
General Government	558,898	680,482	500,641	179,841
Regulation and Protection	278,587	281,280	265,681	15,599
Conservation and Development	102,010	139,494	96,264	43,230
Health and Hospitals	1,471,144	1,493,917	1,473,779	20,138
Transportation	10,790	32,184	2,103	30,081
Human Services	4,326,969	4,360,290	4,221,641	138,649
Education, Libraries, and Museums	3,418,016	3,783,919	3,449,507	334,412
Corrections	1,417,942	1,453,115	1,430,316	22,799
Judicial	462,181	477,848	474,067	3,781
Non Functional	3,530,781	3,514,508	3,311,597	202,911
Total Expenditures	15,654,994	16,295,586	15,293,737	1,001,849
Appropriations Lapsed	114,980	180,400	-	(180,400)
Excess (Deficiency) of Revenues Over Expenditures	(583,014)	(394,786)	448,824	843,610
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	702,854	702,854	702,854	-
Appropriations Continued to Fiscal Year 2008	-	-	(831,070)	(831,070)
Transfer of 2006 Surplus	41,000	41,000	41,000	-
Miscellaneous Adjustments	-	(20,354)	(12,370)	7,984
Total Other Financing Sources (Uses)	743,854	723,500	(99,586)	(823,086)
Net Change in Fund Balance	$ 160,840	$ 328,714	349,238	$ 20,524
Budgetary Fund Balances - July 1			1,191,256	
Changes in Reserves			(359,265)	
Budgetary Fund Balances - June 30			$ 1,181,229	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 694,000	$ 679,400	$ 679,223	$ (177)
-	-	-	-
-	-	-	-
402,000	395,200	395,137	(63)
40,000	46,000	46,000	-
-	-	-	-
(3,200)	(2,700)	(2,716)	(16)
(7,000)	(7,000)	(7,000)	-
(20,300)	(20,300)	(20,300)	-
1,105,500	1,090,600	1,090,344	(256)
-	-	-	-
2,770	2,770	669	2,101
75,807	76,843	59,197	17,646
-	-	-	-
-	-	-	-
449,032	461,832	446,574	15,258
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
578,705	572,872	530,742	42,130
1,106,314	1,114,317	1,037,182	77,135
11,000	36,577	-	(36,577)
10,186	12,860	53,162	40,302
39,067	39,067	39,067	-
-	-	(40,661)	(40,661)
-	-	-	-
-	8,000	8,000	-
39,067	47,067	6,406	(40,661)
$ 49,253	$ 59,927	59,568	$ (359)
		172,446	
		1,594	
		$ 233,608	

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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, 2007,* as issued by the State Comptroller.

Statement of Net Assets
Proprietary Funds
June 30, 2007
(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	$ 216,413	$ 108,237	$ 36,862	$ 21,854
Deposits with U.S. Treasury	-	-	-	-
Investments	4,879	14,371	-	39,936
Receivables:				
Accounts, Net of Allowances	130,337	107,774	4,523	10,103
Loans, Net of Allowances	2,684	2,342	-	-
Interest	-	-	-	9,107
From Other Governments	-	1,700	1,443	-
Due from Other Funds	56,089	45,237	-	-
Inventories	9,743	-	-	-
Restricted Assets	98,583	-	12,136	-
Other Current Assets	8,977	4,114	455	2,352
Total Current Assets	527,705	283,775	55,419	83,352
Noncurrent Assets:				
Cash and Cash Equivalents	1,462	102,990	-	-
Investments	14,877	26,666	-	223,710
Receivables:				
Accounts, Net of Allowances	-	-	-	-
Loans, Net of Allowances	9,902	8,026	-	-
Restricted Assets	19,551	-	114,995	-
Capital Assets, Net of Accumulated Depreciation	1,722,512	844,779	307,237	1,478
Other Noncurrent Assets	2,360	1,149	6,737	4,964
Total Noncurrent Assets	1,770,664	983,610	428,969	230,152
Total Assets	2,298,369	1,267,385	484,388	313,504
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	123,437	47,640	16,607	18,469
Due to Other Funds	15,235	2,344	2,347	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	47,426	23,038	9,410	42,063
Deferred Revenue	35,661	122,210	1,163	488
Other Current Liabilities	18,755	8,170	-	24,669
Total Current Liabilities	240,514	203,402	29,527	85,689
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	354,910	355,930	208,402	223,710
Total Noncurrent Liabilities	354,910	355,930	208,402	223,710
Total Liabilities	595,424	559,332	237,929	309,399
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,391,768	618,920	108,087	1,478
Restricted For:				
Debt Service	10,878	-	27,722	-
Unemployment Compensation	-	-	-	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	82,252	-	66,973	-
Nonexpendable Purposes	14,879	1,099	-	-
Bond Indentures	-	-	2,810	-
Loans	6,200	-	-	-
Other Purposes	16,379	27,170	-	4,105
Unrestricted	180,589	60,864	40,867	(1,478)
Total Net Assets	$ 1,702,945	$ 708,053	$ 246,459	$ 4,105

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
$ -	$ 3,658	$ 140,676	$ 527,700	$ 15,172
642,780	-	-	642,780	-
-	-	-	59,186	-
133,544	-	22,521	408,802	3,713
-	152,271	18,132	175,429	-
-	7,407	1,669	18,183	-
3,314	46	706	7,209	-
633	-	209,003	310,962	8,149
-	-	1,125	10,868	4,395
-	-	-	110,719	-
-	-	692	16,590	67
780,271	163,382	394,524	2,288,428	31,496
-	144,770	31,183	280,405	-
-	4,254	13,000	282,507	-
-	-	1,007	1,007	-
-	494,224	43,407	555,559	-
-	394,695	50,337	579,578	-
-	-	386,829	3,262,835	53,156
-	27,398	1,854	44,462	769
-	1,065,341	527,617	5,006,353	53,925
780,271	1,228,723	922,141	7,294,781	85,421
-	8,181	58,299	272,633	19,959
6,250	-	-	26,176	66,057
115	-	-	115	-
-	42,520	34,721	199,178	271
-	-	2,340	161,862	129
-	754	13,579	65,927	-
6,365	51,455	108,939	725,891	86,416
-	586,031	238,810	1,967,793	13,507
-	586,031	238,810	1,967,793	13,507
6,365	637,486	347,749	2,693,684	99,923
-	-	334,865	2,455,118	49,585
-	-	30,457	69,057	-
773,906	-	-	773,906	-
-	542,058	72,739	614,797	-
-	-	-	149,225	-
-	-	20	15,998	-
-	-	-	2,810	-
-	-	-	6,200	-
-	-	191,921	239,575	-
-	49,179	(55,610)	274,411	(64,087)
$ 773,906	$ 591,237	$ 574,392	$ 4,601,097	$ (14,502)

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

For The Fiscal Year Ended June 30, 2007
(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	$ 711,300	$ 265,122	$ 41,643	$ 957,026
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	148,535	29,947	-	-
State Grants, Contracts and Other Aid	18,995	11,201	-	-
Private Gifts and Grants	34,814	2,622	-	-
Interest on Loans	-	-	-	-
Other	59,982	18,351	-	178
Total Operating Revenues	973,626	327,243	41,643	957,204
Operating Expenses				
Salaries, Wages and Administrative	1,308,653	507,096	38,636	91,996
Lottery Prize Awards	-	-	-	579,854
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	114,372	41,262	17,924	706
Other	80,100	22,648	-	6,320
Total Operating Expenses	1,503,125	571,006	56,560	678,876
Operating Income (Loss)	(529,499)	(243,763)	(14,917)	278,328
Nonoperating Revenue (Expenses)				
Interest and Investment Income	18,169	13,610	8,072	21,341
Interest and Fiscal Charges	(15,901)	-	(10,684)	(19,752)
Other	34,096	3,127	13,599	11
Total Nonoperating Revenues (Expenses)	36,364	16,737	10,987	1,600
Income (Loss) Before Capital Contributions, Grants, and Transfers	(493,135)	(227,026)	(3,930)	279,928
Capital Contributions	3,030	7,169	3,536	-
Federal Capitalization Grants	-	-	-	-
Transfers In	552,872	236,899	9,254	-
Transfers Out	-	-	-	(279,000)
Change in Net Assets	62,767	17,042	8,860	928
Total Net Assets - Beginning (as restated)	1,640,178	691,011	237,599	3,177
Total Net Assets - Ending	$ 1,702,945	$ 708,053	$ 246,459	$ 4,105

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
$ -	$ -	$ 135,099	$ 2,110,190	$ 86,677
549,638	-	55,717	605,355	-
11,049	-	31,998	221,529	-
6,002	-	10,543	46,741	-
-	-	1,666	39,102	-
-	13,429	1,234	14,663	-
4,701	-	3,211	86,423	166
571,390	13,429	239,468	3,124,003	86,843
-	747	351,270	2,298,398	72,847
-	-	-	579,854	-
585,803	-	-	585,803	-
-	-	36,584	36,584	-
-	-	15,580	189,844	19,743
-	-	15,323	124,391	-
585,803	747	418,757	3,814,874	92,590
(14,413)	12,682	(179,289)	(690,871)	(5,747)
28,352	27,591	12,182	129,317	233
-	(29,436)	(13,372)	(89,145)	(67)
-	2,198	8,205	61,236	(90)
28,352	353	7,015	101,408	76
13,939	13,035	(172,274)	(589,463)	(5,671)
-	-	-	13,735	-
-	12,737	18,597	31,334	-
794	2,408	355,399	1,157,626	-
(3,824)	-	(9,254)	(292,078)	-
10,909	28,180	192,468	321,154	(5,671)
762,997	563,057	381,924	4,279,943	(8,831)
$ 773,906	$ 591,237	$ 574,392	$ 4,601,097	$ (14,502)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2007
(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	$ 692,558	$ 276,053	$ 42,754	$ 958,748
Payments to Suppliers	(404,500)	(8,597)	(24,138)	(23,919)
Payments to Employees	(923,888)	(353,668)	(14,298)	(12,577)
Other Receipts (Payments)	294,219	(121,203)	-	(646,148)
Net Cash Provided by (Used in) Operating Activities	(341,611)	(207,415)	4,318	276,104
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	7,853
Retirement of Bonds and Annuities Payable	-	-	-	(45,751)
Interest on Bonds and Annuities Payable	-	-	-	(21,284)
Transfers In	402,397	224,981	9,254	-
Transfers Out	-	-	-	(279,000)
Other Receipts (Payments)	23,308	3,371	732	-
Net Cash Flows from Noncapital Financing Activities	425,705	228,352	9,986	(338,182)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(87,807)	(41,023)	(15,917)	(262)
Proceeds from Capital Debt	89,000	69,005	-	-
Principal Paid on Capital Debt	(69,921)	(79,813)	(8,430)	-
Interest Paid on Capital Debt	(50,860)	-	(11,055)	-
Transfer In	110,240	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	13,589	3,914	-
Other Receipts (Payments)	(34,339)	598	14,624	-
Net Cash Flows from Capital and Related Financing Activities	(43,687)	(37,644)	(16,864)	(262)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	-	-	45,523
Purchase of Investment Securities	(167)	(80)	-	(7,853)
Interest on Investments	17,920	13,263	7,991	22,873
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	(27,277)	-	-	-
Net Cash Flows from Investing Activities	(9,524)	13,183	7,991	60,543
Net Increase (Decrease) in Cash and Cash Equivalents	30,883	(3,524)	5,431	(1,797)
Cash and Cash Equivalents -Beginning of Year	304,878	214,751	110,373	23,651
Cash and Cash Equivalents -End of Year	$ 335,761	$ 211,227	$ 115,804	$ 21,854
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (529,499)	$ (243,763)	$ (14,917)	$ 278,328
Adjustments not Affecting Cash:				
Depreciation and Amortization	114,372	41,262	17,924	706
Other	60,861	311	(33)	26
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(14,084)	(3,663)	1,110	1,805
(Increase) Decrease in Due from Other Funds	(3,585)	-	-	-
(Increase) Decrease in Inventories and Other Assets	49,207	(4,718)	-	203
Increase (Decrease) in Accounts Payables & Accrued Liabilities	(19,054)	3,156	234	(4,964)
Increase (Decrease) in Due to Other Funds	171	-	-	-
Total Adjustments	187,888	36,348	19,235	(2,224)
Net Cash Provided by (Used In) Operating Activities	$ (341,611)	$ (207,415)	$ 4,318	$ 276,104
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 216,413	$ 108,237	$ 36,862	
Cash and Cash Equivalents - Noncurrent	1,462	102,990	-	
Cash and Cash Equivalents - Restricted	117,886	-	78,942	
	$ 335,761	$ 211,227	$ 115,804	

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
$ 548,177	$ 62,000	$ 191,644	$ 2,771,934	$ 89,713
-	-	(65,724)	(526,878)	(31,197)
-	(690)	(282,342)	(1,587,463)	(37,474)
(573,498)	(61,937)	(75,907)	(1,184,474)	(197)
(25,321)	(627)	(232,329)	(526,881)	20,845
-	185,280	5,000	198,133	-
-	(62,192)	(32,574)	(140,517)	-
-	(22,527)	(9,751)	(53,562)	-
-	2,408	218,575	857,615	-
(3,030)	-	(9,254)	(291,284)	-
-	1,297	(4,616)	24,092	-
(3,030)	104,266	167,380	594,477	-
-	-	(9,678)	(154,687)	(22,653)
-	-	-	158,005	-
-	-	-	(158,164)	-
-	-	(3,558)	(65,473)	-
-	-	129,586	239,826	-
-	13,146	19,028	32,174	-
-	-	-	17,503	-
-	-	(55,983)	(75,100)	(67)
-	13,146	79,395	(5,916)	(22,720)
-	-	-	45,523	-
-	-	-	(8,100)	-
28,351	26,653	11,969	129,020	233
-	-	25	25	-
-	(145,353)	(7,650)	(180,280)	(90)
28,351	(118,700)	4,344	(13,812)	143
-	(1,915)	18,790	47,868	(1,732)
-	5,573	121,886	781,112	16,904
$ -	$ 3,658	$ 140,676	$ 828,980	$ 15,172
$ (14,413)	$ 12,682	$ (179,289)	$ (690,871)	$ (5,747)
-	-	15,580	189,844	19,743
-	-	(4,074)	57,091	-
(1,344)	(13,309)	(83,390)	(112,875)	94
(116)	-	-	(3,701)	2,941
(10,462)	-	708	34,938	(364)
-	-	18,136	(2,492)	4,178
1,014	-	-	1,185	-
(10,908)	(13,309)	(53,040)	163,990	26,592
$ (25,321)	$ (627)	$ (232,329)	$ (526,881)	$ 20,845

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Fiduciary Fund Financial Statements

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

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

Individual fund descriptions and financial statements begin on the following pages of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2007,* as issued by the State Comptroller:
Pension (and Other Employee Benefit) Trust Funds, page 124
Agency Funds, page 130

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

(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	$ 52,831	$ -	$ -	$ 141,573	$ 194,404
Receivables:					
Accounts, Net of Allowances	16,002	-	-	3,803	19,805
From Other Governments	5,771	-	-	-	5,771
From Other Funds	1,913	-	-	4,442	6,355
Interest	1,268	2,200	-	383	3,851
Investments	25,834,532	1,060,929	-	-	26,895,461
Inventories	-	-	-	466	466
Securities Lending Collateral	3,605,666	-	-	-	3,605,666
Other Assets	5,554	24	99,762	343,186	448,526
Total Assets	29,523,537	1,063,153	99,762	$ 493,853	31,180,305
Liabilities					
Accounts Payable and Accrued Liabilities	56	4,731	-	$ 4,183	8,970
Securities Lending Obligation	3,605,666	-	-	-	3,605,666
Due to Other Funds	6,909	-	-	-	6,909
Funds Held for Others	-	-	-	489,670	489,670
Total Liabilities	3,612,631	4,731	-	$ 493,853	4,111,215
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	25,840,277	-	-		25,840,277
Other Employee Benefits	70,629	-	-		70,629
Individuals, Organizations, and Other Governments	-	1,058,422	99,762		1,158,184
Total Net Assets	$ 25,910,906	$ 1,058,422	$ 99,762		$ 27,069,090

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, 2007
(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	$ 377,587	$ -	$ -	$ 377,587
State	1,109,157	-	-	1,109,157
Municipalities	45,552	-	-	45,552
Total Contributions	1,532,296	-	-	1,532,296
Investment Income	4,123,523	75,878	-	4,199,401
Less: Investment Expense	(215,070)	(322)	-	(215,392)
Net Investment Income	3,908,453	75,556	-	3,984,009
Escheat Securities Received	-	-	33,265	33,265
Pool's Share Transactions	-	145,974	-	145,974
Transfers In	2,492	-	-	2,492
Other	20	-	11,830	11,850
Total Additions	5,443,261	221,530	45,095	5,709,886
Deductions				
Administrative Expense	1,999	-	-	1,999
Benefit Payments and Refunds	2,285,066	-	-	2,285,066
Escheat Securities Returned or Sold	-	-	4,134	4,134
Distributions to Pool Participants	-	75,556	-	75,556
Other	6,917	-	-	6,917
Total Deductions	2,293,982	75,556	4,134	2,373,672
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	3,149,279	-	-	3,149,279
Individuals, Organizations, and Other Governments	-	145,974	40,961	186,935
Net Assets - Beginning	22,761,627	912,448	58,801	23,732,876
Net Assets - Ending	$ 25,910,906	$ 1,058,422	$ 99,762	$ 27,069,090

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

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Component Unit Financial Statements

Major Component Units

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

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

Nonmajor:
The nonmajor component units are presented beginning on page 134 of the *Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2007,* as issued by the State Comptroller.

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Statement of Net Assets
Component Units

June 30, 2007

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-06)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 21,566	$ 170,166	$ 191,732
Investments	-	-	390,700	390,700
Receivables:				
Accounts, Net of Allowances	-	256	36,923	37,179
Loans, Net of Allowances	-	-	25,110	25,110
Other	-	-	926	926
Due from Primary Government	-	-	12,727	12,727
Restricted Assets	810,702	541,397	105,600	1,457,699
Inventories	-	-	3,439	3,439
Other Current Assets	-	121	5,537	5,658
Total Current Assets	810,702	563,340	751,128	2,125,170
Noncurrent Assets:				
Investments	-	-	56,862	56,862
Accounts, Net of Allowances	-	-	16,256	16,256
Loans, Net of Allowances	-	-	114,791	114,791
Restricted Assets	3,575,919	2,247	66,210	3,644,376
Capital Assets, Net of Accumulated Depreciation	3,154	254	430,321	433,729
Other Noncurrent Assets	-	-	10,344	10,344
Total Noncurrent Assets	3,579,073	2,501	694,784	4,276,358
Total Assets	4,389,775	565,841	1,445,912	6,401,528
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	28,647	1,799	72,766	103,212
Current Portion of Long-Term Obligations	135,920	-	27,069	162,989
Amount Held for Institutions	-	541,335	-	541,335
Due to Primary Government	-	-	2,619	2,619
Other Liabilities	28,358	-	545	28,903
Total Current Liabilities	192,925	543,134	102,999	839,058
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,440,657	2,247	332,040	3,774,944
Total Noncurrent Liabilities	3,440,657	2,247	332,040	3,774,944
Total Liabilities	3,633,582	545,381	435,039	4,614,002
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,154	254	297,682	301,090
Restricted:				
Debt Service	-	-	18,935	18,935
Bond Indentures	753,039	-	-	753,039
Expendable Endowments	-	-	137,773	137,773
Nonexpendable Endowments	-	-	234,332	234,332
Other Purposes	-	-	42,638	42,638
Unrestricted	-	20,206	279,513	299,719
Total Net Assets	$ 756,193	$ 20,460	$ 1,010,873	$ 1,787,526

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Connecticut Housing Finance Authority (12/31/06)	$ 200,074	$ 170,439	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,832	6,293	-	-
Other Component Units	344,119	241,655	7,900	9,288
Total Component Units	$ 550,025	$ 418,387	$ 7,900	$ 9,288

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

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

Net (Expense) Revenue and Changes in Net Assets			
Connecticut Housing Finance Authority (12-31-06)	**Connecticut Health & Educational Facilities Authority**	**Other Component Units**	**Totals**
$ (29,635)	$ -	$ -	$ (29,635)
-	461	-	461
-	-	(85,276)	(85,276)
(29,635)	461	(85,276)	(114,450)
57,731	1,028	78,902	137,661
-	-	34,392	34,392
57,731	1,028	113,294	172,053
28,096	1,489	28,018	57,603
728,097	18,971	982,855	1,729,923
$ 756,193	$ 20,460	$ 1,010,873	$ 1,787,526

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Notes to the Financial Statements
June 30, 2007

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, 2006.

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 2007 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.

In the Statement of cash flows, certain Enterprise funds exclude from cash and cash equivalents investments in STIF reported as noncurrent or restricted assets.

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 a comparison of other State bonds.
- 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)	$ 349,238	$ 59,568
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	86,919	(4,108)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	45,182	6,983
Salaries and Fringe Benefits Payable	(90,043)	(784)
Increase in Continuing Appropriations	128,217	1,594
Transfer of 2006 Surplus	(41,000)	-
Fund Reclassification-Bus Operations	-	(791)
Net change in fund balances (GAAP basis)	$ 478,513	$ 62,462

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, 2007, none of which constitutes a violation of statutory provisions (amounts in thousands).

Capital Projects	
State Facilities	$ 232,476
Enterprise	
Bradley Parking Garage	$ 16,188
Rate Reduction Bond Operations	$ 119,102
Internal Service	
Administrative Services	$ 35,809

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, one Medium-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, 2007, STIF had the following investments and maturities (amounts in thousands):

Short-Term Investment Fund

Investment Type	Amortized Cost	Investment Maturities (in years) Less Than 1	1-5
Corporate Notes	$ 55,000	$ 55,000	$ -
Asset Backed Commercial Paper	3,032,849	3,032,849	-
Floating Rate Notes	748,505	80,789	667,716
Repurchase Agreements	198,698	198,698	-
Total Investments	$ 4,035,052	$ 3,367,336	$ 667,716

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, 2007, the weighted average maturity of the STIF was 50 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 fund's 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, 2007, the amount of STIF's investments in variable-rate securities was $748.5 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, 2007, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Investment Fund

Investment Type	Amortized Cost	Quality Ratings AAA	AA	A-1
Corporate Notes	$ 55,000	$ 30,000	$ 25,000	$ -
Asset Backed Commercial Paper	3,032,849	-	-	3,032,849
Floating Rate Notes	748,505	406,190	292,326	49,989
Repurchase Agreements	198,698	-	-	198,698
Total	$ 4,035,052	$ 436,190	$ 317,326	$ 3,281,536

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, 2007, 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	$ 263,162
Catapult PMX Funding	$ 341,118
Ebury Finance	$ 321,999
Fenway Funding	$ 224,598
Freedom Park	$ 294,568
North Lake Funding	$ 216,023

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, 2007, $980,500 of the bank balance of STIF's deposits of $980,900 was exposed to custodial credit risk as follows

Uninsured and uncollateralized	$ 885,500
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	95,000
Total	$ 980,500

Short-Term Plus Investment Fund (STIF Plus)

In 2007, the State created STIF Plus, a medium-term investment fund. STIF Plus is a money market and short-term bond investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. STIF Plus' investments are reported at fair value on the fund's statement of net assets.

For financial reporting purposes, STIF Plus is considered to be an internal investment pool because it had only one participant fund at year end (General fund), and, thus, it is not reported on the financial statements. Instead, the fund's investment in STIF Plus is reported as investments in the government-wide and fund financial statements.

As of June 30, 2007, STIF Plus had the following investments and maturities (amount in thousands):

Short-Term Plus Investment Fund

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5
Federal Agency Securities	$ 49,965	$ -	$ 49,965
Corporate Notes	9,992	9,992	-
Asset Baked Securities	64,990	62,008	2,982
Asset Backed Commercial Paper	88,145	88,145	-
Floating Rate Notes	45,001	45,001	-
Total Investments	$ 258,093	$ 205,146	$ 52,947

Interest Rate Risk

STIF Plus' policy for managing this risk is to perform, on a quarterly basis, an interest rate sensitivity analysis on the duration and the market value of the portfolio to determine the potential effect of a 200 basis point movement in interest rates. As of June 30, 2007, the weighted average maturity of STIF Plus was 226 days. In addition, STIF Plus is allowed to invest in floating-rate debt securities. For purposes of the fund's 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, 2007, STIF Plus's investments in variable-rate securities were $76.6 million.

Credit Risk

The STIF Plus manages its credit risk by investing only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations. As of June 30, 2007, STIF Plus' investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Plus Investment Fund

Investment Type	Fair Value	Quality Ratings AAA	AA	A-1
Federal Agency Securities	$ 49,965	$ 49,965	$ -	$ -
Corporate Notes	9,992	4,995	4,997	-
Asset Baked Securities	64,990	64,990	-	-
Asset Backed Commercial Paper	88,145	-	-	88,145
Floating Rate Notes	45,001	9,995	35,006	-
Total	$ 258,093	$ 129,945	$ 40,003	$ 88,145

Concentration of Credit Risk

SITF Plus' policy for managing this risk is to limit the amount it may invest in any single federal agency to an amount not to exceed 15 percent. As of June 30, 2007, STIF Plus' investments in any one single issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Fair Value
FNMA	$ 14,987
FHLB	$ 34,979
Freedom Park	$ 14,968

Custodial Credit Risk-Bank Deposits-Nonnegotiable Certificate of Deposits (amounts in thousands)

The STIF Plus follows policy parameters that limit deposits in any one entity to a maximum of five percent of total assets. Further, the certificates 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 AA- or which carry an unconditional letter of guarantee from such a bank that meets the short-term debt rating requirements. As of June 30, 2007, $44,599 of the bank balance of STIF Plus' deposits of $44,999 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 42,099
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	2,500
Total	$ 44,599

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, 2007, 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	$ 93,115	$ 644	$25,834,532
Other Investments	612,617	58,542	1,060,929
Total Investments-Current	$ 705,732	$ 59,186	$26,895,461

As of June 30, 2007, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	$ 1,590,061	$ 1,459,507	$ 125,997	$ -	$ 4,557
Asset Backed Securities	308,135	-	287,190	20,377	568
Government Securities	1,703,294	20,096	600,216	468,767	614,215
Government Agency Securities	2,304,337	193	24,608	58,072	2,221,464
Mortgage Backed Securities	1,092,755	10,515	15,062	60,973	1,006,205
Corporate Debt	1,919,345	214,700	725,384	532,517	446,744
Convertible Debt	29,187	3,763	19,466	3,265	2,693
Mutual Fund	262,534	-	-	-	262,534
Total Debt Instruments	9,209,648	$ 1,708,774	$ 1,797,923	$ 1,143,971	$ 4,558,980
Common Stock	15,172,549				
Preferred Stock	115,590				
Real Estate Investment Trust	164,256				
Mutual Fund	171,376				
Limited Liability Corporation	4,290				
Trusts	7,147				
Limited Partnerships	1,929,672				
Annuities	1				
Total Investments	$ 26,774,529				

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, 2007, 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	$ 4,200,344	$ 698	$ 301,577	$ 1,512,888	$ 1,333,417	$ 841,452	$ 210,312	$ -	$ -
Aa	518,161	-	-	16,085	-	1,553	500,289	234	-
A	248,951	-	238	11,775	-	1,680	234,446	812	-
Baa	453,795	-	2,948	50,286	-	13,265	387,296	-	-
Ba	156,803	-	-	44,730	-	3,357	107,992	724	-
B	286,243	-	-	25,317	-	-	259,693	1,233	-
Caa	81,118	-	-		-	8,066	65,773	7,279	-
Ca	138	-	-		-	138	-	-	-
C	1,127	-	-	-	-	1,127	-	-	-
Prime-1	705,829	670,829	-	-	-	-	35,000	-	-
Not Rated	2,557,139	918,534	3,372	42,213	970,920	222,117	118,544	18,905	262,534
Total	$ 9,209,648	$ 1,590,061	$ 308,135	$ 1,703,294	$ 2,304,337	$ 1,092,755	$ 1,919,345	$ 29,187	$ 262,534

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, 2007, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Combined Investment Funds

			Fixed Income Securities				Equities		
Foreign Currency	**Total**	**Cash**	**Government Securities**	**Mutual Funds**	**Corporate Debt**	**Convertible Securities**	**Common Stock**	**Preferred Stock**	**Real Estate Investment Trust**
Argentine Peso	$ 537	$ 40	$ -	$ -	$ -	$ -	$ 497	$ -	$ -
Australian Dollar	179,679	2,026	-	-	-	-	177,653	-	-
Brazilian Real	86,116	249	-	-	5,433	-	23,481	56,953	-
Canadian Dollar	24,011	41	-	-	1,143	-	22,827	-	-
Chilean Peso	2,246	28	-	-	-	-	1,835	383	-
Czech Koruna	7,416	174	-	-	-	-	7,242	-	-
Danish Krone	32,625	279	-	-	-	-	32,346	-	-
Egyptian Pound	113	-	-	-	-	-	113	-	-
Euro Currency	1,677,518	3,652	22,820	1,493	500	495	1,617,297	31,261	-
Honk Kong Dollar	192,958	1,374	-	-	-	-	191,279	-	305
Hungarian Fornit	20,372	92	-	-	-	-	20,280	-	-
Indonesian Rupiah	15,474	86	-	-	860	-	14,528	-	-
Israeli Shekel	10,361	-	-	-	-	-	10,361	-	-
Japanese Yen	977,374	17,107	10,637	-	3,207	1,243	944,251	-	929
Malaysian Ringgit	71,677	(126)	-	-	-	-	71,803	-	-
Mexican Peso	43,274	601	13,984	-	-	-	28,689	-	-
New Taiwan Dollar	101,581	528	-	-	-	-	101,053	-	-
New Turkish Dollar	24,367	-	-	-	-	-	24,367	-	-
New Zealand Dollar	8,651	1,736	-	-	3,932	-	2,983	-	-
Norwegian Krone	39,192	192	-	-	-	-	39,000		
Pakistan Rupee	6	6	-	-	-	-	-	-	-
Peruvian Nouveau Sol	513	-	-	-	-	-	513	-	-
Philippine Peso	16,130	33	-	-	-	-	16,097	-	-
Polish Zloty	32,919	60	-	-	-	-	32,859	-	-
Pound Sterling	879,241	5,175	-	-	12,389	-	849,713	-	11,964
Singapore Dollar	81,734	3,365	5,179	-	7,767	-	62,075	-	3,348
South African Rand	53,260	1	-	-	-	-	53,259	-	-
South Korean Won	382,900	1,827	-	-	-	-	356,876	24,197	-
Swedish Krona	121,037	2,207	-	-	-	-	118,830	-	-
Swiss Franc	317,656	858	-	-	-	-	316,798	-	-
Thailand Baht	40,993	(26)	-	-	-	-	41,019	-	-
Total	$ 5,441,931	$ 41,585	$ 52,620	$ 1,493	$ 35,231	$ 1,738	$ 5,179,924	$ 112,794	$ 16,546

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, 2007, the CIFS had deposits with a bank balance of $48.7 million which was uninsured and uncollateralized.

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

Other Investments

As of June 30, 2007, 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	$ 54,420	$ 54,420	$ -	$ -	$ -
State/Municipal Bonds	61,465	4,123	20,875	11,861	24,606
U.S. Government Securities	39,954	25,891	12,049	-	2,014
U.S. Agency Securities	485,327	67,985	44,893	372,449	-
Guaranteed Investment Contracts	500,095	34,047	204,421	59,554	202,073
Tax Exempt Proceeds Fund	53,878	53,878	-	-	-
Money Market Funds	321	321	-	-	-
Mortgage-Backed Securities	22,216	-	3	6,220	15,993
Corporate Bonds	4	2	2	-	-
Total Debt Investments	1,217,680	$ 240,667	$ 282,243	$ 450,084	$ 244,686
Annuity Contracts	263,646				
Endowment Pool	13,412				
Total Investments	$ 1,494,738				

Credit Risk

As of June 30, 2007, 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	$ 54,420	$ 54,420	$ -	$ -	$ -
State/Municipal Bonds	61,465	-	61,465	-	-
U.S. Agency Securities	485,327	452,271	-	33,056	-
Guaranteed Investment Contracts	500,095	221,618	278,477	-	-
Tax Exempt Proceeds Fund	53,878			-	53,878
Money Market Funds	321	-	-	-	321
Mortgage-Backed Securities	22,216	22,216	-	-	-
Corporate Bonds	4	-	-	-	4
Total	$ 1,177,726	$ 750,525	$ 339,942	$ 33,056	$ 54,203

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, 2007, $230,967 of the bank balance of the Primary Government of $233,851 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 208,000
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	22,967
Total	$ 230,967

Component Units

As of June 30, 2007, 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	$ 2,948	$ -	$ -	$ -	$ 2,948
Corporate Finance Bonds	7,655	-	2,196	5,459	-
Corporate Notes	7,969	2,255	4,341	-	1,373
Federated Funds	14,672	14,672	-	-	-
Fidelity Tax Exempt Fund	7,884	7,884	-	-	-
GNMA Program Assets	815,576	-	-	-	815,576
Guaranteed Investment Contracts	260,891	-	260,891	-	-
Investment Agreements	1,368	-	-	1,368	-
Mortgage Backed Securities	3,947	25	-	1,326	2,596
Repurchase Agreements	7,197	-	-	-	7,197
U.S. Government Securities	765	-	-	-	765
Structured Securities	553	-	-	-	553
Money Market Funds	267,880	267,880	-	-	-
Municipal Bonds	1,859	-	-	-	1,859
Certificate of Deposits	3,000	3,000	-	-	-
Total	$ 1,404,164	$ 295,716	$ 267,428	$ 8,153	$ 832,867

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) own 62.6 percent and 37.4 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, certificate of deposits, 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, 2007, major component units' investments were rated as follows (amounts in thousands):

Component Units

Investment Type	Fair Value	Quality Ratings AAA	AA	A	BBB	Baa	C	Unrated
Collateralized Mortgage Obligations	$ 2,948	$ 436	$ 2,512	$ -	$ -	$ -	$ -	$ -
Corporate Finance Bonds	7,655		-	2,196	5,459	-	-	-
Corporate Notes	7,969	-	2,255	2,802	1,539	1,373	-	-
Federated Funds	14,672	-	-	-	-	-	-	14,672
Fidelity Tax Exempt Fund	7,884	-	-	-	-	-	-	7,884
GNMA Assets	815,576	-	-	-	-	-	-	815,576
Guaranteed Investment Contracts	260,891	3,253	257,638	-	-	-	-	-
Investment Agreements	1,368	-	-	-	-	-	-	1,368
Mortgage Backed Securities	3,947	424	-	-	-	-	-	3,523
Repurchase Agreements	7,197	-	-	-	-	-	-	7,197
Structured Securities	553	-	-	-	-	-	553	-
Money Market Funds	267,880	267,880	-	-	-	-	-	-
Municipal Bonds	1,859	1,859	-	-	-	-	-	-
Certificate of Deposits	3,000	-	-	-	-	-	-	3,000
Total	$ 1,403,399	$ 273,852	$ 262,405	$ 4,998	$ 6,998	$ 1,373	$ 553	$ 853,220

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. As of December 31, 2006, the Authority had no investments in any one issuer that represents 5% or more of total investments, other than investments guaranteed by the U.S. Government (GNMA Program Assets).

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,

Morgan Stanley, and Rabobank 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, 2007, the funds had no credit exposure to the borrowers, because the value of collateral held and the market value securities on loan were $3,793.8 million and $3,691.7 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 70 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, 2007, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,450,310	$ -	$ -
Accounts	1,045,346	498,644	37,700
Loans-Current Portion	-	175,429	27,312
Other Governments	687,400	7,209	-
Interest	7,933	18,183	926
Other (1)	11,685	-	-
Total Receivables	3,202,674	699,465	65,938
Allowance for Uncollectibles	(925,279)	(89,842)	(2,723)
Receivables, Net	$ 2,277,395	$ 609,623	$ 63,215

(1) Includes a reconciling amount of $5,450 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2007 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 432,757	$ -	$ 432,757
Income Taxes	585,747	-	585,747
Corporations	136,108	-	136,108
Gasoline and Special Fuel	-	43,242	43,242
Various Other	252,456	-	252,456
Total Taxes Receivable	1,407,068	43,242	1,450,310
Allowance for Uncollectibles	(81,933)	(1,097)	(83,030)
Taxes Receivable, Net	$ 1,325,135	$ 42,145	$ 1,367,280

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2007, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	$ -	$ 1,007	$ 16,256
Loans	196,962	558,447	125,047
Total Receivables	196,962	559,454	141,303
Allowance for Uncollectibles	(9,373)	(2,888)	(10,256)
Receivables, Net	$ 187,589	$ 556,566	$ 131,047

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 $494 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 10.50 percent. As of June 30, 2007, the noncurrent portion of loans receivable was $30 million. In addition, loans in the amount of $5.9 million (including loans of $5.8 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 $(197) 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, 2007, 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	$ 186,072	$ 490,822	$ -	$ -	$ 676,894
Environmental	-	830	-	-	830
Other	-	-	-	-	-
Total-Governmental Activities	$ 186,072	$ 491,652	$ -	$ -	$ 677,724
Business-Type Activities:					
Bradley International Airport	$ 78,942	$ 45,126	$ -	$ 3,063	$ 127,131
UConn/Health Center	117,886	248	-	-	118,134
Clean Water	-	394,695	-	-	394,695
Other Proprietary	-	50,337	-	-	50,337
Total-Business-Type Activities	$ 196,828	$ 490,406	$ -	$ 3,063	$ 690,297
Component Units:					
CHFA	$ 2,321	$ 1,527,596	$ 2,701,355	$ 155,349	$ 4,386,621
CHEFA	162	543,392	-	90	543,644
Other Component Units	129,813	41,995	-	2	171,810
Total-Component Units	$ 132,296	$ 2,112,983	$ 2,701,355	$ 155,441	$ 5,102,075

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2007, 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	$ 138,054	$ 208,011	$ -	$ -	$ 346,065
Transportation	9,893	11,390	-	-	21,283
Other Governmental	178,492	36,065	-	3,138	217,695
Internal Service	6,758	1,957	-	11,243	19,958
Reconciling amount from fund financial statements to government-wide financial statements	-	-	100,812	4,896	105,708
Total-Governmental Activities	$ 333,197	$ 257,423	$ 100,812	$ 19,277	$ 710,709
Business-Type Activities:					
UConn/Health Center	$ 38,615	$ 65,444	$ -	$ 19,378	$ 123,437
State Universities	8,769	36,612	2,259	-	47,640
Other Proprietary	23,015	28,623	22,032	27,886	101,556
Total-Business-Type Activities	$ 70,399	$ 130,679	$ 24,291	$ 47,264	$ 272,633

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	$ 1,294,616	$ 59,510	$ 41	$ 1,354,085
Construction in Progress	1,658,695	572,963	271,483	1,960,175
Total Capital Assets not being Depreciated	2,953,311	632,473	271,524	3,314,260
Other Capital Assets:				
Buildings	2,768,464	19,972	391	2,788,045
Improvements Other than Buildings	449,799	6,154	730	455,223
Equipment	1,385,551	232,130	120,992	1,496,689
Infrastructure	10,078,020	365,297	-	10,443,317
Total Other Capital Assets at Historical Cost	14,681,834	623,553	122,113	15,183,274
Less: Accumulated Depreciation For:				
Buildings	1,629,521	69,702	391	1,698,832
Improvements Other than Buildings	257,662	22,936	730	279,868
Equipment	995,142	244,001	120,992	1,118,151
Infrastructure	4,998,227	450,472	-	5,448,699
Total Accumulated Depreciation	7,880,552	787,111 *	122,113	8,545,550
Other Capital Assets, Net	6,801,282	(163,558)	-	6,637,724
Governmental Activities, Capital Assets, Net	$ 9,754,593	$ 468,915	$ 271,524	$ 9,951,984

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 4,934
General Government	32,535
Regulation and Protection	17,533
Conservation and Development	14,344
Health and Hospitals	13,924
Transportation	578,244
Human Services	1,852
Education, Libraries and Museums	33,206
Corrections	50,971
Judicial	19,905
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	19,663
Total Depreciation Expense	$ 787,111

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 59,314	$ 170	$ -	$ 59,484
Construction in Progress	175,449	111,704	96,376	190,777
Total Capital Assets not being Depreciated	234,763	111,874	96,376	250,261
Capital Assets being Depreciated:				
Buildings	3,292,821	170,323	7,971	3,455,173
Improvements Other Than Buildings	483,189	15,489	39,724	458,954
Equipment	842,688	67,958	34,584	876,062
Infrastructure	-	-	-	-
Total Other Capital Assets at Historical Cost	4,618,698	253,770	82,279	4,790,189
Less: Accumulated Depreciation For:				
Buildings	959,272	108,668	3,162	1,064,778
Improvements Other Than Buildings	186,512	18,442	7	204,947
Equipment	477,814	61,256	31,180	507,890
Total Accumulated Depreciation	1,623,598	188,366	34,349	1,777,615
Other Capital Assets, Net	2,995,100	65,404	47,930	3,012,574
Business-Type Activities, Capital Assets, Net	$ 3,229,863	$ 177,278	$ 144,306	$ 3,262,835

Component Units

Capital assets of the component units consisted of the following as of June 30, 2007 (amounts in thousands):

Land	$ 28,625
Buildings	476,655
Improvements other than Buildings	2,778
Machinery and Equipment	254,282
Construction in Progress	357
Total Capital Assets	762,697
Accumulated Depreciation	(328,968)
Capital Assets, net	$ 433,729

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 6/30/2007	TRS 6/30/2006	JRS 6/30/2007
Retirees and beneficiaries receiving benefits	37,420	26,695	218
Terminated plan members entitled to but not yet receiving benefits	1,693	1,341	2
Active plan members	52,438	51,015	218
Total	91,551	79,051	438

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 regular and Hazardous Duty members are required to contribute 2 percent and 4 percent of their annual salary, respectively, 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 II Plan Hazardous Duty members are required to contribute 4% of their annual salary; Tier IIA Plan regular and Hazardous Duty members are required to contribute 2 percent and 5 percent of their annual salary, respectively. 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	$ 663,926	$ 416,061	$ 12,375
Interest on net pension obligation	193,056	124,596	4
Adjustment to annual required contribution	(131,973)	(98,855)	(3)
Annual pension cost	725,009	441,802	12,376
Contributions made	663,931	412,101	12,375
Increase (decrease) in net pension obligation	61,078	29,701	1
Net pension obligation beginning of year	2,271,249	1,465,841	46
Net pension obligation end of year	$ 2,332,327	$ 1,495,542	$ 47

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2005	$ 582,082	89.1%	$ 2,208,839
	2006	$ 685,473	90.9%	$ 2,271,249
	2007	$ 725,009	91.6%	$ 2,332,327
TRS	2005	$ 317,978	58.3%	$ 1,427,420
	2006	$ 434,670	91.2%	$ 1,465,841
	2007	$ 441,802	93.3%	$ 1,495,542
JRS	2005	$ 12,238	100%	$ 45
	2006	$ 11,731	100%	$ 46
	2007	$ 12,376	100%	$ 47

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 $30.7 million and $20.0 million, respectively.

Note 12 Other Retirement Systems Administered by the State of Connecticut

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

Plan Descriptions and Contribution Information

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

	CMERS 6/30/2006	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	$ 3,359	$ -	$ -	$ 7,221	$ 32	$ 183	$ 10,795
Receivables:							
Accounts, Net of Allowances	2,043	8,582	8	5,363	6	-	16,002
From Other Governments		5,771	-	-	-	-	5,771
From Other Funds	-	454	-	-	-	-	454
Interest	337	838	12	75	4	-	1,266
Investments	10,037,696	13,782,071	187,348	1,717,314	87,647	875	25,812,951
Securities Lending Collateral	1,408,258	1,915,999	26,030	239,500	12,241	136	3,602,164
Total Assets	11,451,693	15,713,715	213,398	1,969,473	99,930	1,194	29,449,403
Liabilities							
Accounts Payable and Accrued Liabilities	44	-	2	-	10	-	56
Securities Lending Obligation	1,408,258	1,915,999	26,030	239,500	12,241	136	3,602,164
Due to Other Funds	-	6,906	-	-	-	-	6,906
Total Liabilities	1,408,302	1,922,905	26,032	239,500	12,251	136	3,609,126
Net Assets							
Held in Trust For Employee Pension Benefits	10,043,391	13,790,810	187,366	1,729,973	87,679	1,058	25,840,277
Total Net Assets	$ 10,043,391	$ 13,790,810	$ 187,366	$ 1,729,973	$ 87,679	$ 1,058	$ 25,840,277

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	$ 61,794	$ 237,468	$ 1,594	$ 14,317	$ 278	$ 114	$ 315,565
State	663,931	412,101	12,375	-	-	-	1,088,407
Municipalities	-	6,159	-	39,371	-	-	45,530
Total Contributions	725,725	655,728	13,969	53,688	278	114	1,449,502
Investment Income	1,594,319	2,217,450	27,888	266,191	13,555	87	4,119,490
Less: Investment Expenses	(83,150)	(115,730)	(1,456)	(13,894)	(707)	(4)	(214,941)
Net Investment Income	1,511,169	2,101,720	26,432	252,297	12,848	83	3,904,549
Transfers In	-	-	-	-	2,492	-	2,492
Other	-	-	-	20	-	-	20
Total Additions	2,236,894	2,757,448	40,401	306,005	15,618	197	5,356,563
Deductions							
Administrative Expense	510	-	10	-	-	-	520
Benefit Payments and Refunds	958,115	1,165,656	16,797	80,969	2,782	2	2,224,321
Other	29	3,634	2	15	2,493	-	6,173
Total Deductions	958,654	1,169,290	16,809	80,984	5,275	2	2,231,014
Changes in Net Assets	1,278,240	1,588,158	23,592	225,021	10,343	195	3,125,549
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	8,765,151	12,202,652	163,774	1,504,952	77,336	863	22,714,728
End of Year	$ 10,043,391	$ 13,790,810	$ 187,366	$ 1,729,973	$ 87,679	$ 1,058	$ 25,840,277

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, 2007, 38,506 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, 2007, $418.4 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):

2008	$	44,498
2009		35,567
2010		29,667
2011		30,272
2012		30,367
Thereafter		19,227
Total	$	189,598

Contingent revenues for the year ended June 30, 2007, were $1.6 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2007, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2008	$ 64,882	$ 7,855
2009	53,564	7,598
2010	48,639	7,602
2011	37,570	7,523
2012	23,920	7,174
2013-2017	23,076	20,150
2018-2022	442	11,179
2023-2027	386	6,124
2028-2032	-	4,870
Total minimum lease payments	$ 252,479	80,075
Less: Amount representing interest costs		23,831
Present value of minimum lease payments		$ 56,244

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

Rental payments on noncancelable operating leases charged to expenses during the year ended June 30, 2007, was $46.7 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 $322 million at June 30, 2007.

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, 2007, (amounts in thousands):

Governmental Activities	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Bonds:					
General Obligation	$ 10,211,493	$ 1,781,075	$ 1,395,987	$ 10,596,581	$ 873,675
Transportation	3,094,001	-	271,416	2,822,585	276,393
	13,305,494	1,781,075	1,667,403	13,419,166	1,150,068
Plus/(Less) premiums and deferred amounts	267,175	67,907	33,258	301,824	-
Total Bonds	13,572,669	1,848,982	1,700,661	13,720,990	1,150,068
Economic Recovery Notes	146,090	-	146,090	-	-
Other Liabilities:					
Net Pension Obligation	3,737,136	1,179,187	1,088,407	3,827,916	-
Compensated Absences	471,093	35,869	32,900	474,062	23,146
Workers' Compensation	344,274	121,044	83,190	382,128	78,280
Capital Leases	60,491	117	4,364	56,244	4,933
Claims and Judgments	18,418	4,081	14,919	7,580	5,997
Contracts Payable & Other	3,493	4,057	3,493	4,057	-
Total Other Liabilities	4,634,905	1,344,355	1,227,273	4,751,987	112,357
Governmental Activities Long-Term Liabilities	$ 18,353,664	$ 3,193,337	$ 3,074,024	$ 18,472,977	$ 1,262,425
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,523,130	$ 242,830	$ 188,237	$ 1,577,723	$ 108,754
Plus/(Less) premiums, discounts and deferred amounts	39,491	434	15,192	24,733	462
Total Revenue Bonds	1,562,621	243,264	203,429	1,602,456	109,216
Lottery Prizes	302,477	7,853	44,556	265,774	42,063
Compensated Absences	124,260	26,879	23,551	127,588	36,856
Other	180,757	3,865	13,469	171,153	11,043
Total Other Liabilities	607,494	38,597	81,576	564,515	89,962
Business-Type Long-Term Liabilities	$ 2,170,115	$ 281,861	$ 285,005	$ 2,166,971	$ 199,178

b) As of June 30, 2007, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2007	Amounts due within year
Bonds Payable	$ 3,699,265	$ 103,816
Escrow Deposits	154,346	48,140
Closure of Landfills	61,365	10,588
State Loan	13,320	2,619
Deferred Revenue	2,808	425
Other	9,448	20
Total	$ 3,940,552	$ 165,608

Note 17 Bonded Debt

a. Primary Government – Governmental Activities

General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2007, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2008-2028	2-7.518%	$ 1,990,461	$ 515,383
School Construction	2008-2028	2.2-7.275%	2,784,621	6,976
Municipal & Other Grants & Loans	2008-2023	2-7.513%	1,350,353	579,342
Elderly Housing	2008-2012	4.05-7.026%	49,584	47,946
Elimination of Water Pollution	2008-2023	3-7.312%	198,720	398,078
General Obligation Refunding	2008-2023	2-6.14%	3,721,380	-
Miscellaneous	2008-2037	2-6.75%	96,578	533,576
			10,191,697	$ 2,081,301
Accretion-Various Capital Appreciation Bonds			404,884	
		Total	$ 10,596,581	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2007, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$ 873,675	$ 558,551	$ 1,432,226
2009	819,884	562,072	1,381,956
2010	823,200	518,144	1,341,344
2011	809,758	420,697	1,230,455
2012	749,698	361,965	1,111,663
2013-2017	3,056,008	1,145,709	4,201,717
2018-2022	2,198,662	473,174	2,671,836
2023-2027	844,272	87,387	931,659
2028-2032	11,010	2,546	13,556
2033-2037	5,530	718	6,248
Total	$ 10,191,697	$ 4,130,963	$ 14,322,660

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, 2007, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2008	4.80-5.50%	$ 1,063	$ 4,065
Infrastructure Improvements	2008-2026	2.25-7.75%	2,815,134	1,052,786
General Obligation Other	2008	7.513-7.518%	264	-
			2,816,461	$ 1,056,851
Accretion-Various Capital Appreciation Bonds			6,124	
		Total	$ 2,822,585	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2007, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
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	219,995	76,805	296,800
2013-2017	891,840	235,006	1,126,846
2018-2022	476,945	92,808	569,753
2023-2027	169,385	12,772	182,157
	$ 2,816,461	$ 862,100	$ 3,678,561

Variable-Rate Demand Bonds

As of June 30, 2007, 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	$ 80,800	1990	2010
General Obligation	70,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	409,650	2003	2022
General Obligation	280,000	2005	2023
Total	$ 1,040,450		

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 expires 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, 2007, 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 Consumer Price Index (CPI) related 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	$ 48,500	12/19/1990	5.746%	65% of LIBOR	$ (2,046)	12/1/2010	Aa2/AA/AA
1990 STO	32,300	12/19/1990	5.709%	65% of LIBOR	(1,347)	12/1/2010	Aa2/A+/A
2001 GO	20,000	6/28/2001	4.330%	CPI plus 1.43%	65	6/15/2012	Aa3/A+/AA-
2003 STO	116,780	1/23/2003	3.293%	55% LIBOR plus 50 bp	1,766	2/1/2022	Aaa/AA+/AA
2003 STO	97,100	1/23/2003	3.288%	55% LIBOR plus 50 bp	1,488	2/1/2022	Aaa/AA+/AA+
2003 STO	195,770	1/23/2003	3.284%	55% LIBOR plus 50 bp	3,153	2/1/2022	Aaa/AA+/AA+
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR plus 30bp	4,021	3/1/2023	Aaa/AAA/nr
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR plus 30bp	4,104	3/1/2023	Aaa/AA+/AA
2005 GO	15,620	4/27/2005	3.990%	CPI plus .65%	(444)	6/1/2016	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	5.070%	CPI plus 1.73%	(752)	6/1/2017	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	5.200%	CPI plus 1.79%	(958)	6/1/2020	Aaa/AAA/AAA
Total	$ 846,070				$ 9,050		

Fair value
As of June 30, 2007, 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.

Credit Risk
As of June 30, 2007, 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. With the exception of the 2005 swap with a credit rating of Aaa/AAA/na, 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 1990 swap agreement and the 2001 swap agreement do not have collateral provisions. Accordingly no collateral was required to be posted for any of the swaps at June 30, 2007. The State is not required to post collateral for any of the swaps.

Approximately 23 percent of the notional amount of swaps outstanding is held with one counterparty, rated Aaa/AA+/AA+. Three swaps, or approximately 7% of the notional amount of the swaps outstanding are held by one of the lowest rated counterparties, rated Aa3/A+/AA-, while another 4% is held by a separate counter party who is rated AA2/A+/A. All other swaps are held by separate counterparties who are rated Aa2/AA/AA or better.

Basis Risk
The State's variable-rate bond coupon payments are equivalent to the Bond Market Association Municipal Swap (BMA) index rate, or the CPI floating rate. For those swaps for which the State receives a variable-rate payment other than CPI, the State is exposed to basis risk should the relationship between the London Interbank Offered Rate (LIBOR) and BMA converge. If a change occurs that results in the rates moving to convergence, the synthetic rate on the bonds would change, and the expected cost savings may not be realized. As of June 30, 2007, the BMA rate was 3.73 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 3.46 and 3.49 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2007, 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, 2007, 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	Variable-Rate Bonds		Interest Rate	
Ending June 30,	Principal	Interest	SWAP, Net	Total
2008	$ 21,665	$ 30,914	$ 1,355	$ 53,934
2009	22,985	30,079	941	54,005
2010	24,410	29,210	498	54,118
2011	25,940	28,280	21	54,241
2012	29,125	27,665	(217)	56,573
2013-2017	313,580	106,503	331	420,414
2018-2022	333,365	28,589	43	361,997
2023-2027	75,000	271	(7)	75,264
Total	$ 846,070	$ 281,511	$ 2,965	$ 1,130,546

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

Enterprise funds' revenue bonds outstanding at June 30, 2007, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Uconn	2008-2032	2-6.5%	$ 189,134
State Universties	2008-2036	2-6.0%	333,199
Bradley International Airport	2008-2032	2.5-5.25%	217,945
Clean Water	2008-2028	2-6%	611,027
Bradley Parking Garage	2008-2024	6.125-6.6%	47,665
Drinking Water	2008-2028	2-5.%	39,313
Rate Reduction Bonds	2008-2011	3-5%	139,440
Total Revenue Bonds			1,577,723
Plus/(Less) premiums, discounts and deferred amounts:			
Uconn			(4,789)
State Universties			2,099
Bradley International Airport			(133)
Clean Water			17,524
Other			10,032
Revenue Bonds, net			$ 1,602,456

The University of Connecticut has issued Student fee revenue bonds to finance the costs of buildings, improvements and renovations to certain revenue-generating capital projects. Revenues used for payments on the bonds are derived from various fees charged to students.

The Connecticut State University System has issued revenue bonds that finance the costs of auxiliary enterprise buildings, improvements and renovations to certain student housing related facilities. Revenues used for payments on the bonds are derived from various fees charged to students.

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2007, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $20.5 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 $179.5 million and 2001 Bradley International Airport Refunding Bonds in the amount of $17.9 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

As of June 30, 2007, Bradley airport has entered into interest rate swap agreements for $152.4 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

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. As of June 30, 2007, the Clean Water Fund has entered into interest rate swap agreements for $121.4 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

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, 2007, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$ 109,434	$ 66,751	$ 176,185
2009	111,418	61,944	173,362
2010	115,265	57,127	172,392
2011	127,536	55,220	182,756
2012	74,893	47,178	122,071
2013-2017	353,272	183,246	536,518
2018-2022	316,850	115,988	432,838
2023-2027	223,295	58,098	281,393
2028-2032	126,580	10,052	136,632
2033-2037	19,180	787	19,967
Total	$ 1,577,723	$ 656,391	$ 2,234,114

c. Component Units

Component units' revenue bonds outstanding at June 30, 2007, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2008-2020	3.25-6%	$ 29,560
CT Housing Finance Authority	2007-2045	1.5-9.36%	3,422,231
CT Resources Recovery Authority	2008-2017	4-5.5%	26,541
CT Higher Education Supplemental Loan Authority	2008-2027	1.7-6%	128,885
Capital City Economic Development Authority	2008-2037	2.5-5%	85,735
UConn Foundation	2008-2029	3.875-5.%	7,290
Total Revenue Bonds			3,700,242
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			20
CRRA			(609)
CCEDA			156
CHESLA			(544)
Revenue Bonds, net			$ 3,699,265

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, 2007 were $.4 million. Assets totaling $2.1 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 $29.1 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, 2006, bonds outstanding under the bond resolution and the indenture were $3,365.9 million and $56.3 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 ($243.9 million at 12/31/06) on all outstanding bonds. As of December 31, 2006, the Authority has entered into interest rate swap agreements for $920.5 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the Authority.

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 $21.5 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, 2007, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$ 115,800	$ 163,898	$ 279,698
2009	118,352	159,090	277,442
2010	121,389	154,160	275,549
2011	123,582	149,012	272,594
2012	667,219	790,599	1,457,818
2013-2017	690,465	522,173	1,212,638
2018-2022	703,619	357,091	1,060,710
2023-2027	642,276	196,313	838,589
2028-2032	466,245	61,160	527,405
2037-2041	45,725	5,331	51,056
2042-2045	5,570	467	6,037
Total	$ 3,700,242	$ 2,559,294	$ 6,259,536

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, 2007 were $849.8 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, 2007 were $132.1 million. Of this amount, $49.5 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2007, were $5,610.0 million, of which $327.2 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 $527.7 million of general obligation bonds with an average interest rate of 4.89% to advance refund $528.9 million of general obligation bonds with an average interest rate of 5.08%. 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 $18.9 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $15.9 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $19.1 million. As of June 30, 2007, $3,201.2 million of outstanding general obligation, special tax obligation, and revenue bonds are considered defeased.

Note 18 Risk Management

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

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

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

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than $100 thousand. When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is $25 million, which is carried in a railroad liability policy.

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

	Governmental Activities	Business-Type Activities
	Workers' Compensation	Medical Malpractice
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
Incurred claims	121,044	3,012
Paid claims	(83,190)	(4,648)
Balance 6-30-07	$ 382,128	$ 20,000

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2007, 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	$ -	$ -	$ 3,909	$ 53,294	$ 22,042	$ 20,530	$ 633	$ 8,149	$ 4,896	$ -	$ 113,453
Debt Service	-	7,546	-	-	-	-	-	-	-	-	7,546
Other Governmental	4,759	-	6,947	2,795	23,195	188,473	-	-	-	12,727	238,896
UConn	15,235	-	-	-	-	-	-	-	-	-	15,235
State Universities	2,344	-	-	-	-	-	-	-	-	-	2,344
Employment Security	-	-	6,250	-	-	-	-	-	-	-	6,250
Other Proprietary	395	-	1,952	-	-	-	-	-	-	-	2,347
Internal Services	7,017	-	63,740	-	-	-	-	-	-	-	70,757
Fiduciary	-	-	5,450	-	-	-	-	-	1,459	-	6,909
Component Units	13,320	-	-	-	-	-	-	-	-	-	13,320
Total	$ 43,070	$ 7,546	$ 88,248	$ 56,089	$ 45,237	$ 209,003	$ 633	$ 8,149	$ 6,355	$ 12,727	$ 477,057

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, 2007, 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	$ -	$ -	$ 8,003	$ 91,100	$ 463,223	$ 226,046	$ 219,048	$ -	$ 1,007,420
Debt Service	-	-	30,720	632	-	-	-	-	31,352
Transportation	-	414,495	-	27,300	-	-	-	-	441,795
Other Governmental	105,473	-	1,717	135,610	89,649	10,853	139,553	2,492	485,347
Connecticut Lottery	279,000	-	-	-	-	-	-	-	279,000
Other Proprietary	-	-	-	3,824	-	-	9,254	-	13,078
Total	$ 384,473	$ 414,495	$ 40,440	$ 258,466	$ 552,872	$ 236,899	$ 367,855	$ 2,492	$ 2,257,992

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, and Restricted Assets

As of June 30, 2007, the beginning net assets for the following fund and related activities were restated as follows (amounts in thousands):

	Balance 6-30-06 Previously Reported	Correction of Reported Assets/ Liabilities	Balance 6-30-06 as Restated
Proprietary Funds and Business-Type Activities			
Non-Major Funds:			
Bradley Parking Garage	$ (5,686)	$ (11,195)	$ (16,881)
Total Proprietary Funds	$ 4,291,138	$ (11,195)	$ 4,279,943
Net Assets of Business-Type Activities	$ 4,291,138	$ (11,195)	$ 4,279,943

In 2007 the State included audited financial statements for the Bradley Parking Garage, a non-major Enterprise fund, in the accompanying financial statements. In prior years, these statements were not included because they were not available on a timely basis. Thus, the beginning net asset balance of the fund was restated to correct understatements in the assets and liabilities of the fund reported in prior years.

As of June 30, 2007, the government-wide statement of net assets reported $3,257 million of restricted net assets, of which $288 million was restricted by enabling legislation.

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, 2007, the Departments of Transportation and Public Works had contractual commitments of approximately $1,548 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program $3,348 million.
Clean and drinking water loan programs $191 million.
Various programs and services $2,090 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, 2007, the Authority had drawn $21.5 million on these funds.

Component Units

As of December 31, 2006, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately $90 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.

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 Subsequent Events

In September 2007, the issuer of a $100 million floating rate note investment held by the Short-Term Investment Fund (Note 4) went into receivership and stopped making payments to investors. The receivers are negotiating the sale of the underlying assets and the market value of the investment will be clearer at the conclusion of those negotiations. In addition, the credit rating of the investment was downgraded from AAA to D by Standard & Poor's.

In October 2007, $250 million of Special Tax Obligation bonds were issued. The bonds will mature in years 2008 through 2027 and bear interest rates ranging from 3.5% to 5.0%.

In December 2007, $527 million of general obligation bonds were issued that bear interest rates ranging from 3.5% to 5.0%. $300 million were general obligation bonds that mature in years 2008 to 2027, $181 million were general obligation refunding bonds that mature in years 2008 to 2015, and $46 million were taxable obligation bonds that mature in years 2008 through 2012.

In January 2008, the State Bond Commission approved the sale of Pension Obligation Bonds in the amount of $2 billion. Proceeds from the bond sale will be deposited in the Teachers' Retirement fund to help reduce the unfunded actuarial liability of the fund (RSI).

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						
6/30/2002	$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%
6/30/2007 *	$9,585.0	$17,888.1	$8,303.1	53.6%	$3,310.4	250.8%
*Interim actuarial valuation						
TRS						
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%
6/30/2007 *	-	-	-	-	-	-
*No actuarial valuations were performed.						
JRS						
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	245.7%
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%
6/30/2007 *	$182.4	$261.2	$78.8	69.8%	$33.8	233.1%
*Interim actuarial valuation						
MERS						
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)%
7/1/2007 *	-	-	-	-	-	-
*No actuarial valuations were performed.						

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
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%	$-	-
2007	$663.9	100.0%	$416.0	99.0%	$12.4	100.0%	$39.4	100.0%	$-	-

Note: During the years 2002 thru 2007 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	6/30/2007	6/30/2006	6/30/2007	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	25 Years	6-25 Years	24 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%

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

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 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, 2007, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 28, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of certain component units of the State, as described in our report on the State of Connecticut's financial statements. This report does not include the results of the other auditor's testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, Connecticut Community-Technical Colleges, Bradley International Airport Parking Facility, Connecticut Development Authority, and Capital City Economic Development Authority audited by other auditors were not audited 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Connecticut's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. Such deficiencies are described under the caption "Schedule of Financial Statement Related Findings" as the items listed below:

- II.A.1. The Office of State Comptroller did not provide an updated State Accounting Manual and certain improvements in the functionality and governance of the Core-CT system to ensure that State departments and agencies can properly and effectively operate in the decentralized Core-CT environment.
- II.A.2 The Core-CT accounting system did not provide its users with adequate functionality in reporting grant receivables, revenues, expenditures and transfers.
- II.A.3 The Core-CT accounting system did not provide the Office of State Treasurer with functionality that would facilitate the efficient and automated reconciliation of cash activity.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported or will report to management in separately issued departmental audit reports covering the fiscal year ended June 30, 2007.

The State of Connecticut's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's response and, accordingly, we express no opinion on it.

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

February 28, 2008
State Capitol
Hartford, Connecticut

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

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

Governor 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 OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. The State of Connecticut's major Federal programs are identified in the summary of auditor's 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 $94,841,557 in Federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2007. 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 items III.A.18. and III.D.2. in the accompanying Schedule of Findings and Questioned Costs, the State of Connecticut did not comply with requirements regarding *Subrecipient Monitoring* and *Cash Management*, respectively, that are applicable to its *Social Services Block Grant* (CFDA #93.667) and *Centers for Disease Control and Prevention – Investigations and Technical Assistance* (CFDA #93.283) programs, respectively. Compliance with such requirements is necessary, in our opinion, for the State of Connecticut to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Connecticut complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007. 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.3., III.A.6., III.A.7, III.A.9., III.A.12., III.A.13., III.A.14., III.A.15., III.A.18., III.A.19., III.A.22., III.A.24., III.A.25., III.A.26., III.A.27., III.A.29., III.D.2., III.E.2., III.F.1., III.G.3., III.G.4., III.G.7., III.G.9., III.G.10., III.H.6., III.I.3., III.I.4., III.J.2., III.K.2., III.K.3., III.K.5., III.L.2., and III.M.1..

Internal Control Over Compliance

The management of the State of Connecticut is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Connecticut's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III.A.1., III.A.2., III.A.3., III.A.4., III.A.5., III.A.6., III.A.7., III.A.8., III.A.9., III.A.10., III.A.11., III.A.12., III.A.13., III.A.14., III.A.15., III.A.16., III.A.17., III.A.18., III.A.19., III.A.20., III.A.21., III.A.22., III.A.23., III.A.24., III.A.25., III.A.26., III.A.27., III.A.28., III.A.29., III.B.1., III.C.1., III.D.1., III.D.2., III.D.3., III.D.4., III.D.5., III.D.6., III.E.1., III.E.2., III.F.1, III.F.2., III.F.3., III.G.1, III.G.2., III.G.3., III.G.4., III.G.5., III.G.6., III.G.7., III.G.8., III.G.9., III.G.10., 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.I.1., III.I.2., III.I.3., III.I.4., III.J.1., III.J.2., III.K.1., III.K.2., III.K.3., III.K.4., III.K.5., III.K.6., III.K.7., III.K.8., III.L.1., III.L.2., and III.M.1. to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items III.A.18., III.B.1., III.D.1., III.D.2., III.G.3., III.G.4., III.G.7., and III.M.1. to be material weaknesses.

The State of Connecticut's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Connecticut's response and, accordingly, we express no opinion on it.

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, 2007, and have issued our report thereon dated February 28, 2008. Our audit was performed for the purpose of forming our opinions 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

March 25, 2008
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, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
		$
Department of Agriculture		
Food Stamp Cluster:		
Food Stamps (See Note 3)	10.551	249,157,387
State Administrative Matching Grants for Food Stamp Program	10.561	23,808,591
Total Food Stamp Cluster		272,965,978
Child Nutrition Cluster:		
School Breakfast Program	10.553	13,800,290
National School Lunch Program	10.555	62,944,317
Special Milk Program for Children	10.556	326,011
Summer Food Service Program for Children	10.559	999,412
Total Child Nutrition Cluster		78,070,030
Miscellaneous Programs (See Note 12)	10.000	12,914
Agricultural Research - Basic and Applied Research	10.001	1,230,254
Plant and Animal Disease, Pest Control, and Animal Care	10.025	730,016
Market Protection and Promotion	10.163	9,699
Grants for Agricultural Research, Special Research Grants	10.200	28,789
Cooperative Forestry Research	10.202	139,092
Payments to Agricultural Experiment Stations Under Hatch Act	10.203	781,943
Grants for Agricultural Research-Competitive Research Grants	10.206	43,376
Higher Education Multicultural Scholars Program	10.220	3,099
Integrated Programs (See Note 12)	10.303	24,137
International Science and Education Grants	10.305	(3,324)
Crop Insurance	10.450	148,252
Crop Insurance Education in Targeted States	10.458	161,032
Cooperative Extension Service (See Note 12)	10.500	2,558,596
Food Donation (See Note 3)	10.550	10,252,929
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	49,468,760
Child and Adult Care Food Program	10.558	11,563,890
State Administrative Expenses for Child Nutrition	10.560	1,085,242
Emergency Food Assistance Program (Administrative Costs)	10.568	416,959
WIC Farmers' Market Nutrition Program (FMNP)	10.572	39,950
Team Nutrition Grants	10.574	46,825
Fresh Fruit and Vegetable Program	10.582	624,891
Cooperative Forestry Assistance	10.664	832,391
Forest Stewardship Program	10.678	8,382
Rural Business Enterprise Grants	10.769	787
Wildlife Habitat Incentive Program	10.914	194,996
Total Department of Agriculture		431,439,885
Department of Commerce		
Miscellaneous Programs (See Note 12)	11.000	50,231
Economic Development_Technical Assistance	11.303	66,780
Economic Adjustment Assistance (See Note 8)	11.307	1,886,842
Anadromous Fish Conservation Act Program	11.405	9,758
Interjurisdictional Fisheries Act of 1986	11.407	12,651
Coastal Zone Management Administration Awards	11.419	1,947,240
Atlantic Coastal Fisheries Cooperative Management Act	11.474	196,311
Fisheries Disaster Relief	11.477	163,864
Total Department of Commerce		4,333,677
Department of Defense		
Miscellaneous Programs (See Note 12)	12.000	24,409
Procurement Technical Assistance For Business Firms (See Note 12)	12.002	69,315
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	13,062
Basic and Applied Scientific Research (See Note 12)	12.300	179,618

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Military Construction, National Guard	12.400	3,221,823
National Guard Military Operations and Maintenance (O&M) Projects	12.401	10,414,545
National Guard Civilian Youth Opportunities	12.404	129,605
Military Medical Research and Development	12.420	48,146
Air Force Defense Research Sciences Program (See Note 12)	12.800	126,837
Total Department of Defense		14,227,360
Department of Housing and Urban Development		
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program-Special Allocations (See Note 1)	14.195	14,389,146
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation (See Note 1)	14.856	238,237
Total Section 8 Project-Based Cluster		14,627,383
Multifamily Housing Service Coordinators	14.191	299,398
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	18,420,616
Emergency Shelter Grants Program	14.231	1,138,691
Supportive Housing Program	14.235	1,242,938
Shelter Plus Care	14.238	6,825,120
HOME Investment Partnerships Program	14.239	16,309,466
Housing Opportunities for Persons with AIDS	14.241	245,075
Empowerment Zones Program (See Note 12)	14.244	114,278
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	166,978
Fair Housing Assistance Program-State and Local	14.401	32,807
Demolition and Revitalization of Severely Distressed Public Housing (See Note 12)	14.866	7,093
Section 8 Housing Choice Vouchers (See Note 1)	14.871	54,701,803
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	2,021,848
Total Department of Housing and Urban Development		116,153,494
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration Program	15.605	2,888,777
Wildlife Restoration	15.611	1,756,284
Total Fish and Wildlife Cluster		4,645,061
Miscellaneous Programs	15.000	29,108
Cooperative Endangered Species Conservation Fund	15.615	21,666
Clean Vessel Act	15.616	712,051
Sportfishing and Boating Safety Act	15.622	52,071
Wildlife Conservation and Restoration	15.625	1,735
Landowner Incentive Program	15.633	192,088
State Wildlife Grants	15.634	696,852
U.S. Geological Survey_ Research and Data Collection (See Note 12)	15.808	4,600
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	101,284
National Cooperative Geologic Mapping Program (See Note 12)	15.810	46,793
Historic Preservation Fund Grants-In-Aid	15.904	521,816
Outdoor Recreation-Acquisition, Development and Planning	15.916	133,494
Total Department of the Interior		7,158,619
Department of Justice		
Miscellaneous Programs	16.000	795,898
Law Enforcement Assistance-Narcotics/Dangerous Drugs-State Legislation	16.002	8,736
State Domestic Preparedness Equipment Support Program	16.007	5,225,020
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	828,913
Law Enforcement Assistance-FBI Crime Laboratory Support	16.301	1,190,566
Law Enforcement Assistance_FBI Field Police Training	16.302	1,715

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Services for Trafficking Victims	16.320	5,546
Juvenile Accountability Block Grants	16.523	1,179,994
Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	42,768
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	664,070
Part D- Research., Evaluation, Technical, Assistance and Training	16.542	198,895
Missing Children's Assistance (See Note 12)	16.543	10,833
Title V-Delinquency Prevention Program	16.548	17,059
Part E-State Challenge Activities	16.549	37,264
State Justice Statistics Programs for Statistical Analysis Centers	16.550	46,630
National Criminal History Improvement Program (NCHIP)	16.554	899,680
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	283,464
Crime Victim Assistance	16.575	4,965,308
Crime Victim Compensation	16.576	1,037,128
Edward ByrneMemorial Formula Grant Program	16.579	1,567,720
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	2,393,032
Violence Against Women Formula Grants	16.588	976,139
Rural Domestic Violence, Dating Violence, Sexual Assault Stalking Grant Program	16.589	207,084
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	157,570
Local Law Enforcement Block Grant Program	16.592	50,957
Residential Substance Abuse Treatment for State Prisoners	16.593	396,101
Bulletproof Vest Partnership Program	16.607	698
Community Prosecution and Project Safe Neighborhoods	16.609	53,707
Public Safety Partnership and Community Policing Grants	16.710	290,962
Enforcing Underage Drinking Laws Program	16.727	555,266
Edward Byrne Memorial Justice Assistance Grant Program	16.738	737,685
Anti-Gang Initiative	16.744	13,238
Total Department of Justice		24,839,646
Department of Labor		
Employment Services Cluster:		
Employment Service/Wagner-Peyser Funded Activities (See Note 12)	17.207	8,743,601
Disabled Veterans' Outreach Program (DVOP)	17.801	838,000
Local Veterans' Employment Representative Program	17.804	845,591
Total Employment Services Cluster		10,427,192
WIA Cluster:		
WIA Adult Program	17.258	6,370,976
WIA Youth Activities (See Note 12)	17.259	8,026,290
WIA Dislocated Workers	17.260	13,505,440
Total WIA Cluster		27,902,706
Miscellaneous Programs	17.000	109,640
Labor Force Statistics	17.002	1,744,822
Unemployment Insurance (See Note 1) (See Note 9)	17.225	649,444,219
Senior Community Service Employment Program	17.235	879,836
Trade Adjustment Assistance	17.245	2,096,379
Workforce Investment Act (See Note 12)	17.255	61,367
WIA Pilots, Demostrations, and Research Projects (See Note 12)	17.261	738,988
Incentive Grants - WIA Section 503	17.267	368,313
H-1B Job Training Grants (See Note 12)	17.268	31,522
Occupational Safety and Health-State Program	17.503	614,000
Consultation Agreements	17.504	1,095,571
Mine Health and Safety Grants	17.600	62,926
Total Department of Labor		695,577,481
Department of State		
Educational Partnerships Programs	19.424	7,951
Department of Transportation		
Federal Transit Cluster:		
Federal Transit-Capital Investment Grants	20.500	24,734,619
Federal Transit-Formula Grants	20.507	14,805,712

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Total Federal Transit Cluster		39,540,331
Highway Safety Cluster:		
State and Community Highway Safety	20.600	2,313,821
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	676,164
Occupant Protection	20.602	280,000
Safety Belt Performance Grants	20.609	120,880
Incentive Grant Program to Increase Motorcyclist Safety	20.612	47,021
Total Highway Safety Cluster		3,437,886
Airport Improvement Program	20.106	8,797,206
Highway Planning and Construction	20.205	351,163,339
Highway Training and Education	20.215	123,447
National Motor Carrier Safety	20.218	3,056,770
Recreational Trails Program	20.219	457,207
Federal Transit-Metropolitan Planning Grants	20.505	102,623
Formula Grants for Other Than Urbanized Areas	20.509	1,642,566
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,519,662
Job Access-Reverse Commute	20.516	1,403,272
Alcohol Open Container Requirements	20.607	8,231,165
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	322,808
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614	3,350
Pipeline Safety	20.700	350,339
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	47,945
Disadvantaged Business Enterprises_Short Term Lending Program	20.905	112,160
Total Department of Transportation		420,312,076
Department of the Treasury		
Low-Income Taxpayer Clinics	21.008	84,091
Equal Employment Opportunity Commission		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	3,548
General Services Administration		
Donation of Federal Surplus Personal Property	39.003	44,030
National Aeronautics and Space Administration		
Miscellaneous Programs	43.000	25,372
Aerospace Education Services Program	43.001	13,530
Total National Aeronautics and Space Administration		38,902
National Endowment for the Arts		
Promotion of the Arts-Partnership Agreements	45.025	489,910
National Endowment for the Humanities		
Promotion of the Humanities_Federal/State Partnership (See Note 12)	45.129	92
Institute of Museum and Library Services		
National Leadership Grants	45.312	77,614
Grants to States	45.310	2,355,096
Total Institute of Museum and Library Services		2,432,710
National Science Foundation		
Miscellaneous Programs	47.000	87,959
Mathematical and Physical Sciences	47.049	354,865
Geosciences (See Note 12)	47.050	47,381
Biological Sciences (See Note 12)	47.074	136,201
Social, Behavioral, and Economic Sciences	47.075	21,698
Education and Human Resources (See Note 12)	47.076	1,378,672
Total National Science Foundation		2,026,776

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Small Business Administration		
Miscellaneous Programs	59.000	130,902
Small Business Development Center	59.037	734,433
Total Small Business Administration		865,335
Department Of Veterans Affairs		
Miscellaneous Programs	64.000	29,315
Grants to States for Construction of State Home Facilities	64.005	12,223,514
Veterans State Domiciliary Care	64.014	3,013,436
Veterans State Hospital Care	64.016	3,723,304
Burial Expenses Allowance for Veterans	64.101	58,686
All-Volunteer Force Educational Assistance	64.124	231,553
Total Department Of Veterans Affairs		19,279,808
Environmental Protection Agency		
Miscellaneous Programs (See Note 12)	66.000	150,745
Air Pollution Control Program Support	66.001	17
State Indoor Radon Grants	66.032	110,736
Ozone Transport Commission (See Note 12)	66.033	15,103
Surveys Studies, Investigations Demonstrations and Special Purpose Activities-Clean Air Act	66.034	266,301
Healthy Communities Grant Program	66.110	75,545
State Public Water System Supervision	66.432	1,093,196
Long Island Sound Program	66.437	2,105,802
Water Quality Management Planning	66.454	139,954
Nonpoint Source Implementation Grants	66.460	1,134,128
Water Quality Cooperative Agreements	66.463	174
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	3,555
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	264,752
Beach Monitoring and Notification Program Implementation Grants	66.472	272,163
Water Protection Grants to the States	66.474	72,236
Office of Research and Development Consolidated Research/Training	66.511	6,875
Science To Achieve Results (STAR) Fellowship Program	66.514	16,360
Performance Partnership Grants	66.605	9,965,476
Surveys, Studies, Investigations and Special Purpose Grants	66.606	663,057
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	11,940
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	8,787
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	125,718
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	266,577
Pollution Prevention Grants Program	66.708	92,329
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	268,794
State and Tribal Underground Storage Tanks Program	66.804	43,438
Leaking Underground Storage Tank Trust Fund Program	66.805	663,371
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	19,594
Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program	66.810	2,428
State and Tribal Response Program Grants	66.817	877,837
Brownfields Assessment and Cleanup Cooperative Agreement	66.818	11,037
Total Environmental Protection Agency		18,748,025
Nuclear Regulatory Commission		
Miscellaneous Programs	77.000	1,880
Department of Energy		
National Energy Information Center	81.039	9,788
State Energy Program	81.041	513,016
Weatherization Assistance for Low-Income Persons	81.042	2,697,894
Regional Biomass Energy Programs	81.079	14,101
Energy Efficiency and Renewable Energy Info. Dissem., Outreach, Training and Tech. Analysis/Assistance	81.117	67,365
State Energy Program Special Projects	81.119	209,543
Total Department of Energy		3,511,707

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FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Education		
Special Education Cluster:		
Special Education-Grants to States	84.027	126,117,600
Special Education-Preschool Grants	84.173	4,891,533
Total Special Education Cluster		131,009,133
TRIO Cluster:		
TRIO-Student Support Services	84.042	602,704
TRIO-Talent Search	84.044	254,808
TRIO-Upward Bound	84.047	499,443
Total TRIO Cluster		1,356,955
Miscellaneous Programs (See Note 12)	84.000	683,209
Adult Education-State Grant Program	84.002	4,683,740
Title 1 Grants to Local Educational Agencies	84.010	98,989,290
Migrant Education-State Grant Program	84.011	368,175
Title 1 Program for Neglected and Delinquent Children	84.013	1,257,850
Higher Education-Institutional Aid	84.031	456,672
Vocational Education-Basic Grants to States	84.048	11,015,642
Leveraging Educational Assistance Partnership	84.069	891,797
Fund for Improvement of Postsecondary Education (See Note 12)	84.116	391,652
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	21,607,149
Rehabilitation Services_Client Assistance Program	84.161	171,198
Independent Living-State Grants	84.169	285,367
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	308,111
Special Education-Grants for Infants and Families with Disabilities	84.181	5,247,233
Safe and Drug-Free Schools and Communities -National Programs (See Note 12)	84.184	26,373
Byrd Honors Scholarships	84.185	458,850
Safe and Drug-Free Schools and Communities-State Grants	84.186	3,808,104
Supported Employment Services for Individuals with Severe Disabilities	84.187	221,213
Education for Homeless Children and Youth	84.196	497,834
Javits Gifted and Talented Students Education Grant Program	84.206	7,384
Even Start-State Educational Agencies	84.213	695,352
Fund for the Improvement of Education (See Note 12)	84.215	268,464
Assistive Technology	84.224	820,660
Program of Protection and Advocacy of Individual Rights	84.240	160,097
Tech-Prep Education	84.243	1,412,699
Literacy Programs for Prisoners	84.255	284,129
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	96,241
Charter Schools	84.282	651,596
Twenty-First Century Community Learning Centers	84.287	7,569,639
Foreign Language Assistance	84.293	70,095
State Grants for Innovative Programs	84.298	1,489,435
Education Technology State Grants (See Note 12)	84.318	2,539,224
Special Education-State Personnel Development	84.323	1,217,515
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325	207,084
Advanced Placement Program	84.330	864,654
Grants to States for Incarcerated Youth Offenders	84.331	330,057
Comprehensive School Reform Demonstration	84.332	1,173,949
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3,257,757
Teacher Quality Enhancement Grants	84.336	5,416
Assistive Technology_State Grants for Protection and Advocacy	84.343	56,165
Vocational Education-Occupational and Employment Information State Grants	84.346	102
Early Childhood Educator Professional Development	84.349	45,221
Transition to Teaching	84.350	814
Tech-Prep Demonstration Grants	84.353	199,900
Reading First State Grants	84.357	6,818,948
English Language Acquisition Grants	84.365	5,644,966
Mathematics and Science Partnerships	84.366	1,744,559
Improving Teacher Quality State Grants	84.367	26,884,554
Grants for State Assessments and Related Activities	84.369	7,436,874
Statewide Data Systems	84.372	15,655
Hurricane Education Recovery	84.938	212,000
Total Department of Education (See Also Student Financial Assistance Cluster)		355,916,752

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Elections Assistance Commision		
Help America Vote Act Requirement Payments	90.401	15,653,500
Department of Health and Human Services		
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	669,702
State Survey and Certification of Health Care Providers and Suppliers	93.777	8,642,532
Medical Assistance Program	93.778	2,189,676,957
Total Medicaid Cluster		2,198,989,191
Child Care Cluster:		
Child Care and Development Block Grant	93.575	14,189,057
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	38,233,551
Total Child Care Cluster		52,422,608
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	3,755,476
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	5,951,554
Nutrition Services Incentive Program	93.053	1,373,826
Total Aging Cluster		11,080,856
Miscellaneous Programs	93.000	341,408
Public Health and Social Services Emergency Fund	93.003	107,018
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	50,797
Special Programs for the Aging-Title III Part D-Disease Prevention and Health Promotion Services	93.043	226,960
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	93.048	154,229
Alzheimer's Disease Demonstration Grants to States	93.051	276,277
National Family Caregiver Support, Title III, Part E	93.052	1,714,071
Laboratory Training, Evaluation, and Quality Assurance Programs	93.064	285,881
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	701,003
Comprehensive Community Mental Health Services for Children with Serious Emotional Dist.	93.104	3,086,234
Maternal and Child Health Federal Consolidated Programs	93.110	354,044
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	758,347
Nurse Anesthetist Traineeships	93.124	6,460
Emergency Medical Services for Children	93.127	94,161
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	226,134
Injury Prevention and Control Research and State and Community Based Programs	93.136	694,443
Protection and Advocacy for Individuals with Mental Illness	93.138	437,523
Projects for Assistance in Transition from Homelessness (PATH)	93.150	699,035
Grants to States for Loan Repayment Program	93.165	139,447
Research Related to Deafness and Communication Disorders	93.173	141,490
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	876,826
Consolidated Knowledge Development and Application (KD&A) Program	93.230	831,731
Traumatic Brain Injury State Demonstration Grant Program	93.234	200,000
Abstinence Education Program	93.235	116,847
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	110,332
State Capacity Building	93.240	407,030
Mental Health Research Grants (See Note 12)	93.242	1,584,086
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	6,909,178
Universal Newborn Hearing Screening	93.251	144,475
State Planning Grant-Health Care Access for the Uninsured	93.256	440,601
Rural Access to Emergency Devices Grant	93.259	11,690
Occupational Safety and Health Program	93.262	16,583
Occupational Safety and Health_Training Grants	93.263	1,622
State Grants for Protection and Advocacy Services	93.267	59,840
Immunization Grants (See Note 3)	93.268	19,851,560
Alcohol Research Programs (See Note 12)	93.273	7,617
Substance Abuse and Mental Health Services-Access to Recovery	93.275	9,174,649
Drug Abuse National Research Service Awards for Research Training	93.278	18,111
Drug Abuse and Addiction Research Programs	93.279	1,027,264
Mental Health National Research Service Awards for Research Training	93.282	23,214
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3 and Note 11)	93.283	19,482,933
Advanced Education Nursing Traineeships	93.358	42,700
Nurse Education, Practice and Retention Grants	93.359	74,996

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Food Safety and Security Monitoring Project	93.448	175,633
Promoting Safe and Stable Families	93.556	2,694,174
Temporary Assistance for Needy Families	93.558	239,148,860
Child Support Enforcement (See Note 10)	93.563	50,395,720
Refugee and Entrant Assistance-State Administered Programs	93.566	915,456
Low-Income Home Energy Assistance	93.568	60,220,976
Community Services Block Grant	93.569	7,541,131
Refugee and Entrant Assistance-Discretionary Grants	93.576	388,181
State Court Improvement Program	93.586	194,231
Community-Based Child Abuse Prevention Grants	93.590	550,212
Grants to States for Access and Visitation Programs	93.597	69,057
Chafee Education and Training Vouchers Program (ETV)	93.599	571,488
Head Start	93.600	252,871
Child Support Enforcement Demonstrations and Special Projects	93.601	17,316
Adoption Incentive Payments	93.603	163,160
Voting Access for Individuals with Disabilities_Grants to States	93.617	11,367
Voting Access for Individuals with Disabilities-Grants for Protect and Advocacy Systems	93.618	44,301
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,212,654
Children's Justice Grants to States	93.643	262,275
Child Welfare Services-State Grants	93.645	2,276,633
Adoption Opportunities	93.652	420,045
Foster Care-Title IV-E	93.658	96,112,021
Adoption Assistance	93.659	22,835,188

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Social Services Block Grant	93.667	45,566,730
Child Abuse and Neglect State Grants (See Note 12)	93.669	255,135
Family Violence Prevention and Services/Grants for Battered Woman's Shelters Grants States, Ind. Tribes	93.671	797,676
Chafee Foster Care Independence Program	93.674	1,514,533
State Children's Insurance Program	93.767	23,219,858
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	2,164,790
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	801,926
State Pharmaceutical Assistance Program	93.786	867,373
Health Careers Opportunity Program	93.822	157,618
Allergy, Immunology and Transplantation Research	93.855	129,264
Microbiology and Infections Diseases Research	93.856	56,105
Biomedical Research and Research Training	93.859	13,348
Child Health and Human Development Extramural Research	93.865	15,439
Health Care and Other Facilities	93.887	25,381
National Bioterrorism Hospital Preparedness Programs	93.889	7,018,266
Alcohol Research Center Grants	93.891	93,200
Rural Health Care Services Outreach and Rural Health Network Dev. Program	93.912	57,887
Grants to States for Operation of Offices of Rural Health	93.913	122,387
HIV Care Formula Grants (See Note 11)	93.917	19,212,904
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	270,025
HIV Prevention Activities-Health Department Based	93.940	5,980,924
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	646,742
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	1,321,067
Assistance Programs for Chronic Disease Prevention and Control	93.945	423,064
Block Grants for Community Mental Health Services	93.958	4,534,672
Block Grants for Prevention and Treatment of Substance Abuse	93.959	16,207,921
Geriatric Education Centers (See Note 12)	93.969	(791)
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	1,000,883
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	522,328
Preventive Health and Health Services Block Grant	93.991	1,367,856
Maternal and Child Health Services Block Grant to the States	93.994	4,133,965
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		2,959,372,928
Corporation for National and Community Service		
State Commissions	94.003	192,230
Learn and Serve America-School and Community Based Programs	94.004	149,780
AmeriCorps	94.006	1,433,466
Planning and Program Development Grants	94.007	15,632
Training and Technical Assistance	94.009	97,637
Total Corporation for National and Community Service		1,888,745
Social Security Administration		
Miscellaneous Programs	96.000	350,782
Social Security-Disability Insurance	96.001	17,838,510
Social Security-Work Incentives Planning and Assistance Program	96.008	260,264
Total Social Security Administration		18,449,556
Department of Homeland Security		
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	15,941,141
Homeland Security Grant Program	97.067	6,170,923
Total Homeland Security Cluster		22,112,064
Miscellaneous	97.000	428,905
Urban Areas Security Initiative	97.008	4,534,459
Boating Safety Financial Assistance	97.012	851,415
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	46,075
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023	272,720
Flood Mitigation Assistance	97.029	12,198

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	7,337,003
National Dam Safety Program	97.041	21,914
Emergency Management Performance Grants	97.042	2,427,859
Assistance to Firefighters Grant	97.044	7,834
Pre-Disaster Mitigation	97.047	51,864
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	26,760
Buffer Zone Protection Plan (BZPP)	97.078	315,988
Total Department of Homeland Security		38,447,058
United States Agency For International Development		
USAID Development Partnership for University Cooperation and Development (See Note 12)	98.012	78,848
Miscellaneous Programs		
Other Federal Assistance	99.125	230,593
Oil Company Overcharge Recoveries	99.136	211,936
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants	84.007	2,413,282
Federal Family Education Loans (See Note 6)	84.032	184,654,518
Federal Work-Study Program	84.033	3,122,753
Federal Perkins Loan Program-Federal Capital Contributions (See Note 4)	84.038	26,303,404
Federal Pell Grant Program	84.063	46,539,195
Federal Direct Student Loans	84.268	29,910,157
Academic Competitiveness Grants	84.375	739,211
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	491,104
Total Department of Education Student Financial Assistance		294,173,624
Department of Health and Human Services		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 5)	93.342	1,398,344
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		295,571,968
TOTAL NON RESEARCH AND DEVELOPMENT GRANTS		**5,447,398,887**
RESEARCH AND DEVELOPMENT CLUSTER:		
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 AND NOTE 12)		
Department of Agriculture		
Agricultural Research Service	10.RD	1,797,957
Animal and Plant Health Inspection Service	10.RD	36,056
Cooperative State Research, Education and Extension Service	10.RD	3,240,780
Food and Nutrition Services	10.RD	199,436
Foreign Agriculture Services	10.RD	3,390
Forest Service	10.RD	106,353
Natural Resource Conversation Service	10.RD	111,629
Miscellaneous Programs	10.RD	169,119
Total Department of Agriculture		5,664,720
Department of Commerce		
National Oceanic and Atmospheric Administration	11.RD	2,737,751
National Institute of Standards and Technology	11.RD	2,970
Miscellaneous Programs	11.RD	42,173
Total Department of Commerce		2,782,894
Department of Defense		
Department of the Navy, Office of the Chief of Naval Research	12.RD	1,808,715
U.S. Army Medical Command	12.RD	151,514
U.S. Army Materiel Command	12.RD	141,616

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Office of the Secretary of Defense	12.RD	105,735
Department of the Air Force, Materiel Command	12.RD	326,468
National Security Agency	12.RD	29,679
Miscellaneous Programs	12.RD	2,113,467
Total Department of Defense		4,677,194
Department of Housing and Urban Development		
Office of Community Planning and Development	14.RD	(640)
Department of the Interior		
Fish and Wildlife Service	15.RD	130,393
Geological Survey	15.RD	302,698
Miscellaneous Programs	15.RD	229,941
Total Department of Interior		663,032
Department of Justice		
National Institute of Justice	16.RD	284,847
Bureau of Justice Assistance	16.RD	32,802
Total Department of Justice		317,649
Department of Labor		
Employment and Training Administration	17.RD	237,206
Department of State		
Bureau of Educational And Cultural Affairs	19.RD	11,231
Department of Transportation		
Federal Highway Administration	20.RD	459,425
Miscellaneous Programs	20.RD	151,021
Total Department of Transportation		610,446
Office of Personnel Management	27.RD	58,127
Library of Congress	42.RD	130,730
National Aeronautics and Space Administration	43.RD	2,041,315
National Endowment for the Humanities	45.RD	39,943
Institute of Museum and Library Services	45.RD	966
National Science Foundation	47.RD	10,718,724
Environmental Protection Agency		
Office of Water	66.RD	686,515
Office of Research and Development	66.RD	1,444,293
Office of Administration	66.RD	158,922
Miscellaneous Programs	66.RD	35,642
Total Environmental Protection Agency		2,325,372
Department of Energy	81.RD	1,969,630
Department of Education		
Office of Special Education and Rehabilitation Services	84.RD	1,006,982
Office of Elementary & Secondary Education	84.RD	256,322
Office of Educational Research and Improvement	84.RD	3,234,684
Office of Postsecondary Education	84.RD	578,012
Miscellaneous Programs	84.RD	(925)
Total Department of Education		5,075,075
Election Assistance Commission	90.DR	243,463

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Health and Human Services		
Office of the Secretary	93.RD	1,518,370
Administration for Children and Families	93.RD	12,253
Centers for Disease Control	93.RD	1,305,725
Health Resources and Services Administration	93.RD	100,384
Substance Abuse and Mental Health Services Administration	93.RD	113,218
National Institutes of Health	93.RD	17,673,288
Miscellaneous Programs	93.RD	976,202
Total Department of Health and Human Services		21,699,440
Department of Homeland Security	97.RD	25,667
United States Agency for International Development	98.RD	130,749
TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT		**59,422,933**
UNIV.OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS (SEE NOTE 2 AND NOTE 12)		
Department of Agriculture		
Cooperative State Research, Education, and Extension Service	10.RD	23,231
Food and Nutrition Service	10.RD	5,128
Total Department of Agriculture		28,359
Department of Defense		
U.S. Army Medical Command	12.RD	2,217,230
U.S. Army Materiel Command	12.RD	122,199
Total Department of Defense		2,339,429
Department of Justice		
National Institute of Justice	16.RD	596,626
Office of Juvenile Justice and Delinquency Prevention	16.RD	518,573
Total Department of Justice		1,115,199
National Aeronautics and Space Administration		
Miscellaneous Programs	43.RD	185,608
National Science Foundation		
Miscellaneous Programs	47.RD	517,375
Environmental Protection Agency		
Office of Air and Radiation	66.RD	58,256
Department of Energy	81.RD	648,867
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	935,266

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Health and Human Services		
Office of the Secretary	93.RD	206,862
Substance Abuse and Mental Health Services Administration	93.RD	605,499
National Institutes of Health	93.RD	63,027,459
Health Resources and Services Administration	93.RD	1,970,731
Office of Population Affairs	93.RD	14,205
Centers for Disease Control	93.RD	1,617,572
Administration for Children and Families	93.RD	559,983
Centers for Medicare and Medicaid Services	93.RD	850,551
Miscellaneous Programs	93.RD	604,078
Total Department of Health and Human Services		69,456,940
Social Security Administration	96.RD	48,797
TOTAL HEALTH CENTER RESEARCH GRANTS		**75,334,096**
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		**134,757,029**
TOTAL FEDERAL ASSISTANCE		**5,582,155,916**

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 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, 2006, the Connecticut Housing Finance Authority expended $63,507,607 and $1,065,949 in Federal awards under CFDA #14.856 and CFDA #14.103, respectively. The State of Connecticut expended $12,736,950 and $18,597,000 in Federal awards under CFDA #66.458 and CFDA #66.468, respectively, during the fiscal year ended June 30, 2007.

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), *Section 8 Housing Assistance Payments Program-Special Allocations* (CFDA #14.195), *Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation* (CFDA #14.856), and *Section 8 Housing Choice Voucher*s (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)	$249,157,387
Food Donation (10.550)	10,113,168
Department of Health and Human Services:	
Immunization Grants (93.268)	$15,606,847
Preventive Health Services - Sexually Transmitted Diseases Control Grants (93.977)	$142,617
Cooperative Agreement for State Based Diabetes Control Program (93.988)	$196,441
Centers for Disease Control and Prevention Assistance (93.283)	$205,500
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)	$131,504

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

General Services Administration:	
Donation of Federal Surplus Personal Property (39.003) *	$44,030

* The fair market value was estimated to be 23.3% of the property's original acquisition value. Revenue is not recognized when the property is received, and expenditures are not recognized when the property is donated.

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, 2007, were $26,303,404.

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 the fiscal year ended June 30, 2007, were $1,398,344.

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 (FFELP)* (84.032) during the fiscal year ended June 30, 2007, totaled $184,654,518.

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 $11,192,477 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 Subpart E as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs. In addition, the WIC program collected $5,768 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 $1,527,296, and administrative expenses paid out of RLF income during the fiscal year in the amount of $117,772.

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 $574,864,699. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $10,940,197. The $63,639,323 in Unemployment Insurance program administrative expenditures was financed by the U.S. Department of Labor.

Note 10 – Child Support Enforcement

During the fiscal year ended June 30, 2007, the Department of Social Services expended a total of $50,395,720 (Federal share) to accomplish the goals of the *Child Support Enforcement Program* (93.563). However, the State received $14,749,880 of the $50,395,720 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $35,645,840 of the Federal share of expenditures is reimbursed to the State directly from the Federal government.

Note 11 – HIV Care formula Grants

During the fiscal year ended June 30, 2007, the State expended a total of $19,212,904 for the *HIV Care Formula Grants* (93.917) net of rebates. The $407,310 in immunization rebates provided by private pharmaceutical companies represent a reduction in previously incurred expenditures. The rebates are authorized by the AIDS Drug Assistance Program (ADAP) manual Section 340B rebate option as a cost savings measure.

Note 12 - Pass - Through Grants

This type of assistance included on the pass-through schedule is reported as Federal revenue on the State's basic financial statements. Federal assistance received by the State from non state pass-through grantors is identified by CFDA Number, Grantor, Grantor ID and Expenditure Amount, and presented on the following pages.

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 13 - Pass-through Grants:				$
NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
Department of Agriculture				
Cooperative State Research, Ed. & Ext. Service				
10.303	UOC	University of Rhode Island	081605/0000826	18,535
10.500	UOC	University of Vermont	AG021232	9,567
10.500	UOC	Cornell University	2002-41520-01498	(609)
10.500	UOC	Cornell University	2002-41520-01498	1,050
Total Department of Agriculture				28,543
National Oceanic and Atmospheric Administration				
11.000	UOC	University of Rhode Island	10974	12,777
Department of Defense				
Defense Logistics Agency				
12.002	CCSU	South Eastern CT Enterprise Region	SP4800-01-2-0109	69,315
Department of the Air force, Materiel Command				
12.800	CCSU	CT Center for Advanced Technology, Inc	05-N006	126,837
12.000	UOC	Jentek Sensors, Inc	JEN 05C2525-01	24,409
Total Office of Community Planning and Development				151,246
Miscellaneous Programs				
12.300	ECSU	University of California	N00014-06-1-0022	50,000
Total Department of Defense				270,561
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.244	CCC	Empower New Haven, Inc.	AGR 12-9-02	31,303
14.244	CCC	Empower New Haven, Inc.	AGR 1-1-03	82,975
Total Office of Community Planning and Development				114,278
Office of Public and Indian Housing				
14.866	UOC	City of Stamford , Housing Authority	AG060476	7,093
Total Department of Housing and Urban Development				121,371
Department of the Interior				
Geological Survey				
15.808	UOC	Rutgers, State University of New Jersey	6754796	4,600
15.810	ECSU	N/A	07HQAG0055	3,100
Total Department of the Interior				7,700
Department of Justice				
Office of Juvenile Justice and Delinquency Prevention				
16.543	CCSU	Caliber	2002-JW-BX-K002	10,833
Department of Labor				
Employment and Traning Administration				
17.207	CCSU	WorkPlace, Inc.	AH-14513-05-60	55,460
17.255	CCC	Greater Waterbury Workforce Inv. Board	2006-ISY-002	59,602

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
17.255	CCC	Greater Waterbury Workforce Inv. Board	ISY-05-003	1,765
17.259	CCC	Greater Waterbury Workforce Inv. Board	2006-OSY-001	147,122
17.259	CCC	Greater Waterbury Regional Workforce Inv. Board	LTR 6-15-05	(3,236)
17.259	CCC	Eastern CT Workforce Investment Board	LTR 2-28-06	4,890
17.261	CCSU	CT Business and Industry Association	n/a	64,662
17.261	CCC	The Workplace Inc.	AGR 3-19-07	31,326
17.261	CCC	CT Business & Industry Association Education	AGR 6-6-07	11,337
17.268	CCC	CT Institute of Prof. Builders and Remodelers	LTR 10-27-06	20,185
Total Employment Training Administration				393,113
National Endowment for the Humanities				
45.129	UOC	CT Humanities Council	P-0207 G-0207	92
National Science Foundation				
47.074	CCSU	Woods Hole Oceanographic Institution	A100179	8,387
47.050	ECSU	Texas A&M University	209F001868	6,261
47.076	UOC	University of Massachusetts	02-522689 D 00	28,348
47.076	UOC	University of Massachusetts	UM# 05-003146 B 00	67,912
47.076	UOC	University of Massachusetts	06-003554-A 00	59,530
Total National Science Foundation				170,438
Department of Environmental Protection				
66.033	CCC	West Virginia University	02-637-GCC	15,103
Miscellaneous Programs				
66.000	UOC	John Hopkins University	8408-2219	30,918
Total Department of Environmental Protection				46,021
Department of Education				
Office of Elementary & Secondary Education				
84.184	UOC	Hartford Public Schools	AG060617	7,356
84.184	CCSU	Norwalk Public Schools	Q184B050079	19,017
84.215	CCSU	Newington Public Schools	U215X050260	265,068
84.215	UOC	Capitol Region Education Council	AG070583	3,396
84.318	UOC	Danbury Public Schools	OSP 04/08	1,270
84.318	UOC	Derby Public Schools	OSP 04/51	2,655
84.318	UOC	Area Cooperative Educational Services	OSP 04/67	(2,245)
84.318	UOC	Lebanon Public Schools	AG060394	1,027
84.318	UOC	Town of New Britain	AG030933	1,174
Total Office of Elementary & Secondary Education				298,718
Office of Post Secondary Education				
84.116	CCC	CT Distance Learning Consortium	N/A	3,103
84.116	CCSU	Bridgewater State College	P116M060008	11,611
Total Office of Posr Secondary education				14,714
Miscellaneous Programs				
84.000	UOC	National Writing Project Corporation	OSP 05/172	41,421
84.000	CCSU	National Writing Project Corporation	U928A050001	30,000
Total Miscellaneous Programs				71,421
Total Department of Education				384,853

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Department of Health and Human Services				
Health Resources & Service Administration				
93.969	UOC	University of Rhode Island	100605/0000751	(791)
National Institutes of Health				
93.242	UOC	Yale University	A05779	32,952
93.273	UOC	University of Rhode Island	102405/0000807	7,617
Total National Institues of Health				40,569
		Total Department of Health and Human Services		39,778
United States Agency for International Development				
98.012	UOC	American Council On Education	AG060076	70,937
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				**1,557,017**
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	56,857
10.RD	UOC	Cornell University	46709-7928	551
10.RD	UOC	Edwin O Smith High School	OSP 05/065	(96)
10.RD	UOC	Harris Acoustic Products Corporation	4820-009P	12,147
10.RD	UOC	Marine Biological Laboratory	26047	22,495
10.RD	UOC	N.Eastern Regional Aquaculture Ctr	557002	734
10.RD	UOC	N.Eastern Regional Aquaculture Ctr	PREAWARD	2,935
10.RD	UOC	National 4-H Council	OSP 05/195	11,932
10.RD	UOC	Rutgers, State University of New Jeresy	#1750	7,662
10.RD	UOC	University of Delaware	5351	12,240
10.RD	UOC	University of Idaho	BJKE08-UCONN	12,302
10.RD	UOC	University of Maine	UM-S569	8,372
10.RD	UOC	University of Maryland at College Park	Z507208	32,530
10.RD	UOC	University of Massachusetts	04-002655-A00	34,525
10.RD	UOC	University of Minnesota	Q6706392202	39,874
10.RD	UOC	University of New Hampshire	PZ07020	13,688
10.RD	UOC	University of Rhode Island	100504/0000516	78,298
10.RD	UOC	University of Vermont	2005-47001-03146	85,228
10.RD	UOC	University of Vermont	2006-47001-033367	12,179
10.RD	UOC	University of Vermont	AG050707	20,995
10.RD	UOC	Yale University	M00081	14,828
10.RD	UOC	Geremia Greenhouse	AG050015	24
Total Cooperative State Research, Education, and Extension Service				480,300
Food and Nutrition				
10.RD	UOC	University of Rhode Island	011106/0001293	37,299
10.RD	UOC	University of Rhode Island	020906/0000877	23,034
Total Food and Nutrition				60,333
Forest Service				
10.RD	UOC	Yale University		40,295

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Miscellaneous Programs				
10.RD	UOC	University of Massachusetts	UM#02-529029C00	18,385
Total Department of Agriculture				599,313
Department of Commerce				
National Oceanic and Atmospheric Administration				
11.RD	UOC	National Oceanic and Atmospheric Admin	1959	12,597
11.RD	UOC	Nature Conservancy	DD-01122007-01	7,116
11.RD	UOC	Oregon State University	NA108H-B	22,507
11.RD	UOC	Pacific Shellfish Institute	OSP 05/093	8,766
11.RD	UOC	Pacific Shellfish Institute	AG060855	14,675
11.RD	UOC	University of Mississippi	05-07-004	20,455
11.RD	UOC	University of Rhode Island	011807/0001224	29,751
11.RD	UOC	University of Rhode Island	012606/0000848	45,921
11.RD	UOC	Woods Hole Ocean Graphic Institution	A100473	38,042
Total National Oceanic and Atmospheric Administration				199,830
Miscellaneous Programs				
11.RD	UOC	Nature Conservancy	CTFO-042006D	2,814
11.RD	UOC	Nature Conservancy	CTFO-080805	165
11.RD	UOC	Perot Systems Gov't Services	2004-S-012	37,361
11.RD	UOC	University of Massachusetts	05-003280 A 00	1,833
Total Miscellaneous Programs				42,173
Total Department of Commerce				242,003
Department of Defense				
Department of the Air Force, Materiel Command				
12.RD	UOC	Advanced Virtual Engine Test Cell, Inc	FA9550-06-1-0397	31,867
12.RD	UOC	Connecticut Center for Advanced Technology Inc	05-N012	(5,559)
12.RD	UOC	Dartmouth College	501073.5000.P00333	28,805
12.RD	UOC	Pennsylvania State University	3344-UC-USA-0051	2,373
12.RD	UOC	Purdue University	531-0737-01	17,636
Total Department of the Air Force, Materiel Command				75,122
Miscellaneous Programs				
12.RD	UOC	Agiltron, Inc	AG060829	29,867
12.RD	UOC	Air Force/GDIT	USAF-A581-30-SC-0001	107,526
12.RD	UOC	Air Force Office of Scientific Research	AD42-2006-01	27,776
12.RD	UOC	Colorado State University	PO#P322795	4,127
12.RD	UOC	Connecticut Center for Advanced Technology	06-N001	158,041
12.RD	UOC	Design by Analysis Inc.	AG050780	5,052
12.RD	UOC	Ensign-Bickford Aerospace and Defense	AG070085	53,234
12.RD	UOC	Inframat Corporation	AG050836	14,676
12.RD	UOC	Navy-Mesoscopic Devices	2006-04	21,428
12.RD	UOC	Navy-Mesoscopic Devices	2006-05	4,897
12.RD	UOC	OPEL	OSP 06/005	80,878
12.RD	UOC	Securboration, Inc	AG060520	20,836
12.RD	UOC	Sky Research Inc	SKY-ESTCP 03	13,574
12.RD	UOC	Sonalysts Inc.	05MAB0471	63,758
12.RD	UOC	Southwest Sciences	AG060539	16,138
12.RD	UOC	Triton Systems, Inc	TSI-2205-04-70711	4,252

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
12.RD	UOC	Triton Systems, Inc	TSI-2271-06-74687	34,345
12.RD	UOC	University of New Mexico	650089-87B6	37,265
12.RD	UOC	United Technologies - Pratt & Whitney	21153	10,002
12.RD	UOC	United Technologies - Pratt & Whitney	21153 TASK #29	18,740
12.RD	UOC	Vectraxx, Inc	A-003	29,911
12.RD	UOC	VeroModo Inc.	AG-050876	21,912
12.RD	UOC	Yardney Technical Products	586281	25,630
Total Miscellaneous Programs				803,865
Total Department of Defense				878,987
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.RD	UOC	Town of Vernon	OSP 05/055	(640)
Department of the Interior				
Miscellaneous Programs				
15.RD	UOC	Heritage Corridor, Inc	AGR. 1-11-01	164,399
15.RD	UOC	Science Applications International Corporation	4400125179	54,280
Total Department of the Interior				218,679
Department of Justice				
Bureau of Justice Assistance				
16.RD	UOC	Center For Court Innovation	AG070603	32,802
Department of Labor				
Employment and Training Administration				
17.RD	UOC	WA - State Workforce Train & Ed	020 PXG (033)	165,653
Department of Transportation				
Federal Highway Administration				
20.RD	UOC	New England Transportation Consortium	5710001977	17,984
20.RD	UOC	New England Transportation Consortium	5710001745	14,771
20.RD	UOC	New England Transportation Consortium	12.16-10(05)	37,260
Total Federal Highway Administration				70,015
Miscellaneous Programs				
20.RD	UOC	Texas A & M Research Foundation	S040060	52,169
20.RD	UOC	University of Vermont	PreAward	7,849
Total Miscellaneous Programs				60,018
Total Department of Transportation				130,033
Office of Personnel Management				
27.RD	UOC	Massachusetts Institute of Tech	5710001978	43,127
27.RD	UOC	Massachusetts Institute of Tech	5710002139	15,000
Total Office of Personnel Management				58,127
Library of Congress				
Miscellaneous Programs				
42.RD	UOC	University of Michigan	F012178	130,730
Total Library of Congress				130,730

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
National Aeronautics and Space Administration				
43.RD	UOC	University of Hartford	OSP 05/132	172,417
43.RD	UOC	University of Hartford	314806	12,113
43.RD	UOC	Ciencia Inc.	141205	29,636
43.RD	UOC	Georgia Institute of Technology	NNG04GB89G	44,635
43.RD	UOC	Infinity Fuel Cell and Hydrogen Inc.	AG060060	8,640
43.RD	UOC	University of Hartford	340102	16,727
43.RD	UOC	UT-Hamilton Sundstrand	2322388 07	94,778
Total National Aeronautics and Space Administration				378,946
National Science Foundation				
47.RD	UOC	Center for Occupational R&D	7/1/2002	(5,327)
47.RD	UOC	Ciencia Inc.	803210	426
47.RD	UOC	Duke University	01-SC-NSF-1008	17,323
47.RD	UOC	Florida State University	R00283	11,813
47.RD	UOC	Iowa State University	420-40-18-A	10,854
47.RD	UOC	Marquette University	3-Mar	74,475
47.RD	UOC	New England Board of Higher Ed	LTR 9/24/03	2,104
47.RD	UOC	Northeastern University	532460P520107	30,316
47.RD	UOC	Purdue University	501-0825-1	64,334
47.RD	UOC	Smithsonian Institution	06SUBC440-0000083232	63,274
47.RD	UOC	University of California at Davis	RA 012679 UCT	14,371
47.RD	UOC	University of California at Riverside	S-00000154	20,727
47.RD	UOC	University of Delaware	Subgrant no. 11698	27,490
47.RD	UOC	University of Georgia	RR229-208/2000817	14,471
47.RD	UOC	University of Hartford	342970	5,985
47.RD	UOC	University of Maryland	Z479501	2,057
47.RD	UOC	University of Massachusetts	04-002653 A 02	13,410
47.RD	UOC	University of Massachusetts	04-002354 A 00	62,512
47.RD	UOC	University of Miami	EAR-0440322	11,323
47.RD	UOC	University of Michigan	F011773	39,376
47.RD	UOC	University of Minnesota	R5286056108	(6,511)
47.RD	UOC	University of New Mexico	650061-87B6	10,902
47.RD	UOC	University of Puerto Rico	AAG060221	76,901
47.RD	UOC	University of Puerto Rico	AGR050119	28,391
47.RD	UOC	University of Wisconsin	148H466	23,294
47.RD	UOC	Washington University	WU-HT-07-18	1,366
47.RD	UOC	Williams College	2005-01-ECON	25,228
47.RD	UOC	Woods Hole Oceanographic Inst	A100424	49,124
Total National Science Foundation				690,009
Department of Environmental Protection				
Miscellaneous				
66.RD	UOC	N.E. Interstate Water Pollution Control	LI-97130601	35,642
Office of Research and Development				
66.RD	UOC	John Hopkins University	8112-48274	18,577
66.RD	UOC	John Hopkins University	8201-48276	80,021
Total Office of Research and Development				98,598
Office of Administration				
66.RD	UOC	University of Massachusetts	06-003268 E 00	39,801

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Total Department of Environmental Protection				174,041
Department of Energy				
81.RD	UOC	Biotechnology Research	GO12026-221	22,036
81.RD	UOC	Fuelcell Energy Inc	29248-000	13,551
81.RD	UOC	Fuelcell Energy Inc	PO 31827-000	2,237
81.RD	UOC	United Technologies	4997	(5,597)
81.RD	UOC	University of Utah	2212032	24,197
81.RD	UOC	Worchester Polytechnic Institute	02-218190-1-4	(1,882)
81.RD	UOC	Cyberconnect EZ, LLC	AG060079	26,338
81.RD	UOC	Radiation Monitoring Devices	AG060291	216
81.RD	UOC	Rohm and Haas Company	AG060583	29,727
Total Department of Energy				110,823
Department of Education				
Office of Special Education and Rehabilitation Services				
84.RD	UOC	Marquette University	H133E020729	42,810
84.RD	UOC	Mashentucket Pequot Tribal Nation	OSP 04/76	31,469
84.RD	UOC	Texas A&M Research Foundation	S060054	184,092
84.RD	UOC	University of Oregon	222841J	238,510
Total Special Education and Rehabilitation Services				496,881
Office of Elementary and Secondary Education				
84.RD	UOC	Eastconn	OSP 05/063	27,169
84.RD	UOC	Hartford Public Schools	552472	169,740
84.RD	UOC	Hartford Public Schools	AG050754	28,015
Total Elementary and Secondary Education				224,924
Office of Educational Research and Improvement				
84.RD	UOC	Center for Implied Linguistics	AG070063	876
Miscellaneous Programs				
84.RD	UOC	Learning Point Associates	ED-01-CO-0011	(410)
84.RD	UOC	National Writing Project Corporation	92-CT01	(515)
				(925)
Total Department of Education				721,756
Department of Health and Human Services				
Center For Disease Control				
93.RD	UOC	Association for Prevention	TS-1402	17,088
National Institutes of Health				
93.RD	UOC	Applied Linguistics	AG060568	5,964
93.RD	UOC	Beth Israel Hospital	AG031126	109,692
93.RD	UOC	Beth Israel Hospital	AG031124	34,226
93.RD	UOC	Beth Israel Hospital	AG031124	62,553
93.RD	UOC	Beth Israel Hospital	AG031122	113,245
93.RD	UOC	Beth Israel Hospital	AG031122	29,987
93.RD	UOC	Beth Israel Hospital	AG031126	174,234
93.RD	UOC	Children's National Medical Center	AG060026	5,149
93.RD	UOC	Ciencia, Inc	723205	1,328
93.RD	UOC	Dartmouth College	5-30063.5708	1,750
93.RD	UOC	Dartmouth College	5-30480.5708	3,651

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.RD	UOC	Emory University	5-24012-C5	(1,842)
93.RD	UOC	Evergen Biotechnologies Inc	AG050702	6,131
93.RD	UOC	Evergen Biotechnologies Inc	OSP 05/183	(718)
93.RD	UOC	Evergen Biotechnologies Inc	AG060071	1,155
93.RD	UOC	Franklin University of Medicine & Science	R01 DC007905	1,553
93.RD	UOC	Iowa State University	PROJ.#430-24-29	81,588
93.RD	UOC	L2 Diagnostics, LLC	OSP 05/078	60,130
93.RD	UOC	Massachusetts General Hospital	OSP 05/083	38,277
93.RD	UOC	Northeastern University	549503P523984	731
93.RD	UOC	Promiliad Biopharma, Inc	AG060409	7,653
93.RD	UOC	Promiliad Biopharma, Inc	AG060772	126,717
93.RD	UOC	Promiliad Biopharma, Inc	AG060900	3,805
93.RD	UOC	Texas A&M University	60851	8,591
93.RD	UOC	Umass	S11108020000008	42,383
93.RD	UOC	University of California	0845 GDC 664	8,141
93.RD	UOC	University of Chicago	30180	20,783
93.RD	UOC	University of Florida	UF05104	42,993
93.RD	UOC	University of Houston	SO06-0032	25,843
93.RD	UOC	University of Michigan	F012025	(8)
93.RD	UOC	University of Michigan	PO 3000529513	3,954
93.RD	UOC	University of Minnesota	Q6437295102	18,970
93.RD	UOC	University of North Carolina	UNC-CH 5-50114	49,366
93.RD	UOC	University of North Carolina	UNC-CH#5-34143	48,912
93.RD	UOC	University of South Carolina	06-1260 (13010 FB07)	28,365
93.RD	UOC	Washington University	Preaward	48,130
93.RD	UOC	Yale University	A06516	10,128
93.RD	UOC	Mashantucket Pequot Tribal Nation	AG070286	1,596
Total National Institutes of Health				1,242,194
Miscellaneous Programs				
93.RD	UOC	Alexipharma Inc.	AG040413	4,187
93.RD	UOC	Haskins Laboratories	AG060351	28,621
93.RD	UOC	John Snow Inc.	28012	60,342
93.RD	UOC	Medcases	HHS-N278-2004-44090	118,776
93.RD	UOC	Physical Sciences, Inc	SC41559-2986	22,031
93.RD	UOC	Psychological Applications, LLC	AG040886	39,000
93.RD	UOC	Ciencia Inc.	752202	(1,229)
Total Miscellaneous Programs				271,728
Total Department of Health and Human Services				1,531,010
Department of Homeland Security				
Miscellaneous Programs				
97.RD	UOC	Homeland Security	06EM0693	25,667
United States Agency for International Development				
98.RD	UOC	USAID	C00014171-1	24,103
98.RD	UOC	USAID	C00012038-1	6,994
98.RD	UOC	University of Georgia	RC710-013/4092044	99,652
Total United States Agency for International Development				130,749
TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS				**6,218,688**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
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	23,231
Department of Defense				
U.S. Army Medical Command				
12.RD	UHC	Brigham & Women's Hospital	890171	14,571
National Aeronautics and Space Administration				
43.RD	UHC	University of Hartford Board of Higher Ed.	314806	3,161
Department of Education				
Office of Special Education and Rehabilitative Services				
84.RD	UHC	SRI International	51-000498	31,650
Department of Health and Human Services				
Office of Population Affairs				
93.RD	UHC	Hill Health Corp	N/A	14,205
Centers for Disease Control				
93.RD	UHC	Harvard University	OH008416-01	175
93.RD	UHC	Mass General Hospital	MIBH 383	1,796
93.RD	UHC	UMASS	S1110802000008	252,485
93.RD	UHC	Worcester Memorial Hospital	RFS700070	30,479
93.RD	UHC	Worcester Memorial Hospital	6058131/RFS5000037	25,822
Total Centers for Disease Control				310,757
Health Resources and Services Administration				
93.RD	UHC	City of Hartford	3769K	67,323
93.RD	UHC	City of Hartford	3769H	144,910
93.RD	UHC	CT Primary Care Assoc	06-RWIV	14,750
93.RD	UHC	CT Primary Care Assoc	UCONN RWIV FY06-07	123,419
93.RD	UHC	Hospital for Special Care	HOSP SPEC CARE 1000	44,212
93.RD	UHC	UMASS	6058802 OCP/13	38
93.RD	UHC	UMASS	6065448 OCP13	56,309
93.RD	UHC	Worcester Memorial Hospital	6053148/RFS20019	3,281
93.RD	UHC	Worcester Memorial Hospital	RFS700060	35,056
93.RD	UHC	Worcester Memorial Hospital	RFS800009	1,415
93.RD	UHC	Yale University	T01 HP01399-01	1,142
Total Health Resources and Services Administration				491,855
Substance Abuse and Mental Health Services Administration				
93.RD	UHC	Caliber Association Mental Health	CHESTNUT HEALTH SYS	7,960
National Institutes of Health				
93.RD	UHC	Americal Medical Student Association	1 R25 AT00529-01	12,089
93.RD	UHC	Brigham & Women's Hospital	101499	115,460
93.RD	UHC	Brookside R&D	1 R43 AG21882-01	12,438
93.RD	UHC	Brown University	00000015	52,419
93.RD	UHC	Children's Hospital Medical Center	37103-24M1	118,524
93.RD	UHC	CT Children's Medical Center	05-179108-01	4,434

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.RD	UHC	CT Children's Medical Center	05-179551-06	34,873
93.RD	UHC	CT Children's Medical Center	06-179101-01	51,111
93.RD	UHC	CT Children's Medical Center	06-179136-01	22,754
93.RD	UHC	Duke University	128358-1	16,445
93.RD	UHC	Duke University	139271	27,731
93.RD	UHC	Harvard University	148121.1512	52,790
93.RD	UHC	Harvard University	148239.1606	8,201
93.RD	UHC	Jackson Lab	R01AR45433-08	53,006
93.RD	UHC	John Hopkins University	8502-91909-X	(788)
93.RD	UHC	John Hopkins University	8506-03013	13,249
93.RD	UHC	Medical University of South Carolina	R01 DA15844	53,232
93.RD	UHC	Nanoprobes Inc.	1 R43DE016794-01	(697)
93.RD	UHC	Nanoprobes Inc.	4 R44 CA124190	629
93.RD	UHC	Nanoprobes Inc.	4 R44 HL076046-02	130,982
93.RD	UHC	Nanoprobes Inc.	51-000498	31,419
93.RD	UHC	Onconova	1 R43 NS45418-02	7,657
93.RD	UHC	Oregon Health & Science University	GBIMO0069A	141,113
93.RD	UHC	Penn State University	3142	14,327
93.RD	UHC	Penn State University	5-46643	10,717
93.RD	UHC	SUNY-Brooklyn	37316	180,317
93.RD	UHC	SUNY-Brooklyn	1009189/40691	497,386
93.RD	UHC	SUNY-Buffalo	R263976	158,085
93.RD	UHC	SUNY-Syracuse	SUNY1031799/28503	95,446
93.RD	UHC	Temple University	HL45700	1,980
93.RD	UHC	Tufts University	CA39088	10,699
93.RD	UHC	UMASS	6061298/RFS500074	129,040
93.RD	UHC	UMASS	RFS500079	30,526
93.RD	UHC	UMASS	6067664/RFS700042	215,995
93.RD	UHC	UMASS	525079-UCHC	332,449
93.RD	UHC	UMASS	RFS700095	52,183
93.RD	UHC	Univ Med/Dent of New Jersey	1 RO1 CA116399	9,712
93.RD	UHC	University of Florida	UF06034	10,509
93.RD	UHC	University of Illinois	MH68455	4,215
93.RD	UHC	University of Michigan	3000595879	59,343
93.RD	UHC	University of Rochester	413332-G	22,454
93.RD	UHC	University of Rochester	5 R37 DE008921-16	18,048
93.RD	UHC	University of Rochester	RO1 DE014730-02	21
93.RD	UHC	University of Utah	2302132	65,739
93.RD	UHC	University of Wisconsin	644F770	106,323
93.RD	UHC	Vanderbuilt University	P01 CA77839	(5,093)
93.RD	UHC	Vanderbuilt University	P01 CA77839	124,841
93.RD	UHC	Vanderbuilt University	5 P01 CA77839	14,330
93.RD	UHC	Yale University	A06057	(173)
93.RD	UHC	Yale University	A06106	154,534
93.RD	UHC	Yale University	A06123	2,796
93.RD	UHC	Yale University	A06212	9,738
93.RD	UHC	Yale University	A06305	40,292
93.RD	UHC	Yale University	A06385	380,174
93.RD	UHC	Yale University	A06534	47,023
93.RD	UHC	Yale University	DKP1062712	(773)
93.RD	UHC	Yale University	DKP1072055	147,693
93.RD	UHC	Yale University	DKP1074147	123,946
93.RD	UHC	Yale University	DKP1082233	37,560
Total National Institutes of Health				4,061,473

Miscellaneous Programs

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY *	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.RD	UHC	Johnson, Bassin and Shaw Inc	270-03-1000	84,621
93.RD	UHC	Onconova	HL085034-01	30,676
93.RD	UHC	Population Council	B02.110N	14,990
93.RD	UHC	UMASS	N01-DK-2326	(15,098)
93.RD	UHC	UMASS	RFS100085	182,056
93.RD	UHC	University of Virginia	GC11287 123473	28,769
93.RD	UHC	University of Virginia	GC11451 126459	161,141
93.RD	UHC	Yale University	N/A	(5,853)
Total Miscellaneous Programs				481,302
Total Department of Health and Human Services				5,367,552
TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS				**5,440,165**
TOTAL PASS-THROUGH GRANTS				**13,215,870**

* **- Identification of State Agencies:** *Rounded/Actual Difference

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, 2007
INDEX OF SCHEDULE OF FINDINGS AND QUESTIONED COSTS

		Status	Page
M.	Department of Information Technology		
1.	Allowable Costs/Cost Principles – Statewide Cost Allocation Plan – Central Service Costs	B,C,D	F-164

STATUS

A. Material instances of non-compliance with Federal requirements
B. Significant deficiencies in internal control
C. Material weaknesses in internal control
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
J. Material instance of non-compliance with the Federal requirements of the major Federal program(s) included in the finding that resulted in a qualified opinion on compliance to the particular major Federal program(s) that are identified by an asterisk

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STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2007
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 weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified opinion on all major programs except for *Social Services Block Grant* (CFDA # 93.667) and *Centers for Disease Control and Prevention - Investigations and Technical Assistance* (CFDA # 93.283), which are qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
14.871	Section 8 Housing Choice Vouchers
17.225	Unemployment Insurance
20.600, 20.601, 20.602, 20.609 and 20.612	Highway Safety Cluster
20.205	Highway Planning and Construction
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376 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	Teacher Quality Partnership Grants
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Cluster
93.658	Foster Care-Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.778, 93.775 and 93.777	Medicaid Cluster
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security–Disability Insurance
97.004 and 97.067	Homeland Security Cluster
N/A	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $16,746,468

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. 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: Our audits of State financial operations for the fiscal years ended June 30, 2004, 2005 and 2006 have each disclosed certain deficiencies in the Core-CT system, the recently implemented statewide accounting system. We have noted that many of the controls that the Office of State Comptroller had previously maintained over account postings were eliminated with the decentralized design of the Core-CT system. Internal controls over the posting of interagency transfers, correct account coding, and budgetary accounting to statewide account records were significantly diminished when the Core-CT system went on line in July 2003.

In our current review we note that significant corrective action has been made. As described in our previous report, and further in this report, software upgrades and improvements in internal controls have been implemented in the Core-CT system. The November 2006 software upgrade addressed many of the commitment control problems. Also, hard edits controlling mismatched debits and credits and interagency transfers were implemented in June and July 2007, respectively. At the time of our review (December 2007), it appeared that many of these changes were effective. We note that with the implementation of the projects and contracts module and with the establishment of the Department of Transportation as a full user of the Core-CT system, it was found that the Core-CT system hardware will require a capacity upgrade before additional hard edits or similar controls can be established.

Previous audits have noted that the Office of State Comptroller has not provided user agencies with an updated version of its *State Accounting Manual*. We again note that other than a presentation of Core-CT chartfields, little progress has been made. 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 State agency users to follow has not been made available, although it has been over four years after the Core-CT conversion.

In February 2007, the Gartner Group, a private information technology consultant, issued a study of the Core-CT implementation. Their report concluded that further work was necessary for the State of Connecticut to receive full value for its investment in the Core-CT system. In particular the Core-CT team needed reorganization to better respond to line agency users, and the Enterprise Performance Management (EPM) functionality needed to be improved. The report also stated that a new strategy is needed to improve the training offered to system users; specifically "…the Core-CT leadership team should re-assess the entire training effort." Comments were also made that improvements are needed in the reporting and query functionality, and key and mandatory line agency functions required better support.

To address the issues of effective governance and better serving user agencies the consultants recommended the establishment of an ERP Competency Center as an independent division or unit within the Office of State Comptroller. The role of the Center would be to change the focus of the Core-CT project from the requirements of the central agencies to that of providing business solutions supporting the needs of user agencies. An expanded steering committee, including users from across all agencies was also recommended.

In an attempt to reorganize the Core-CT team, the Governor's biennial budget proposal for the 2007-2009 fiscal years included plans to transfer the operation of the Core-CT system to the supervision of the State Comptroller. Related legislation was also proposed to establish a Core-CT Support System Division within the Office of State Comptroller and to establish a Core-CT Policy Board. None of these items were enacted by the 2007 General Assembly.

Effect: The failure to provide an updated State Accounting Manual, and to provide more effective training has resulted in user errors, miscoded and misposted transactions, and general user frustration in managing the complexities of the Core-CT system.

Without a unified management structure under the Office of State Comptroller, the Core-CT organization fails to meet the intention of Section 3-112 of the General Statutes.

Our current review found that the Core-CT system still has certain deficiencies in functionality that should not exist considering the $129,000,000 investment in the new accounting system. We noted inefficiencies with the associated revenues ledger (applicable to grant accounting) that requires the intervention of accounting staff to post transactions to both the appropriation and allotment ledgers. The trial balance report in Core-CT does not have a provision for recording historical data, Core-CT users accounting for grant activity occurring over more than one fiscal year are required to run multiple reports to cover each time period, and then manually compile them on spreadsheets. We also noted that the Budget and Financial Analysis Division has been required to manually review user agency journal vouchers before entry to eliminate posting errors on the general ledger. The Budget and Financial Analysis Division is also required to perform a manual reconciliation of the Interagency Transfer Account each month to identify and correct user agency posting errors.

The performance of the EPM module of the Core-CT system was a matter specifically addressed in the Gartner consultant report. The report stated "Core-CT users do not have the required knowledge to use the Enterprise Performance Module for management reporting" and "EPM analytical functionality has not been implemented, and is therefore not presently available to end users."

Cause: Our previous audits, as well as the consultant report, concluded that because the Core-CT project is still under the administration of the joint committee responsible for the system's initial implementation, with no final organizational plan that would address the evolution from a system implementation project to a more stable support and enhancement function. At the time of our review (December 2007) the Core-CT project teams consisted of 115 persons, either State employees or outside consultants. Of these 49 were employees from the Office of State Comptroller, 32 were employees from the Department of Information Technology, 24 were employees from the Department of Administrative Services and 10 were independent consultants. The project teams were under the direction of the Core-CT Project Management Team established at the beginning of the Core-CT project in 2001. The Project Management Team consisted of four Directors, one each from the Office of State Comptroller, the Office of Policy and Management, and from the Departments of Administrative Services and Information Technology. This mix of multiple agency personnel managed by a group of directors from central agencies does not provide a single responsible entity that was intended by Section 3-112 of the General Statutes. The Gartner consultant report concluded that this structure does not adequately represent those Core-CT users from other (non-central) State agencies.

The adaptation of the Core-CT system from the commercial accounting environment left certain necessary functions less effective, and other, unnecessary ones adding to the complexity for system users.

Recommendation: The Office of State Comptroller should reemphasize its role to prescribe the mode of keeping and rendering all public accounts of the State by providing a revised State Accounting Manual, a reorganization of the Core-CT management structure and further improvements in system functionality so that departments and agencies can efficiently operate in the decentralized Core-CT environment.

Agency Response: "As you observe, the Gartner Group produced a report in February 2007 that, among its many findings, recommended elimination of the multiple director group agency management of Core-CT in favor of a single agency with one director. At present Core-CT is managed by four agency directors: The Comptroller's Office, The Department of Administrative Services, The Department of Information and Technology and The Office of Policy and Management. The consolidation of Core-CT and its placement within a single agency was reflected in the Governor's biennial budget proposal for Fiscal Years 2007-2009. The Governor recommended placing the Core-CT division and its employees in the Comptroller's Office. This proposed change in management structure was not enacted by the 2007 General Assembly. The Governor's budget revisions for Fiscal Year 2009 recommend the consolidation of Core-CT within the Comptroller's Office and the Department of Administrative Services. This proposal is awaiting legislative action at this writing.

Failure to place the consolidated management of Core-CT within the Comptroller's Office, as you note, appears to violate the intent of Connecticut General Statutes, Section 3-112 and impedes efficient management of Core-CT service delivery. Despite the challenges presented by the existing group management approach, significant improvements have been made in accounting and reporting functions. As you have stated, "significant corrective action has been made… [and] it appeared that many of these changes were effective."

The following summarizes some of the major initiatives that were enacted to address past audit findings and to better manage the financial systems. In November 2004, a monthly closing process was implemented that eliminated the post dating of accounting transactions thus facilitating monthly reconciliations and comprehensive monthly financial reporting. In February 2005, a billing module was added to the system that, among other functionality, implemented hard coding of revenue by 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 supplemented existing State accounting information 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. In November 2006, an updated version of the financial software was implemented with notable improvements to budget control functionality. In July 2007, an additional edit was added to ensure that service transfers were properly differentiated from expenditure credits and the proper account category was applied to these transactions.

Within the existing management structure, the Comptroller's Office has effectively balanced central accounting requirements and legal controls with specific agency business needs. The Comptroller's Office is in the process of consolidating the abundance of accounting directives contained within the Core-CT module job aids, daily mailings and related training material into a single on-line repository that will serve as the State Accounting Manual. The coding section of this manual has been on-line since 2006. Agencies currently have access to all of the information necessary to operate efficiently in the Core-CT environment and have access to a help desk and specialized training sessions as required to meet any unresolved needs.

Management consolidation to promote improved efficiency in Core-CT accounting and financial reporting functionality is a matter for the State legislature. The Comptroller's Office expects to make substantial progress in creating an on-line State Accounting Manual during Fiscal Year 2009. It should also be noted that an abundance of system and accounting guidance currently exists for each module within Core-CT. In addition a help desk and specific user labs are available to agencies seeking additional transaction guidance and assistance."

II.A.2. Inability to Provide Grant Reporting Functionality:

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 will 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: Our previous audits have cited the failure of the Core-CT system to provide certain reports and reporting features required by agency users. Our current review found significant improvements have been made in general reporting. However, users again cited the specific need for Core-CT to provide a grants receivable trial balance report, which was a functionality lost with the Core-CT system. Without it proper Federal grant billing and accounting requires additional manual effort to compile information. We have also noted a similar deficiency in the associated revenues ledger used to account for grant receivables.

Independent Public Auditor reports for the Special Transportation Fund for the fiscal years ended June 30, 2005, 2006 and 2007, all reported the condition that "There was no automated procedure in place to properly account for grant receipts, grant expenditures, 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: The significant investment in the Core-CT system, and the benefits of having a centralized store of State financial data, is lessened by the inability to provide grant transaction information in an efficient format.

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 State government 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 receivables, revenues, expenditures and transfers.

Agency Response: "Since implementation of Core-CT, the Comptroller has been leading the effort to improve 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 well 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 has been continually 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.

With respect to the grant trial balance, in implementing the Core-CT financial software as delivered by PeopleSoft, the State attempted to minimize customization in order to reduce State costs. The commitment control functionality of Core-CT did not contain sub-ledgers to accumulate prior year receipts and disbursements; therefore, prior year grant balances are accumulated manually by using prior year reporting. While this was not the optimal solution in terms of automation, it was cost effective. The Comptroller's Office has been in the process of capturing historical data for the creation of a customized grant trail balance report. This would eliminate the need to run multiple year reports and to manually consolidate that data.

The Comptroller's Office is perpetually working with Core-CT users to keep reporting consistent with agency business requirements. We expect an improved grant trial balance to be available on or before the close of Fiscal Year 2009. All grant information required for accurate financial reporting continues to be available on Core-CT through accumulation of individual fiscal year data."

II.A.3. Inability to Provide an Automated Reconciliation of 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 will 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.

Our current audit observed that 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. However, 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.

Our current audit also observed that there were significant unresolved reconciling items for the payroll and vendor payment accounts that have not been researched and cleared. At the time of our review (December 2007) they remain unreconciled and the Treasurer has carried forward this difference through current reconciliations.

In response to conditions described in previous audit reports, the Office of State Comptroller has added additional controls to reduce the problems encountered in reconciling cash activity. In June 2007, a hard edit was established in the Core-CT system to prevent user agencies from entering transactions with mismatched debits and credits to fund, s.i.d. and department codes. In July 2007 an edit was established to control transactions entered into the Interagency Transfer Account. Our current review found that these added internal controls appeared to be effective in reducing the problems found.

Our prior report also cited the failure for either the State Comptroller or State Treasurer to reconcile the Interagency Transfer Account (10436). Our current review found that the Budget and Financial Analysis Division of the State Comptroller has started reconciling this Account on a monthly basis.

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 provide an automated process of reconciling bank accounts is not making full value of the significant investment made in the Core-CT system.

Cause: The design of the Core-CT system contains deficiencies pertaining to the automated reconciliation of bank accounts.

Recommendation: The Core-CT system should be modified to provide the Office of State Treasurer an efficient and automated method to reconcile cash activity.

Agency Response: “As stated, your prior review cited the failure of the Comptroller’s Office to reconcile interagency cash. The Comptroller’s Office is now reconciling interagency cash on a monthly basis and has performed prior year reconciliations. The Comptroller's Office has also created a procedure manual for such reconciliations.

With respect to the State Treasurer's cash reconciliation, problems that were impeding the timely reconciliation of bank balances to Core-CT cash balances have been resolved. The Treasurer is currently able to reconcile bank balances to Core-CT cash balances within an acceptable period of time. To enhance automation of the reconciliation process, the Comptroller's Office and the Treasurer have been working with Bank of America to make cleared and outstanding check information available on-line within Core-CT. It is anticipated that these bank files will be available on Core-CT by the fall of 2008."

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 2005-2006 and 2006-2007
Federal Award Numbers: 05-06505CT5028 and 05-0705CT5028

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. The 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 February 2008. 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 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

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 2007 for the six-month review period October 2005 – March 2006. This report should have been submitted in December 2006. The report for the six-month review period April 2006 – September 2006, which should have been submitted in June 2007, has not been submitted as of November 2007.

Effect: Title 42 Code of Federal Regulations Part 431 Section 832 establishes rules and procedures for disallowing Federal financial participation in erroneous medical assistance payments due to eligibility and beneficiary liability errors, as detected through the MEQC program. This Section provides that the State must, for each annual assessment period, have a payment error rate no greater than three percent or be subject to a disallowance of Federal financial participation. Without the error rate certifications, the Department of Health and Human Services cannot make a determination for disallowing Federal financial participation.

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

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

Agency Response: "The Department agrees with this finding. The MEQC System Payment Error Rate report for the six-month period ended September 2006 was completed in December 2007. There has been a steady turnover in Quality Control staff due to promotions, transfers, and retirements. The Quality Control Unit is again in the process of refilling a recent vacancy and more vacancies can be expected early next year as additional staff reach retirement age."

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 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

Background: Title 42 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 expenditures; 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 ensuring 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 September 30, 2006, to supporting documentation. We performed analytical procedures for the additional three Financial Reports submitted during the State fiscal year ended June 30, 2007. Our review disclosed numerous errors on all of the Forms submitted to CMS. The net effect of the errors is a $2,674,141 overstatement of gross expenditures. This net amount is based on an overstatement of gross expenditures totaling $2,939,871 and an understatement of gross expenditures totaling $265,730. This resulted in the Federal share being overstated by $1,339,422. 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 September 30, 2006, disclosed that the Department overstated gross expenditures by $2,773,203 ($1,388,894 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 $1,022,071,266. The correct amount is $1,019,299,127. This resulted in an overstatement of $2,772,139.

- The gross amount reported as *State and Local Administration* on Line 6

"Expenditures in this Quarter" was $35,068,095. The correct amount is $35,067,031. This resulted in an overstatement of $1,064.

Our review of the Form CMS-64 Summary Sheet submitted for the quarter ended December 31, 2006, disclosed that the Department understated gross expenditures by $243,247 ($121,624 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 $1,132,046,182. The correct amount is $1,132,041,624. This resulted in an overstatement of $4,558.

- The gross amount reported as *State and Local Administration* on Line 6 "Expenditures in this Quarter" was $36,405,406. The correct amount is $36,653,211. This resulted in an understatement of $247,805.

Our review of the Form CMS-64 Summary Sheet submitted for the quarter ended June 30, 2007, disclosed that the Department overstated gross expenditures by $144,185 ($72,152 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 $1,062,398,013. The correct amount is $1,062,386,504. This resulted in an overstatement of $11,509.

- The gross amount reported as *Medical Assistance Payments* on Line 9D "Collection: Other" was $18,027,789. The correct amount is $18,159,864. This caused the "Collection: Other" amount to be understated, which resulted in an overstatement of $132,075 to the reported expenditure amount.

- The gross amount reported as *State and Local Administration* on Line 7 "Adjustments Increasing Claims for Prior Quarters" was $15,623. The correct amount is $15,022. This resulted in an overstatement of $601.

Effect: The four CMS-64 Forms submitted to CMS during the State fiscal year ended June 30, 2007, 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 $2,920,281 and $246,140, respectively. Based on applying the applicable Federal financial participation rates to these errors, the Department overstated its Federal share of Medicaid by $1,339,422. 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 this finding. The Department is working to correct these items in the next quarterly filing."

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 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

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, 2007. 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, 2007, the Department claimed for Federal reimbursement $20,254,038 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 LEAs will be based upon annual audited cost and audited utilization filings made by the LEAs.

Condition: Our current review of the SBCHP treatment and evaluation rates disclosed that the Department continues to use the same rates as noted in our previous audit and the following conditions still exist:

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

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

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

Effect: The Department could be including in its SBCHP rates costs that are not allowable for Federal reimbursement.

Cause: The Department informed us that a consultant was contracted to perform a complete review of the School-Based Child Health rates and assist the Department in the calculation of new rates. As of November 2007, this review had not been completed and the consultant's contract had ended as of July 31, 2007. Negotiations are in progress to temporarily extend the contract and determine whether the consultant will still assist the Department in setting new rates.

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 this finding. The Department is reviewing SBCH cost and statistical data on file as well as data and analysis available from a recently terminated contract consultant. It is expected that interim rate replacements will be completed by December 31, 2007. It is expected that upon final computation and issuance of rates for these periods, adequate documentation will be available to demonstrate that indirect cost allocations are consistent with OMB Circular A-87 as outlined in the Department's June 4, 2003 letter to the Federal Centers for Medicare and Medicaid Services."

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 month ended June 30, 2007. This data included the clients' names and social security numbers.

We used audit software to extract all clients who did not have social security numbers listed. Our review disclosed that there were 4,130 out of 151,616 clients in which a social security number was not listed on the file obtained from the data warehouse. The total payment made on behalf of these 4,130 clients during the month ended June 30, 2007, was $3,839,226. We selected nine 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 payment made on behalf of these nine clients was $3,850. We also reviewed the case files of the nine clients to determine whether the case files included the clients' social security numbers even though the Department did not enter the numbers into EMS.

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 nine cases tested. Out of nine case files reviewed, there were four instances 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. In one case, the Department had recently received the SSN from the client and inputted the SSN into EMS. The last case involved a recent newborn in which a new SSN had been requested and not yet received.

Effect: In four instances, 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 into its Eligibility Management System.

Agency Response: "The Department agrees with this finding. An email message has been issued to all eligibility staff reminding them of the importance of following up on cases where a recipient has applied for an SSN and to update missing SSNs at time of redetermination."

The Department is also developing a computer report to identify all clients active greater than 30 days without a SSN. It will be issued to the regional staff for follow up.

In the long term there is an existing IT work request for an automated alert to the eligibility worker when an SSN was missing more than 30 days. Furthermore, a new IT work request has been initiated for an automated notice to be generated if an SSN remains missing 60 days after assistance is granted. The notice would have a place for the head of household to record the missing SSN and a postage paid return envelope will be sent with the notice. Finally, a new EMS edit will also be implemented that will require the worker to update any missing SSNs."

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 June 2007 payment file to perform procedures using audit software to review the validity of the data included in the file. This file had 302,575 unique client identification numbers. The Department assigns each client 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 100 such clients. Each of these 100 clients had at least two different client identification numbers. Further review was performed on five 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 uncollectible.

Condition: Our review of five managed care clients who had similar names and birth dates disclosed one of these clients was listed on the file of capitated payments more than once. As a result, our review disclosed that the monthly payment made in June 2007 to the MCOs included a duplicate payment totaling $698.

The Department was aware of this duplicate payment; however, it did not credit the Federal government for this overpayment.

Effect: Based on the 50 percent Federal financial participation rate, the Department improperly claimed $349 for Federal reimbursement under the Medicaid program. We consider this payment to be unallowed under the Medicaid program.

Cause: Although the Department was aware of the duplicate client identification number and took steps to inactivate one of the numbers, there is no process in place to refund overpayments made to managed care organizations.

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 this finding. Duplication of participation occurs when a client is assigned more than one client identification (CLID) number on EMS. When this occurs the client may also be active on more than one assistance unit for the same program. In these circumstances more than one CLID will have the same social security number. Therefore, to resolve this issue the Department has created an EMS monthly "Duplicate SSN Recipient Report" which was issued beginning in August 2007. This is issued to the regional offices and they are directed to merge the duplicate CLIDs. The regions are directed to notify [the] central office when this is accomplished and Medical Care Administration will ensure that overpayments will be returned to the Federal government."

III.A.7. Allowable Costs/Cost Principles – Improper Claim

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

Background: The administrative costs incurred in operating the Department of Social

Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). The costs are accumulated in various CAP cost pools in which the costs are allocated to Federal and State programs based on the allocation basis assigned to the respective cost pools.

The "Medicaid Management Information System (MMIS) Claims" allocation basis is based on MMIS claim counts by benefiting program during the applicable period. The programs included in this basis are Federal Medical Assistance (Title XIX), State Children's Insurance Program (SCHIP), Refugee, and State funded medical assistance. The majority of the costs included in this pool are those costs that are associated with administering the MMIS. For skilled professional medical personnel costs, the Federal Medicaid portion is allocated based on the 75 percent Federal financial participation rate. Other Medicaid costs are allocated based on the 50 percent Federal financial participation rate

Criteria: The Office of Management and Budget (OMB) Circular A-87 provides that for a cost to be allowable under Federal awards they must be allocable to Federal awards. 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.

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: During the quarter ended September 30, 2006, the Department of Social Services revised the amount of *Medical Assistance Payments* reported on the CMS-64 Financial Report because the Department became aware of some non-Medicaid costs that were included in the amount claimed during the quarters ended March 31, 2006, and June 30, 2006. However, the Department did not make an adjustment to the amount of *State and Local Administration* costs that were associated with the *Medical Assistance Payments* that were reduced from the claim.

The administration costs associated with the portion of the medical assistance payments amount that was adjusted are allocated to benefiting Federal and State programs using the "MMIS Claims" allocation basis, which distributes costs based on MMIS claim counts. The Department has reports that provide the medical assistance payments by program. This report also provides the MMIS claim counts by program. The Department became aware of medical assistance payments that were incorrectly charged to the Medicaid program.

The reports were revised to reflect the proper medical assistance payments by program. This revision also adjusted the MMIS claim counts by program.

However, the Department did not make an adjustment to reflect the improper administration costs that were allocated to the Medicaid program because of the non-Medicaid claim counts that were included in the original amount of Medicaid claim counts used to prepare the CMS-64 Financial Reports for the quarters ended March 31, 2006, and June 30, 2006. During these two quarters, expenditures totaling $11,544,600 were allocated using the MMIS allocation basis.

Effect: Administrative costs under the Medicaid program were overstated by $1,119,685. Based on applying the applicable Federal financial participation rates to the error, the Department overstated its Federal share of Medicaid costs by $806,223. 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 Department did not consider the need to revise the administration costs by rerunning its Cost Allocation Plan based on the new allocation statistics for the quarters ended March 31, 2006, and June 30, 2006.

Recommendation: The Department of Social Services should implement procedures to ensure that administration costs are adjusted accordingly when the cost allocation basis is modified because of errors associated with program related costs that are adjusted in a subsequent period.

Agency Response: "The Department agrees with this finding. The Department has rerun the cost allocations for these quarters and calculated slightly different figures for these adjustments. The net difference is greater by less than $10,000. The Department anticipates using the recalculated figures for the correcting entries in the next quarterly Medicaid claim filing."

III.A.8. Allowable Costs/Cost Principles – Third Party Liability

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

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

Condition: Our review of ten cases where the Department identified the client as having third party liability coverage disclosed the following: in one case the third party liability resource identified was not entered in a timely manner into the Department's third party database; it took the Department 188 days to update the identified third party information into its third party liability database.

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

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

Recommendation: The Department of Social Services should establish and implement internal controls that ensure administrative oversight occurs in the processing of identified third party liability information.

Agency Response: "The Department agrees with this finding. The insurance information for the one client noted has subsequently been entered into the TPL database. In addition, in order to decrease the chance of this occurring again in the future, we will immediately begin producing a weekly report of those cases that are within 10 days of being overdue. These cases will then be given priority."

III.A.9. Allowable Costs/Cost Principles – Department of Developmental Services

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

Background: The State Medicaid agency may apply for a waiver of Federal requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441, subpart G). The Department of Social Services (DSS), as the State Medicaid agency, received approval for a waiver to provide home and community-based services to certain clients of the Department of Developmental Services (DDS).

The DSS claims the expenditures incurred under this waiver for Federal reimbursement under the Medicaid program.

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.

Condition: We sampled ten DDS waiver transactions totaling $43,598. This sample was randomly chosen from all DDS waiver expenditures claimed for Federal reimbursement totaling $483,479,862. Our review revealed that Medicaid was billed $40 for a waiver service the client did not receive. The Medicaid program was billed for services for a period of 23 days but the correct number of days of service is 22 days.

Effect: An overpayment of $40 was claimed for Federal reimbursement under the Medicaid program. The DDS has submitted an adjustment to have the overpayment recouped.

Cause: The Department of Administrative Services (DAS) is the State agency responsible for entering the billing information directly into the Medicaid Management Information System (MMIS) for reimbursement by Medicaid. The attendance sheet sent to DAS for data entry was entered with the incorrect number of days. Further, there is no check by DDS of the information entered into MMIS.

Recommendation: The Department of Developmental Services should establish procedures to ensure that the information entered into the Medicaid Management Information System (MMIS) is correct. This could be done by using control totals.

Agency Response: "The Department of Developmental Services (DDS) agrees with this finding in part. DDS agrees that the error resulted in the overbilling of $40 dollars for Federal reimbursement. However DDS does currently have oversight procedures to validate the attendance billing documents. The procedures are; a) Central Office (CO) Medicaid Operations provides a copy of attendance billing documents to CO and Regional Quality Review staff; b) Quality Review staff check the attendance billing sheet against documentation maintained by the program they are reviewing; c) Quality Review staff sign and return the attendance billing sheet to CO Medicaid Operations; and d) CO Medicaid Operations reviews the sheets, implements any corrections necessary, and files the sheets.

It should also be noted that DDS is presently developing an electronic billing system that will also have adequate billing controls."

III.A.10. Eligibility – 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 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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

Title 45 Code of Federal Regulation Part 206 Section 10 requires that the State shall require a written application, signed under a penalty of perjury, from the applicant. In addition, at least one face-to-face redetermination must be conducted for each TANF case every twelve months.

Condition: In a review of 40 randomly selected TANF recipient case files, we were not able to confirm that the Department completed the required annual eligibility determination or redetermination within 12 months prior to the benefit issuance dates for three recipients. In addition, Department eligibility workers did not sign the completed eligibility documentation in six cases to indicate that the documents were reviewed. The eligibility determination documentation consists of the application or redetermination forms received from clients and contain information necessary for eligibility determinations by the Department.

Effect: If eligibility determinations are not adequately performed, the Department cannot ensure that applicants are eligible and/or recipients continue to be eligible for TANF assistance.

Cause: The Department is not following established procedures to obtain the necessary information to substantiate the recipients' eligibility for TANF benefits.

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

Agency Response: "The Department does not agree with this finding. In one of the three cases cited the redetermination form was located in the case record. Furthermore in all three of the cases cited, the EMS electronic case record clearly documents that the redetermination forms were received and processed appropriately. The two missing forms are from one particular office and processes to assure that these forms are properly filed in the case record will be addressed with that office.

It should be noted that while the lack of the redetermination forms in the paper case record is a concern, it is not indicative of the Department's failure to follow established procedures for obtaining documentation to ensure on-going eligibility. Instead, it appears that the issue involves proper maintenance of the hard copy case record, not the completion of annual redeterminations. As indicated, the Department will stress the importance of properly filing the redetermination forms with the office in question."

Auditors' Concluding Comment:

The redetermination form that was located by the Department pertained to the redetermination that was done for the Food Stamps program. The Department's Policy Manual provides that a form should be completed by the assistance unit. Without this form, we are not able to substantiate the information in the Department's Eligibility Management System.

III.A.11. Reporting – Annual Report on the TANF Program 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 2005-2006
Federal Award Number: G0601CTTANF

Criteria: Title 45 Code of Federal Regulations Part 265 Section 9 requires that the State file annual reports containing information on the State's TANF program and the State's Maintenance of Effort (MOE) programs for that year.

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 the TANF Program 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, they should be mentioned after the TANF-funded benefits or activities.

Condition:

1. We reviewed the Department's Annual Report on the TANF Program for Federal fiscal year 2005-2006 and noted exceptions in Section 8a of the Report, which is intended to summarize programs and activities directed at preventing and reducing the incidence of out-of-wedlock pregnancies (third statutory purpose of TANF), as follows:

   - The Department reported two programs in Section 8a of this report, for which, it did not report any expenditures on the ACF-196 Financial Report. These two programs are the Violence Reduction Program and the Office of Policy and Management's Grants to Boys and Girls Club Program.

   - The Department did not include the Department of Children and Families' Early Childhood Development Program in Section 8a of the Report although a portion of expenditures was claimed in support of the third purpose of TANF.

   - The Department reported the Safety Net Services Program in Section 8a of the Report although the services were actually directed at the second statutory purpose of TANF, which is to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.

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 under TANF. The expenditures reported on the ACF-196 consist of segregated Federal TANF funds, segregated State TANF funds, or commingled funds.

2. We reviewed the Department's Annual Report on State Maintenance-of-

Effort Programs (ACF-204) for Federal fiscal year 2005-2006 and noted the following:

- State expenditures claimed as MOE totaled $93,614,574 under the Temporary Family Assistance (TFA) Program (Section 1, Line 7), and $26,936,788 under the Two-Parent (TFA-2P) and Certain Exempt TFA Programs (Section 2, Line 7). However, the amounts claimed should have been $93,487,601 and $27,063,761, respectively.

- The Department did not properly report the "total number of families served with MOE Funds" for the Temporary Rent Subsidy Program (Section 3, Line 8), and the School Readiness Program (Section 8, Line 8).

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 TANF Annual Report and the Annual Report on State Maintenance-of-Effort Programs is reported correctly.

Agency Response: "The Department agrees with this finding. The Department's Bureau of Assistance Programs and Division of Financial Management and Analysis (DFMA) have developed procedures to ensure the accuracy of the data when completing the reports. Specifically; DFMA will forward a copy of all relevant documents for the quarter ending September claims by early December to Program staff. DFMA will indicate if it is a final claim or if there may be some changes processed before the end of December. If changes are made, DFMA will immediately forward those changes along with an explanation of the change to Program staff. DFMA will meet with Program staff if any questions arise in the development of the report. Program staff will then provide a draft of the report to DFMA at least one week prior to submission for a final review to ensure that the report agrees with the ACF-196 submission.

In addition, concerning the Annual Report for the Maintenance of Effort, the Department agrees with the expenditures and the number of families served as noted in the audit. The Department will review the formulas and will institute new controls for future reports."

III.A.12. Special Tests and Provisions – Penalty for Refusal to Work

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

Criteria: Title 45 Code of Federal Regulations Part 261 Section 14 provides that if an individual refuses to engage in work required under Section 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 impose a greater reduction, including terminating assistance.

Title 45 CFR Part 261 Section 15 provides that the State may not reduce or terminate assistance based on an individual's refusal to engage in work if the individual is a single custodial parent caring for a child under six who has demonstrated inability to obtain needed child care.

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 penalties for non-compliance. This Section provides that, for assistance units that are not in an extension of the 21 month time limit, for the first violation benefits should be reduced by 25 percent for a three month period, for the second violation benefits should be reduced by 35 percent for a three month period, and for the third and all subsequent violations the entire assistance unit is ineligible for assistance for a three month period. Assistance units that are in the extension of the 21 month limit are ineligible for cash assistance for the remainder of the extension and any future extensions.

Condition: Out of the 40 transactions tested to determine whether clients were eligible to receive TANF assistance, there were 28 who were not working. We reviewed these 28 clients to ascertain if benefits should have been reduced or denied because the clients did not comply with the program's work participation requirements. Our review of these 28 clients did not disclose any noncompliance with the program's work participation requirements. However, our test of the compliance requirement concerning "Adult Custodial Parent of Child Under Six When Child Care Not Available" did disclose some incorrect payments made as a result of noncompliance with the State Plan concerning the program's work participation requirements.

From a population of clients that were penalized during the audit period, we tested a sample of ten clients to determine whether the Department improperly terminated or reduced assistance to adult single custodial parents who refused to work because of the inability to obtain child care for a child under the age of six. This test did not disclose any noncompliance with this requirement. This test did disclose, however, three instances in which the Department did not properly penalize clients who did not comply with the program's work participation requirements. These exceptions are discussed below:

- In one case, assistance was not terminated on a timely basis for an assistance unit in an extension of the 21 month time limit that failed to comply with Employment Services participation requirements. In this case, a sanction for the failure to comply with requirements was initiated in March 2006. This should have resulted in the cash assistance being provided to the assistance unit to stop effective March 2006. However, the Department did not properly impose the sanction in a timely manner. The eligibility of the assistance unit was not stopped until July 2006 resulting in the overpayment of $1,524 for cash payments made during April through June 2006.

- In two cases, penalties for failure to comply with Employment Services participation requirements were properly imposed on assistance units not in an extension of the 21 month time limit where good cause was not established. However, in both cases penalties were imposed for a four month period when under State TANF plan grant reduction policy, penalties are to be imposed for a three month period. As a result of such assistance units being penalized for an additional month, underpayments totaled $269.

Effect: The 28 clients sampled in conjunction with our test of eligibility did not disclose any errors related to the program's work participation requirements. However, we did note errors related to work participation requirements of clients who were not part of our original sample that resulted in net questioned costs totaling $1,255.

In addition, penalties could result for States that do not properly impose penalties for failure to participate in work requirements.

Cause: We noted weaknesses by the Department in following its grant reduction policy to reduce or terminate assistance for employment service participation violations.

Recommendation: The Department of Social Services should follow the established grant reduction policy under the TANF State Plan and as outlined under Section 8530.55 of the Department's Uniform Policy Manual.

Agency Response: "The Department does not agree with this finding. In their original sample of 40 cases, the Auditors did not find any instances of non-compliance in the Department's application of the penalty provisions for refusal to work. The three (3) exceptions noted by the Auditors were found during a separate sample of cases targeted for "Adult Custodial Parent of Child Under Six When Child Care Not Available". Therefore, while the Department agrees with the specific instances cited in the "condition" section of the finding, the Department does not agree that it is not following its grant reduction policy for employment service participation violations (as stated in the "cause"). As the original sample indicates, the Department's internal controls are adequate to ensure the application of penalties, however, no controls are 100 percent effective and no improvement in existing controls is warranted at this time.

Concerning the other two cases, prior to late July 2007, the EMS system would generate an incorrect end date to the penalty period. As of July 26, 2007, the system has been modified to generate the correct period sanction based upon the case status at the time of the sanction. However, it still remains the worker's responsibility to manually set an alert to address the sanction and compliance status of each mandatory participant. Again, the error was due to worker oversight rather than disregard of TANF policy."

Auditors' Concluding Comment:
The finding is being reported as required under the Office of Management and Budget Circular A-133 which states that auditors shall report as findings known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program.

III.A.13. Allowable Costs/Cost Principles – Department of Correction

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2006-2007
Federal Award Number: G0701CTTANF

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

As part of the operations of the State's Department of Correction (DOC), certain services provided to inmates were claimed for Federal reimbursement under TANF Purpose 4 to provide services to encourage the formation and maintenance of two-parent families. The DOC provides an addiction treatment program for chemically dependent offenders that helps them to return to society by addressing the addictions that may lead to criminal activity or impair the individual's ability to find and secure employment. This program has two separate components: addiction services and residential services.

The DOC, in accordance with the TANF State Plan, uses population reporting to allocate costs for TANF reimbursement by using ratios of TANF eligible inmates (inmates with dependent children under 19) over total inmates receiving services. Population reporting and costs are compiled separately for each of the two TANF components. The DOC provides reports to DSS, which are used by DSS to prepare the TANF claim. During the quarter ended December 31, 2006, the Department of Social Services claimed under TANF $1,154,912 and $648,780 in expenditures incurred by the Department of Correction for addiction services and residential services, respectively.

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.

Condition:

1. A reporting error in the residential component program at DOC for the quarter ended December 31, 2006, resulted in 217 inmates being reported as TANF eligible instead of the actual 204 inmates who were eligible.

2. The Addiction Services Unit implemented a system to compile and document population numbers received from monthly facility reports used for TANF purposes. A review of these records for the quarter ended December 31, 2006, disclosed the following:

   a. There were numerous posting and recording errors including omissions and double posting of entries.
   b. Facility reports for the month of November 2006 could not be found and transactions posted for that month were significantly lower than the other two months in the quarter.
   c. There were inconsistencies in determining eligibility at different facilities. At some facilities total participant monthly activity was

used while at other facilities activity was counted only when inmates completed or left a program.

Effect: For the residential services, questioned costs totaling $38,867 were over reported to the Department of Social Services for TANF reimbursement.

Without accurate records and supporting documentation of population reporting records, there is a lack of assurance that addiction services costs of the DOC that were claimed under TANF are allowable.

Cause:

1. Human error resulted in the incorrect number of eligible inmates being reported.

2. The compilation of addiction service information from facility service reports was flawed by human error as well as weak supervisory oversight over the reporting process.

Recommendation: The Department of Correction should improve its operations to ensure that accurate statistics for addiction services are used to calculate costs eligible for Federal Temporary Assistance for Needy Family (TANF) program reimbursement. In addition, the Department of Social Services should adjust its quarter ended December 31 2006, TANF claim for questioned costs totaling $38,867.

Agency Response: "The Department agrees with this finding. The DOC will submit a revised expenditure report for the quarter ended December 2006 that corrects the data. The Department will revise the FFY 2007 report when the current quarter report is filed in February 2008. Corrective action plans are in place and are expected to be fully implemented by April 1, 2008. No impact on Federal revenue is anticipated since excess TANF claimable expenditures will cover any required adjustment to this portion of the claim."

III.A.14. Allowable Costs/Cost Principles – Department of Mental Health and Addiction Services

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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

As part of the operations of the State's Department of Mental Health and Addiction Services (DMHAS), certain services provided to clients were claimed for Federal reimbursement under TANF Purpose 3 to reduce and prevent the incidence of out-of-wedlock pregnancies. The DMHAS' Special Population Program costs were included for TANF reimbursements on the basis that this program assists young adults with special mental health issues, which in turn could reduce the incidence of out-of-wedlock pregnancies**.** The DMHAS provides reports to DSS, which are used by DSS to prepare the TANF claim.

Criteria: Title 42 United State Code Section 608(a)(6) provides that the State shall not use any part of the TANF grant to provide medical services except for pre-pregnancy family planning services.

Condition: The four quarterly claims submitted during the State fiscal year ended June 30, 2007, for Federal reimbursement under TANF for costs incurred by DMHAS for administering the Special Population Program improperly included fringe benefits costs related to salaries of medical staff. Further, medical costs incurred under the Special Population Program were not for pre-pregnancy family planning services. DMHAS made adjustments to remove salaries of medical staff from TANF reporting but due to oversight, had not removed the related fringe benefit costs totaling $1,334,153 on such salaries. Based on the TANF eligibility rate, DSS claimed $1,030,741 of this amount for Federal reimbursement.

Effect: Questioned costs totaling $1,030,741 were improperly claimed for Federal reimbursement under the TANF program.

Cause: The DMHAS personnel did not exclude fringe benefit costs related to medical salaries from the report that was used by DSS to prepare the TANF claim.

Recommendation: The Department of Mental Health and Addiction Services should not report ineligible medical costs for Temporary Assistance for Needy Families (TANF) program reimbursement. In addition, the Department of Social Services should adjust its TANF claim for questioned costs totaling $1,030,741.

Agency Response: "The Department agrees with this finding. DMHAS is revising reports retroactively to FFY 2005 to factor out the overstated medical salaries and the Department will revise the TANF ACF-196 reports for FFY 2005 through 2007 when the current quarter report is filed in February 2008. Corrective action was instituted from the quarter ended September 2007 and going forward. No impact on Federal revenue is anticipated as excess TANF claimable expenditures will cover any required adjustment to this portion of the claim."

III.A.15. Allowable Costs/Cost Principles – Judicial Department

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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

As part of the operations of the State's Judicial Department, the Alternative to Detention Program's costs were determined to be eligible for Federal TANF reimbursement under the third purpose of TANF, which is to reduce the incidence of out-of-wedlock pregnancies. The basis of this determination is that the services offered by the program to at-risk juveniles provide the kind of comprehensive programming to address the underlying factors that are significant predictors that put these juveniles at risk for out-of-wedlock pregnancies.

According to the Department of Social Services' Inter-Agency TANF Claiming Procedure Manual, regarding the Alternative to Detention Program claim, the Judicial Department must exclude from the costs claimed under TANF, all medical costs (which are not allowable) and costs associated with residential services (which would be considered assistance and would require the client level data report that is required for assistance services).

Criteria: Title 42 United States Code Section 608(a)(6) provides that funds may not be used to provide medical services other than pre-pregnancy planning services.

Title 45 Code of Federal Regulation Part 260 Section 31 defines the term "assistance" as benefits designed to meet a family's ongoing basic needs when such payments are provided in the form of payments to individual recipients. In addition, Title 45 Code of Federal Regulation Part 263 Section 2(b)(3) provides that an eligible family must be financially eligible according to the TANF income and resource standards established by the State and contained in its TANF plan.

Condition: A review of the amount claimed as Alternative to Detention Program costs for the quarter ended September 30, 2006, as claimed under TANF as teen pregnancy prevention by the Department of Social Services, noted that the Judicial Department made an adjustment amount of $148,716 against a three month extension contract valued at $225,000 in order to remedy an understated claim amount. However, of the $148,716 reported for the quarter ended September 30, 2006, total costs of $81,800 should have been excluded since they were attributable to medical costs and/or residential services. The costs associated with residential services would be considered assistance, and although claimable under TANF, are subject to a number of requirements including work, time limits, and child support assignment, which were not applied by the Department, and should be excluded from the TANF claim. The claimable Alternative to Detention Program costs, for the quarter ended September 30, 2006, should have been $66,916.

Effect: Questioned costs totaling $81,800 were improperly claimed for Federal reimbursement under the TANF Program.

Cause: The Judicial Department did not follow the Inter-Agency TANF Claiming Procedure Manual developed by the Department of Social Services, which provides that medical costs and costs associated with residential services of the Alternative to Detention Program should be excluded from the claim.

Recommendation: The Judicial Department should not report for Temporary Assistance for Needy Families (TANF) program reimbursement of the Alternative to Detention Program, any unallowable medical costs or costs that may be considered assistance payments. In addition, the Department of Social Services should adjust its TANF claim for questioned costs totaling $81,800.

Agency Response: "The Judicial Department agrees with this finding. The Judicial Department plans to have a supervisory review of the TANF reports prior to submission to the Department of Social Services. In addition, concerning the $81,800 of questioned costs, the Department did expend additional State funds that can be claimed for Federal reimbursement. Accordingly there is no change to the amount of the Federal claim and no funds need to be returned to the Federal government."

III.A.16. 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 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

Food Stamps (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
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) disclosed problems. As of June 26, 2007, 3,313 alerts for the Medicaid, TANF and Food Stamps programs that were generated during the quarter ended September 30, 2006, have not been dispositioned (investigated, resolved and removed as appropriate). The dates that these alerts were due to be dispositioned ranged from July, 2006 to October 13, 2006. Each alert is assigned a specific due date generated by the system. It should be noted that the report dated June 26, 2007, that was provided to us only includes those alerts that were originally generated during the quarter ended September 30, 2006, that have not been dispositioned as of the report date. Those alerts that have been dispositioned are no longer on this report. Based on the alert report dated November 2, 2006, that was provided to us, the total number of alerts generated during the quarter ended September 30, 2006, was at least 23,298.

Our review of 25 alerts generated during the quarter ended March 31, 2007, that have not been dispositioned as of June 25, 2007, did not disclose any clients who no longer met 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 system not filtering 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. The Department will continue to enhance its procedures to assure that action is taken on these data matches and alerts are disposed of in a timely manner. The Department requested staff for the specific purpose of following up on TANF IEVS matches during the last legislative session. The General Assembly provided some funding for such staff to review wage matches and new hires matches. Regional offices are in the process of hiring this staff. The Department is also considering using overtime to attempt to address this deficiency."

III.A.17. 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 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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 State Department of Education.

Criteria: Title 45 Code of Federal Regulations (CFR) Part 92 Section 26, provides that grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 and revised Office of Management and Budget (OMB) Circular A-133 and that State governments shall determine whether subgrantees spent Federal assistance funds provided in accordance with applicable laws and regulations.

The Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, Subpart D - Section 400 (d) states that a pass-through entity shall perform the following for the Federal awards it makes:

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

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

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

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

Condition: Our audit disclosed that the State Department of Education (SDE) is not informing its subrecipients that some of the funds provided to them are Federal funds awarded under the TANF program. Further, the contracts between SDE and its 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 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 State Department of Education has 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 this finding. The Department has begun to insert required language into current contracts with non-State entities that claim TANF and/or CCDF funds. The Department will insert language in Memorandum of Agreements with State agencies with subsequent amendments or new agreements."

III.A.18. 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 2005-2006 and 2006-2007
Federal Award Numbers: G-0601CTTANF and G-0701CTTANF

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 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTCCDF and G0701CTCCDF

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G-060CTCOSR and G-0701CTSOSR

Low-Income Home Energy Assistance (LIHEAP) (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G06B1CTLIEA and G07B1CTLIEA

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 Child Care and Development Fund (CCDF) program, and 45 CFR 96.31, which applies to the Social Services Block Grant (SSBG) and Low-Income Home Energy Assistance program (LIHEAP), 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 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 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' procedures related to monitoring its subrecipients of the TANF, CCDF, SSBG and LIHEAP programs disclosed that the Department did not identify the Federal award information, including the CFDA title and number, award name and number, name of Federal agency, and award year, in the subrecipients' contracts or through any other communication. In addition, we noted that the Department's contracts with the subrecipients did not require that they pass through Federal program requirement information to their subcontractors.

We noted that five out of the five TANF subrecipients, 19 out of the 24 SSBG subrecipients, and ten out of ten CCDF subrecipients were not provided with this required Federal information. In addition, the Department provided SSBG funding to some of the CCDF subrecipients tested. We noted that the Department did not provide some of these CCDF subrecipients with a breakdown of funding sources unless requested. If funding sources are requested, it appears that the Department may not always communicate that the funds may be claimed as Federal program expenditures.

For the TANF program, desk reviews of the financial audit reports were not performed in four of the five cases. In addition, we noted that required programmatic and statistical reports were not on file for three of the five subrecipients tested.

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

For the SSBG program, we noted that some financial status, programmatic and statistical, or monitoring reports, required by the contracts, were not on file for seven out of 24 subrecipients tested. Our review disclosed that the Department did not have financial audit reports for three of the 24 subrecipients and the Federal reporting package required by OMB A-133 was not submitted by one subrecipient. Desk reviews of the financial audit reports received were not performed in 20 out of the 21 audit reports that were on file.

For the LIHEAP program, desk reviews of the financial audit reports received were not performed for the six subrecipients tested. The Department's review of clients' case files at Community Action Agencies (CAA) was performed late in the program year for the monitoring activity to be effective in preventing the disbursement of Federal funds on behalf of ineligible clients. Monitoring for four of the six CAA sampled were done in May and June when all program activity and related payments had ended for the program year. DSS noted exceptions in three of the four CAA, two of which involved overpayment of benefits.

Effect: The contracts are not in compliance with the Federal OMB Circular A-133. The Department cannot ensure that Federal funds are used for allowable activities. In addition, claimed Federal program expenditures are not identified as such which may result in required Federal A-133 audits not being performed.

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

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

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

Agency Response: "The Department agrees with this finding. Concerning the SSBG funds, the Department's contract monitoring staff is reduced and given the number of contracts each staff person has responsibility for, it has not been possible to monitor all contracts on a timely basis. The Department will determine if there are more efficient monitoring techniques that can be used to enable existing staff levels to effectively monitor all contracts.

Concerning the review of State single audit reports by subrecipients, the Medicaid Provider and Contract Audit Division is developing a subrecipient report tracking tool. In addition, to ensure that all required reports are reviewed in a timely manner, improved monitoring of staff production has been instituted through the establishment of workflow goals."

III.A.19. 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 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTCCDF and G0701CTCCDF

Background: The Child Care Facilities Loan Distribution program is a public-private partnership between the State of Connecticut, Department of Education, Department of Social Services, 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 to acquire equipment. The Small Direct Loan 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 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.

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.

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.

Condition: Our review of the Department of Social Service’s documentation used to prepare the Federal financial report for the State fiscal year ended June 30, 2007, disclosed that expenditures totaling $2,076,890 made under the Child Care Loan Distribution Program were claimed for Federal reimbursement under the Child Care Matching Funds of the Child Care and Development Fund Program. Further, additional expenditures totaling $2,076,890 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 $4,153,780 in expenditures was provided as loans for construction or substantial renovation of any building or facility.

The Department informed us that the expenditures made under the Child Care Loan Distribution Program are claimed only as its State match. However, the records used to prepare the Federal reports do not support this assertion. The supporting documentation commingles all expenditures reported as Matching funds and therefore, expenditures claimed cannot be identified as either State or Federal. The Department claims the State and Federal Matching funds on the Federal financial reports in accordance with the Federal Medical Assistance Percentage (FMAP) of 50 percent.

Effect: The Department could have claimed expenditures totaling $4,153,780 that were not allowable under Title 42 USC Section 9858d(b)(1) as its State and Federal Matching funds.

Cause: The Department thought that expenditures claimed from the CHEFA program were allowable because they had previously identified these expenditures as State Matching Funds to the Administration of Children and Families of the Federal Department of Health and Human Services.

Furthermore, the Department does not believe that the final Federal program regulations give specific references to the use or disallowance of State matching funds for construction purposes.

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

Agency Response: "The Department agrees with this finding. The Department has removed this expenditure from its claim for FFY 2007 in its report for the quarter ending September 2007. The Department will also be making changes to all prior years claims in which this finding was presented. These retroactive adjustments will be filed in the report for the quarter ending December 2007. No impact on Federal revenue is anticipated since excess TANF claimable expenditures will cover any required adjustment to this portion of the claim."

III.A.20. 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 2005-2006 and 2006-2007
Federal Award Numbers: G-060CTCOSR and G-0701CTSOSR

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, 2007, the Department drew down TANF funds totaling $25,978,708 that were to be used to carry out programs under SSBG.

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

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

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

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

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

Agency Response: "The Department agrees with this finding. The Department will work on implementing 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.21. 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 2005-2006 and 2006-2007
Federal Award Numbers: G-060CTCOSR and G-0701CTSOSR

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G06B1CTLIEA and G07B1CTLIEA

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 31 Code of Federal Regulations Part 205 Section 33 provides that States should exercise sound cash management in funds transfers to subgrantees.

Condition: We tested advances made to five 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 three of five 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 sound cash management is being used for advances made to subrecipients of the Low-Income Home Energy Assistance and Social Services Block Grant programs.

Agency Response: "The Department agrees with this finding. The budget/payment provision of the contracts for CEAP includes a section where the subgrantee agrees to release vendor payments, as approved by the Department and identified on the CEAP financial reports, within 72 hours of receipt of the funds.

The Department does not give the subgrantees the capacity to drawdown funds on an as needed basis. Instead, in order to ensure compliance with the Federal cash balance requirements, the Department continues to make payments on a weekly basis within a 6-month period for all of the agencies. The Department uses the aforementioned reports to determine when payments need to be made for services provided to eligible clients.

It should be noted that it may not be accurate to determine compliance by comparing cash balances to the average weekly expenditures, as done by the Auditors, because the nature of the program does not provide for disbursements to be the same amount each week.

Concerning the SSBG funds, given the number of contracts and the available staff, the Department does not have the capability to process payments more frequently than quarterly at this time."

III.A.22. Allowable Costs/Cost Principles – Unnecessary Costs

Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: H126A060007 and H126A070007

Background: Vocational rehabilitation services are provided through the Department of Social Services, Bureau of Rehabilitation Services (BRS). Per the BRS policy manual, the authorization procedure for the purchase of books and supplies at a college-run bookstore includes obtaining information from the college's Financial Aid Office on a form VR-21 as a cost basis, and completing a State invoice (RS-15) to authorize the purchase. The RS-15 is forwarded to the bookstore and provides the bookstore with the amount authorized for books and supplies. Completion of the RS-15 requires authorization by the Bureau's District Director. Case notes should support any authorization of purchases that significantly exceeds the cost basis established by the VR-21.

We sampled 40 transactions totaling $154,510 from a population totaling $2,937,809. Our review disclosed one transaction that included unnecessary costs.

Criteria: The Office of Management and Budget (OMB) Circular A-87 requires that costs charged to Federal programs should be necessary and reasonable.

Condition: The cost basis for books and supplies for one student enrolled part-time, per the Financial Aid Office, was $250 for the fall 2006 semester. However, on September 15, 2006, the District Director authorized $1,411 for the purchase of books and supplies. There is no explanation in the client's case file that would justify an amount beyond what was estimated by the Financial Aid Office.

The actual cost of books and supplies purchased by the client on September 18, 2006, and September 29, 2006, totaled $1,037. This entire amount was funded by the Vocational Rehabilitation program and exceeded the reasonable cost basis of $250 by $787. Additionally, the quantities and types of items purchased appeared unreasonable and unnecessary based on the two courses enrolled by the client, Addiction Counseling I and General Psychology. For instance, the client purchased two biology books, one scientific calculator, 16 notebooks, eight varieties of pens (totaling 48 pens), and two backpacks.

Effect: Certain costs funded through the Vocational Rehabilitation program did not comply with OMB Cost Circular A-87. The amount of questioned costs totaled $787.

Cause: The expenditure description as contained on the RS-15 was vague and did not provide the District Director with adequate information to support a qualified authorization. The District Director should have requested additional explanation from the counselor before authorizing a request that was more than five times the reasonable cost basis for such a purchase.

There was no evidence found in the case notes that the counselor discussed with the client the types of books and supplies that were necessary and reasonable based on the enrolled courses and the individual client needs before the purchase was made. Although the Department claims that it is common practice for counselors to conduct such a discussion during the Employment Plan review, which would be documented in the supporting case notes, the BRS policy manual does not specifically address this issue.

Recommendation: The Department of Social Services should require its counselors of the Vocational Rehabilitation program to provide more information on the expenditure authorization form so that District Directors are more informed of the items being purchased before approving the expenditure authorization. Additionally, the Department should review its training practices to ensure that counselors are aware of their responsibility to inform clients of the items that are necessary and reasonable for those purchases that are made directly by the client.

Agency Response: "The Department agrees with this finding. Effective immediately; (1) all authorizations (RS-15) for books and supplies shall contain the statement "Supplies not to exceed $25", unless otherwise noted; (2) all invoices received from college bookstores will be reviewed by both the counselor assigned to the case and the Fiscal Administrative Assistant to determine reasonableness prior to payment; and (3) all regional staff will be informed of the audit finding and trained in these new procedures by January 31, 2008."

III.A.23. Special Tests and Provisions – Utility Allowance Schedule

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, 2007
Federal Award Number: ACC CT 901 VO

Background: Utility allowances represent the allowances that are paid to Section 8 participants who must pay for their own utilities. The utility allowance schedule includes utilities such as: gas heating, cooking and water heating; oil heating and water heating; electric heating, cooking and water heating; propane heating, cooking and water heating; general electric; water; sewer; trash collection; range allowance and refrigerator allowance. Utility allowances are based on average consumption for similar units in the same geographic area and are not tied to specific dwelling units. The Department obtains gas, oil, electric, propane, water, sewer and trash collection rates from various companies. The Department uses the averages of all of the quotes for each individual utility to calculate the utility allowance for a unit by bedroom size. The utility allowance is calculated for each family based on the Department's schedule of average utility consumption by unit size for each of the family paid utilities.

Criteria: Title 24 Code of Federal Regulations Part 982 Section 517 provides that the Department must maintain an up-to-date utility allowance schedule. The cost of each utility and housing service category must be stated separately. The utility allowance schedule must be determined based on the typical cost of utilities and services paid by energy-conservative households that occupy housing of similar size and type in the same locality. In developing the schedule, the Public Housing Agency (PHA) must use normal patterns of consumption for the community as a whole and current utility rates. The PHA must use the appropriate utility allowance for the size of the dwelling unit actually leased by the family. At reexamination, the PHA must use the PHA current utility allowance schedule.

Condition: We reviewed the Department's utility allowance schedule prepared for the period December 1, 2006 to November 30, 2007. Our review disclosed that 56 out of the 190 utility allowance amounts included on the Schedule were inaccurate. These errors were based on the Department incorrectly calculating the utility amounts based on the data obtained from the utility companies. The inaccuracies range from an overstatement of $1.00 up to an overstatement of $6.00.

Effect: Management has less assurance that the correct utility allowances are being paid to clients.

Cause: The incorrect calculations of utility allowances were due to clerical errors.

Recommendation: The Department of Social Services should ensure that the amounts included on the utility allowance schedule accurately reflect the correct rates used in determining the utility allowance payment.

Agency Response: "The Department agrees with this finding. Inasmuch as the discrepancies were caused by clerical errors, in the future, the Department will double check the utility rates used when establishing the utility allowance schedule."

III.A.24. 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, 2007
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(3) 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: From the log of units that failed inspections, we reviewed a sample of ten units for compliance with housing quality standard enforcement. We noted one case where the deficiencies were not corrected in a timely manner and the Department did not properly stop the housing assistance payments. The unit failed its housing quality standard inspection on March 14, 2007. A letter was sent to the landlord on March 15, 2007, stating the deficiencies that were noted during the inspection and that the deficiencies were to be corrected by April 26, 2007, or the housing assistance payment will be stopped on the next due date. There was no documentation on file showing that the landlord corrected the deficiencies within the required period of time. The unit failed a re-inspection on May 31, 2007. On June 11, 2007, the unit passed a subsequent re-inspection. The housing assistance payment for this unit was stopped effective June 1, 2007, but was not stopped effective May 1, 2007, which was the stop date required by Federal regulations. The delay in correcting the deficiencies resulted in an improper payment of $654 made on May 1, 2007.

Effect: Our review disclosed that the landlord did not correct the HQS deficiencies within the specified correction period for one out of the ten failed inspections tested. Further, the State did not stop a housing assistance payment in the amount of $654 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 ten 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 re-inspection was not performed within 30 days of the failed initial inspection. As a result, the PHA was not aware that the housing assistance payment for May 1, 2007, should have not been paid.

Recommendation: The Department of Social Services 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 payment improperly paid to the landlord.

Agency Response: "The Department agrees with this finding. The Department will work to process abatements in a timelier manner. In addition, the Department will pursue recovery of the $654 housing assistance payment improperly paid to the landlord.

III.A.25. Eligibility – Ineligible Client and Inadequate Documentation

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5021 and 05-0705CT5021

Background: In conjunction with administering the State Children's Insurance Program (SCHIP), the Department contracts with Managed Care Organizations (MCOs). The MCOs are paid a monthly capitation rate for each child that is receiving medical services. In addition, the Department contracts with 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 cost 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 MCOs 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 $6,332 made on behalf of SCHIP recipients from a total of 203,358 claims totaling $30,721,590. Of this $30,721,590, the Department reported $29,002,658 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 $18,851,728 (based on the 65 percent Federal financial participation rate).

Our review disclosed that, in three cases, the Department's vendor failed to properly calculate the applied income amount used to determine if and how much capitation payment should be made on behalf of the client. In all three cases, the incorrect calculation resulted in an understatement of applied income amounts. In one of the three cases, the client was erroneously placed in HUSKY Band 2 instead of Band 3. This resulted in the Department incorrectly paying a portion of the capitation rate to the Managed Care Organization. The other two cases did not effect the clients' eligibility.

We also noted that in the two other cases, the correct amount of applied income could not be determined because of inadequate income and expense documentation on file.

Effect: The conditions noted above indicate that controls are not always effective in preventing unallowable costs from being claimed under the Federal program. In one case, we determined that the Department overpaid a Managed Care Organization $138. We consider the Federal share, which is $90, of the overpayment to be unallowable under the Federal program.

Cause: It appears that the internal controls of the vendor performing the eligibility determination for the Department are inadequate. The errors resulted because eligibility service workers did not follow established procedures. Specifically, the required documentation was not obtained or the submitted documents were not used to properly determine whether the client met the income eligibility criterion. Further, the established method for calculating applied income was not followed.

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 this finding. The Department completed a review of HUSKY B eligibility procedures in June 2007. As a result, the vendor restructured both the format of the eligibility procedure manual and the format of each individual procedure and updated some procedures to reflect current policy.

Additionally, random case audits were performed by the Department on a monthly basis between January and July 2007 finding an error rate of 1.7 percent. These random case audits will continue in order to ensure that eligibility workers are following established procedures.

Finally, our vendor is improving its Quality Assurance Program by including oversight responsibility of all training and staff development curricula. It is expected that all of these actions will result in accurate determinations of eligibility for the State Children's Health Program."

III.A.26. Reporting

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2006-2007
Federal Award Number: 05-0705CT5021

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

Criteria: Title 42 Code of Federal Regulations Part 457 Section 630 provides that the Department must submit Form CMS-21B (State Children's Health Insurance Program Budget Report for the Title XXI Program State Expenditure Plan) and Form CMS-21 (Quarterly State Children's Health Insurance Program Statement of Expenditures for Title XXI) to CMS. The Form CMS-21 is the State's accounting of actual recorded expenditures. CMS computes the

SCHIP grant award based on the estimate of expenditures for the ensuing quarter and the amounts by which that estimate is increased or decreased because of an underestimate or overestimate for prior quarters. The grant award authorizes the State to draw Federal funds as needed to pay the Federal share of SCHIP disbursements.

Condition: We reconciled the Form CMS-21 submitted for the quarter ended December 31, 2006, to supporting documentations. We also performed analytical reviews of the reports submitted for the remaining three quarters in the State fiscal year ended June 30, 2007. During the course of our review, we noted errors on each of these Forms. The net effect of the errors is a $349,184 overstatement of gross expenditures. This net amount is based on an overstatement of gross expenditures totaling $496,800 and an understatement of gross expenditures totaling $147,616. The following is a summary of the errors noted during our review of the CMS-21 reports.

(1) Gross administration expenditures reported on the CMS-21 submitted for the quarters ended September 30, 2006, December 31, 2006, and March 31, 2007, were in excess of actual administrative expenditures incurred for the program by $125,915, $178,309, and $192,576, respectively, totaling $496,800. The Department was aware of this error prior to our review, and we were informed that an adjustment will be made for the claim submitted for the quarter ended December 31, 2007.

(2) On the CMS-21 submitted for the quarter ended March 31, 2007, the amount reported on Line 25 was ($88,464). However, based on supporting documentation showing additional program expenditures totaling $137,490, the Department should have reported $49,026.

(3) On the CMS-21 submitted for the quarter ended December 31, 2006, the Department reported a negative prior period adjustment of $10,126. The Department could not provide us documentation to support this adjustment. This adjustment resulted in an understatement of expenditures.

Effect: The Department overstated SCHIP gross expenditures by $349,184. Based on applying the Federal financial participation rate (65 percent) to the above errors, the Department overstated its Federal share of SCHIP by $226,970. As a result, CMS would have incorrectly computed the grant award, which authorizes the State to draw Federal funds as needed to pay its Federal share of SCHIP disbursements.

Cause: The amount claimed for administration was based on 10 percent of current period expenditures instead of the actual administrative expenditures allocated to the program through the Cost Allocation Plan.

The Department failed to include program expenditures from all program accounts.

Recommendation: The Department of Social Services should report the administration amount on the Form CMS-21 based on expenditures allocated to the State Children's Insurance Program (SCHIP) in accordance with the Cost Allocation Plan. In addition, the Department should ensure that all eligible SCHIP expenditures are reported on the Form CMS-21.

Agency Response: "The Department agrees with this finding. The Department will be making the necessary adjustments to its upcoming quarterly filing for the SCHIP program for items 1 and 2. It should be noted, however, that the backup for the $10,126 prior period adjustment has been located and therefore no further action is necessary for item 3."

III.A.27. 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 2006-2007 and 2007-2008
Federal Award Numbers: 2 X07H00022-16-00 AND 2 X07H00022-17-00

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 $12,255 to determine whether the clients met the eligibility requirements of the Federal program. This sample was selected from a universe of 70,684 transaction totaling $14,955,397. This amount consisted of $14,361,689 in Federal funds and $593,708 in State funds. Of these amounts, the net expenditures were $12,641,656 and $594,025, respectively. The differences were due to mostly cash refunds and funds received from third parties. 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 ($14,361,689) represent 96.03 percent of the total combined gross Federal and State funds ($14,955,397).

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 $12,255 disclosed the following:

1) Three payments totaling $46 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 22 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. Per our request the Department attempted to obtain the medical diagnoses from these clients in which nine clients provided the information and one client was deceased.

Effect : The above errors resulted in improper payments totaling $44 based on the 96.03 percent of Federal expenditures. Without the medical information, we could not specifically substantiate whether 12 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 this finding. The Department is seeking new avenues for clients to provide proof of income for eligibility purposes. In addition, concerning the documentation to support a medical diagnosis of HIV disease for 22 clients, the Department has followed-up on this item and has received 10 client medical diagnoses and 1 notification that the client has passed. As indicated in the finding, these errors occurred at the start of the program when the Department did not retain the initial applications which contained a section to be filled out by the client's physician. The Department was not cited for the lack of documentation for any current applications."

III.A.28. 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 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTCCDF and G0701CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 0604CT4004 and 0704CT4004

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5021 and 05-0705CT5021

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 2005-2006 and 2006-2007
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 2005-2006 and 2006-2007
Federal Award Numbers: H126A060007 and H126A070007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 04-0604CTDI00 and 04-0704CTDI00

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Number: ACC CT 901 VO

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G06B1CTLIEA and G07B1CTLIEA

HIV Care Formula Grant (CFDA#93.917)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 2 X07H00022-16-00 AND 2 X07H00022-17-00

Background: The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department's Federally approved Cost Allocation Plan (CAP). Each expenditure 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. Costs are allocated to programs based on the allocation basis assigned to the respective cost pools. The Department contracted a vendor to develop the Cost Allocation Plan.

The Department of Social Service's Cost Allocation Plan, effective July 1, 2006, provides that as part of its Random Moment Time Study, the

Department will be reviewing ten percent of worker-selected program and activity combinations along with the comment provided by the employee being sampled. The results of the review will be used to review the continuing appropriateness of valid program/activity combinations and monitor worker understanding of appropriate program/activity selection to assess the need for further clarification and/or training.

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 the some of allocation bases used in the Department's Cost Allocation Plan disclosed that 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.

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

would receive costs from the first unit listed in the hierarchy but would not received costs from the unit listed third in the hierarchy. Our review disclosed that the hierarchy used in the Department's CAP did not provide an equitable basis for allocating costs to benefiting programs.

3. The Department provided us a report of the Random Moment Time Study conducted by the Department for the quarter ended September 30, 2006. This report consisted of 2,956 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 20 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 two observations in which the program codes do not appear to be reasonable. In both cases, the program codes did not coincide with the services received by the clients. The comments stated that the employees were working on multiple programs; however, the employees selected program codes that applied to only one of the programs.

4. The Department of Social Services is not adequately monitoring its Random Moment Time Study. During the fiscal year ended June 30, 2007, the Department only completed its review of ten percent of sampled observations during the June 30, 2007 quarter. Further, the Department did not follow-up on any discrepancies noted as a result of the review that it completed. Following up on discrepancies by the Department could alleviate the errors by providing the applicable employees with additional training or guidance in completing their responses to the Random Moment Time Study.

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

Cause: 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. For condition 4, it appears that the Department did not establish procedures during the fiscal year for completing and following up on its ten percent review of Random Moment Time Study sampled observations.

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

Agency Response: "The Department is still researching the first condition, the Department does not agree with the next two conditions cited, and the Department agrees with the last condition.

The Department does not agree with the second condition which states that the hierarchy used in the two-step allocation process does not provide an equitable allocation of costs. The order of Central Service Departments in MAXCARS is based on the Chart of Accounts and organizational structure of the Department, which appears to be the most equitable manner for establishing the structure of the step down allocation.

While the Department does agree that the responses to the two RMS items in question is not consistent with the chosen program selection, the Department does not believe that the two items would materially impact the results of the Department's RMS time study. It should be noted that the Department has intentionally used a larger sample size than needed to provide assurance that the RMS results are statistically valid when taken as a whole.

The Department agrees with the last condition cited. The Department implemented its new RMS quality assurance system during the fiscal year ending June 30, 2007. This has taken longer than expected, however, beginning with the quarter ended September 30, 2007, the Department has reviewed 100 percent of the responses received (3,500) and as a result sent over 140 e-mails to employees sampled, provided training materials, and identified instances where comments were not consistent with the program or service selected by the employee. The intense training effort was successful and the Department is currently continuing this quality assurance process at 10 percent. The Department is also continuing to provide direct feedback to the employees sampled when comments appear to be inconsistent with the selected programs or activities."

Auditors' Concluding Comment:

Our review disclosed that the costs associated with some of the Central Service Departments were not allocated to all benefiting programs during the second step because, in the hierarchy being used, these Departments were below the programs that should have been allocated costs. As a result, the costs accumulated during the second step for some of these Central Service Departments would be allocated to all the programs below the departments and none of the programs above these departments would receive these costs. As a result the hierarchy order of the Central Services Departments used in the Department's allocation system is not providing an equitable basis for allocating costs.

Our review disclosed two out of the 20 (ten percent error rate) random moments tested were not correct. Although the specific two errors in question would not have a material financial impact, the ten percent error rate in our test does disclose significant deficiencies associated with the random moments being used by the Department and apparent misunderstanding by some of the staff on how to complete the random moment study.

III.A.29. 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 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5028 and 05-0705CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTCCDF and G0701CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 0604CT4004 and 0704CT4004

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605CT5021 and 05-0705CT5021

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 2005-2006 and 2006-2007
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 2005-2006 and 2006-2007
Federal Award Numbers: H126A060007 and H126A070007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Awarding Agency: Social Security Administration
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 04-0604CTDI00 and 04-0704CTDI00

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Number: ACC CT 901 VO

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G06B1CTLIEA and G07B1CTLIEA

HIV Care Formula Grant (CFDA#93.917)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 2 X07H00022-16-00 AND 2 X07H00022-17-00

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

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

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 $697,704. This sample was randomly selected from expenditure transactions totaling $102,208,369 made during the fiscal year ended June 30, 2007. 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:

1) Three expenditures were not assigned the proper expenditure codes, which result in the expenditures being allocated to the incorrect cost pool. We noted the following:

   - One expenditure for $5,026 was for envelopes used by the State Children's Insurance Program. This transaction was allocated to all programs administered by the Department except the Vocational Rehabilitation and Supplemental Security Income programs. However, the expenditure would only benefit the State Children's Insurance Program.

   - One expenditure for $58,875 was for the admission and retrospective utilization review for recipients of the Medicaid program and the State-Administered General Assistance (SAGA) program, which is a State medical assistance program for non-Medicaid recipients. However, costs were allocated to other programs, which resulted in an under claim in the Medicaid program.

   - One expenditure for $138 was for wheelchair request forms used by the medical programs that are administered by the Department. This transaction was allocated to all programs administered by the Department except the Vocational Rehabilitation and Supplemental Security Income programs. However, the expenditure would only benefit the medical 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)
CCDF	$ 35	$ 0
Child Support Enforcement	612	404
Disability Insurance	26	26
Food Stamps	995	498
HIV Formula Care Grant	3	3
LIHEAP	10	10
Medicaid	(3,744)	(3,251)
SCHIP	(4,913)	(3,193)
Section 8	16	16
TANF	454	290
Vocational Rehabilitation Services	31	31
Miscellaneous State and Federal Grants	6,475	N/A
Net Total	$ 0	$ (5,166)

The questioned costs and unclaimed Federal reimbursements are based on the Federal programs' financial participation rates except for the TANF program, which is based on the Department claiming for Federal reimbursement only 64 percent of the administrative expenditures. There were no questioned costs for CCDF because the Department did not claim for Federal reimbursement the allocated administrative costs. Rather, the Department used these costs to meet its share of the State's maintenance of effort required by the program.

In addition, we sampled 40 payroll transactions totaling $97,624. This sample was randomly selected from payroll transactions totaling $125,430,926 that were made during the fiscal year ended June 30, 2007. These payments were allocated to State and Federal programs through the Department's Cost Allocation Plan. Our test of payments disclosed the following:

- One payroll transaction for $2,272 was not allocated to all benefiting programs. The expenditure was for an eligibility worker that was stationed in Bridgeport Hospital. The eligibility worker determined client eligibility for Medicaid and the State medical program. The payroll costs were allocated only to the Medicaid program through the Cost Allocation Plan. However, some costs associated with the employee also benefited the State medical program. The Department claimed a portion of the $2,272 at 90 percent Federal financial participation and a portion at 50 percent Federal financial participation, which resulted in the Department incorrectly claiming

$1,281 under the Medicaid program. Based on allocating costs to all applicable programs, the Department should have claimed $1,136. This resulted in questioned costs in the amount of $145 being charged to the Medicaid program.

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 $404, $26, $498, $3, $10, $16 and $31 were charged to the Child Support Enforcement, Disability Insurance, Food Stamps, HIV Formula Care Grant, LIHEAP, Section 8, TANF and Vocational Rehabilitation programs, respectively. We also determined that the Department under claimed $3,106 and $3,193 under the Medicaid and SCHIP programs, respectively.

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

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

Agency Response: "The Department agrees with this finding. The audit issues cited generally pertain to the proper coding of expenditures and payroll transactions and its effect on the resulting cost allocation. The direct responsibility for the coding of expenditure transactions resides with the staff processing payment requests. In the area of payroll coding, we have a comprehensive process for identifying errors. Directors are now being requested to review coding of staff on a quarterly basis. In addition, during the past year, the Division of Financial Management and Analysis has held individual meetings with Directors to discuss coding issues and to address any issues that needed attention.

The Department continues to strive for a zero error rate. In comparison to the universe of claims reviewed, the improper allocations were $2,263 out of a total of over $795,000 or an error rate of 0.28 percent. The Department, after confirming the amounts cited by the State Auditors, will make adjustments for any amounts over $100 since lesser amounts are considered immaterial.

Concerning the questioned costs for the CCDF, SCHIP and TANF programs; the Department expended additional State funds that can be claimed for Federal reimbursement. Accordingly there are no changes to the amounts of the Federal claims and no funds need to be returned to the Federal government relative to the CCDF, SCHIP, and TANF programs."

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

III.B.1. Matching, Level of Effort, Earmarking

Substance Abuse Prevention and Treatment Block Grants (CFDA #93.959)
Federal Award Agency: Department of Health and Human Services
Award Years: 2003, 2004, 2005, 2006 and 2007
Federal Award Numbers: 03B1CTSAPT, 04B1CTSAPT, 05B1CTSAPT, 06B1CTSAPT, B1CTSAPT-07-1

Criteria: Maintenance of Effort requirements for the Substance Abuse Prevention Treatment Block Grant (SAPT) include:

1. Provisions of Title 45 Code of Federal Regulations Part 96 Subpart L Section 96.134 require that:
   "the Agency shall for each fiscal year maintain aggregate State expenditures by the principal agency for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the two year period preceding the fiscal year for which the State is applying for the grant."

2. Provisions of Title 45 Code of Federal Regulations Part 96 Subpart L Section 96.127 require that:
   "With respect to services provided for by a State for purposes of compliance with this section (providing tuberculosis services to substance abusers in treatment), the State shall maintain Statewide expenditures of non-Federal amounts for such services at a level that is not less than an average level of such expenditures maintained by the State for the 2-year period preceding the first fiscal year for which the State receives such a grant".

The SAPT Block Grant application requires that the total State tuberculosis expenditures, and the percentage of tuberculosis expenditures spent on Clients who were substance abusers in treatment be reported.

Condition:

1. The maintenance of effort (MOE) level reported by the Department of Mental Health and Addiction Services (DMHAS) for State substance abuse costs for the State fiscal year ended June 30, 2007, could not be properly supported. Our review disclosed there were calculation errors in compiling costs as well as a lack of documentation of the methodology that was used to allocate administrative costs.

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

2. The Agency did not have written documentation to support the percentage of tuberculosis expenditures spent on clients who were also substance abusers in treatment. This information was obtained verbally through an undocumented telephone conversation with the State Department of Public Health staff.

Effect:

1. Compliance with MOE requirements cannot be verified due to calculation errors and the inability to document the basis and methodology used to allocate administrative costs.

2. Compliance with MOE requirements cannot be verified due to a lack of written documentation for figures obtained from the State Department of Public Health.

Cause:

1. Agency personnel are continuing to develop procedures in calculating the MOE that include utilizing the new Core-CT State accounting system. In addition, MOE reporting weaknesses in prior years results in the inability to document that current years MOE requirements are being met.

2. Agency personnel did not obtain written documentation from the State Department of Public Health for the percentage of tuberculosis expenditures spent on clients who were also substance abusers in treatment.

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

Agency Response: "Condition 1. The Department ensures that the financial data reported for the direct charges to each program agrees with the data maintained by the State Comptroller's Office. The Department has also simplified the manner in which allocations of indirect charges are made, so that percentages and amounts are more readily verifiable. The substance abuse portion of the General Assistance expenditures are reported in the maintenance of effort. Furthermore, the Department has requested technical assistance from SAMHSA/CSAT to assist DMHAS in the review of the Maintenance of Effort calculations/requirements for the Substance Block Grant. The Department has had several telephone consultations with SAMHSA staff to clarify MOE reporting issues which have resulted in new documentation procedures when determining the MOE allocation. It is anticipated that on-site consultative services with SAMSHA personnel will commence in the first quarter of calendar year 2008.

Condition 2. The Department will continue to work with the State Department of Public Health (DPH) to obtain proper paper documentation for the reporting of the percentage of tuberculosis expenditures as reported for the SAPTBG.

For both conditions, the Department expects resolution by the end of the current fiscal year (6/30/08)."

C. DEPARTMENT OF LABOR

III.C.1. Reporting – ETA 227 Overpayment Detection and Recovery Activities

Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Year: State Fiscal Year 2006-2007
Federal Award Number: UI157890755

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

Condition: The ETA 227 report for the quarter ended June 30, 2007, was prepared using the same type of supporting documentation used in preparing previous ETA 227 reports. As previously reported, not all amounts could be traced to the Department's financial accounting system using this documentation.

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

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

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

Agency Response: "We agree with this finding. The ETA 227 Report is in the process of being automated by the Information Technology Unit (IT) to both eliminate extensive preparation time and more accurately report the collection of overpayments greater than four years old. IT has significantly decreased the amount of time to complete this report, but has not up to this date been able to totally automate the aging section resulting in the final balance having to be adjusted. IT has tried several different methods to complete the project, including the inclusion of a new collection screen, but they still do not have a final fix to complete the project. It is expected with a weekly work group that the project will be completed by the fourth quarter of 2008."

D. DEPARTMENT OF PUBLIC HEALTH

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

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, 2005-2006, and 2006-2007
Federal Award Numbers: U90/CCU116996-05, U90/CCU116996-06, U90/CCU116996-07, 5U01CI000307-03, 5U01CI000307-04, and U55/CCU121932-05

Immunization and Vaccine Grants for Children (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: CCH122525-04 and CCH122525-05

HIV Care Formula Grants (HIV) (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: XO7HA00022-16 and XO7HA00022-17

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 $275,000 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 28 payments totaling $3,796,018 we noted that the timing of 14 payments totaling $2,427,324 were not based on the contractors' cash needs.

CFDA	Sample Size		Population	Audit Exception		Amount
#	#	Amount		#	Amount	Recovered
10.557	5	$ 178,456	$ 7,108,943	-	$ -	$ -
93.268	5	63,112	1,085,618	1	13,589	-
93.283	11	3,326,086.00	7,890,227	10	2,284,542	96,337
93.917	7	228,364.00	2,444,638	3	129,193	-
Total	28	$ 3,796,018.00	$ 18,529,426.00	14	$ 2,427,324.00	$ 96,337.00

Effect: From our review of the Department's records we found that during the 2007 State fiscal year there were 156 deposits from subrecipients who returned a total of $1,456,698 in excess funds.

Cause: The Department does not properly determine its subrecipients' cash needs.

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 in part with this finding.

The Code of Federal Regulations (CFR) is very complex, detailed and at times, multiple sections may apply to specific activities of the grant under review. In part, the Department chooses to carry out the mission of ensuring health services through local organizations that are our healthcare partners. These organizations and the health departments in Connecticut are the first line providers of services and education to clients. To ensure these organizations are ready and able we provide funding to them, via contracts and payment schedules. This manner of funding the first line providers is our best effort of cash management that meets both the goal of minimizing cash draw timeframes and remains consistent with program purposes. The Department's resources are such that improvements to this area will be difficult to achieve without a redirect of time away from delivery of services to clients. This is not a choice we are prepared to make. We will continue to look for opportunities in both policy and procedural areas to improve on this finding."

III.D.2. Cash Management – Timing and Calculation of Agency Cash Requirements

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 Year 2006-2007
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, 2005-2006, and 2006-2007
Federal Award Numbers: U90/CCU116996-05, U90/CCU116996-06, U90/CCU116996-07, 5U01CI000307-03, 5U01CI000307-04, U55/CCU121932-05, and U58/CCU122927-04

Immunization and Vaccine Grants for Children (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: CCH122525-04 and CCH122525-05

HIV Care Formula Grants (HIV) (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: XO7HA00022-16 and XO7HA00022-17

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

Condition: Our testing of Federal cash management noted that the Department’s internal controls over cash management failed to detect excessive Federal and State liabilities.

- The Department seeks reimbursement of its biweekly expenditures; generally without verifying the accuracy of the draw by reconciling to the amounts previously drawn. Draws are generally made in intervals from one day and two weeks apart. Each quarter the Department calculates an additional Federal draw by reconciling its periodic financial reports against the amount of Federal cash already drawn. These financial reports include expenditures of the last period, for which a draw has not yet been requested. However, we noted that subsequently the Department does make a draw for that period resulting in a duplicate draw for the same expenditures. This overdraw is not corrected until the subsequent quarter's financial reconciliation is completed, at which time the error may be repeated and a new duplicate draw can occur. The following table summarizes the population and specific exceptions noted by our audit.

CFDA #	Population of Draws	Duplicate Quarterly Draws	
10.557	$ 39,305,649	-	$ -
93.268	5,235,613	-	-
93.283	19,653,105	3	3,167,172
93.917	15,364,457	1	425,372
	$ 79,558,824	4	$ 3,592,544

- Between March 3, 2007 and May 14, 2007, there were expenditures totaling $7,292,607 for the HIV, CDC, and IMM grants for which no cash draws were made, although three cash draws were made for other Federal programs. Historically, the average daily total of the draws for all grants was just over $1 million. On May 15, 2007, the Department made draws totaling $11,242,756, of which $7,514,411 was for the HIV, CDC, and IMM grants.

- During March 2007, a drawdown totaling $699,515 was made for the 2003 CDC grant award (8/31/01 to 8/30/03). We were told that this amount represents the cash balances that were remaining in the 2001, 2002, and 2003 awards. The Department asserts that the full amount of these awards should have been drawn based on the periods' financial status reports and the related periods' carryovers that were spent in the 2004 and 2005 award periods. We could not verify these assertions, as some of the detailed supporting documentation was not readily available. We noted that the Department did not reduce the amount of this draw by the amount of unspent funds that were recovered from its subrecipients between November 2003 and May 2006, totaling $149,809. We were told that these recoveries have not been returned to the CDC.

- The Department overdrew a 2005 CDC grant by $1,147,914 and held the excess funds for over a year. This occurred when the Department drew a total of $12,263,380, almost the full amount of the 2005 award plus a carryover from a prior period. While preparing its final financial status report for the award during December 2005, the Department made overdue accounting adjustments that reduced the award's total expenditures by $1,147,914. The Department neither returned the excess cash nor offset it against future draws. We were told that the Department did not return the funds because it was calculating the amount of the draw that is addressed in the preceding bulleted paragraph and believed that the net effect would be minimal. However, the lack of timeliness and accuracy when calculating that draw only extended the length of time that these excess funds were held.

In addition, the Department was subsequently authorized by the Federal Agency to carryover the $1,147,914 to the 2006 award. Based on the General Ledger, the Department continued to draw funds against this award until December 2006. Between December 2006 and June 2007, the Department did not make any draws and returned a total of $356,680. In addition, we estimate that the Department did not pursue reimbursement of net expenditures totaling $325,979. As a result, it appears that as of June 30, 2007, this account was still overdrawn by approximately $465,000.

- The Department calculates the amount of WIC grant drawdowns separately from other awards. We did not note any exceptions regarding the Department's draws for the reimbursement of food and administrative costs totaling $36,831,654. In addition, the Department paid $3,823,894 in other expenses, of which it only sought reimbursement of $2,933,524, resulting in a Federal liability of $890,370. The Department is aware that it has not drawn the full amount of its costs and intends to make this final drawdown upon its completion of a final Federal financial report.

Effect: Ineffective controls over drawdowns of Federal cash can result in excessive Federal or State liabilities. The Department has a State liability of $149,809 for the 2003 CDC award.

Cause: The Department's method for calculating cash draws does not rely solely on reconciliations between cumulative expenditures (net of credits) and the total cash drawn for each award. The Department could not explain why there were no draws made between March 3, 2007 and May 14, 2007. Delays in posting accounting corrections to the CDC account contribute to these errors. Delays in recording accounting adjustments are also addressed in our finding III.D.3.

Recommendation: The Department of Public Health should improve its policies and procedures over cash management to minimize its Federal cash balance.

Agency Response: "We agree with this finding.
The agency policy for requesting reimbursement on Federal grants is bi-

weekly in accordance with our Cash Management Agreement with The Secretary of the Treasury, United States Department of the Treasury. As of September 2005, the agency was unable to request reimbursement as a result of insufficient funds in the Payment Management System (PMS) for the U90/CCU116996-05 account. Further inquiry with CDC revealed that the $10,078,812 posted in the PMS for reimbursement represents only cash awarded for that year and all related carryover approved for that same grant remained in the years they were originally awarded (Year 1, Year 3, and Year 4 respectively.)

As such, the agency had to recalculate its reimbursement request in order to draw upon the carryover balances as well as process a book adjustment to reduce the U90/CCU116996-05 report expense as well as cash drawn on that account.

The agency requested reimbursements on a portion of the carryover balances but could not fully process a book adjustment on the give back because some of the carryover balances were still in the G-Account of the PMS where the awards were posted at the inception of the grant. A major reconciliation of the G-Account had to be done, thus resulting in a delay on the give back of $1,147,914 reported in the 2004-2005 Financial Status Report. The agency was able to finally reconcile and request the balance of $699,515.00 from the G-Account in March 2007, at which time the $1,147,914 was given as carryover to the U90/CCU116996-06 grant year.

This delay is a result of the difficult and confusing nature of how CDC posted and continues to post their awards and carryovers in the PMS. The agency has since developed a mechanism to better address this issue. In addition, two staff members are scheduled for training in Washington, DC on the payment processing systems.

The agency acknowledges the delay in requesting reimbursements between March 3, 2007 and May 14, 2007. At the time, the agency was involved in a major cash draw down reconciliation project involving the grants of the Environmental Protection Agency and the Connecticut Office of the State Treasurer. This reconciliation was time consuming and resulted in the delay of the regular scheduled drawdowns. Upon completion of the project, the agency resumed its process accordingly.”

III.D.3. 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 Year: Federal Fiscal Year 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, 2005-2006, and 2006-2007
Federal Award Numbers: U90/CCU116996-05, U90/CCU116996-06, U90/CCU116996-07, 5U01CI000307-03, 5U01CI000307-04, U55/CCU121932-05, and U58/CCU122927-04

Immunization and Vaccine Grants for Children (IMM) (CFDA# 93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: CCH122525-04 and CCH122525-05

HIV Care Formula Grants (HIV) (CFDA #93.917)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: XO7HA00022-16 and XO7HA00022-17

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 Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0605-CT-5000 and 05-0705-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 and accuracy of their correction affect the Department's ability to comply with Federal period of availability, cash management, and financial reporting requirements.

Financial Reporting: Adjustments that were reflected in the financial reports for the CDC and Medicaid grants had not yet been posted to Core-CT, as follows:

CFDA #	**Award Period**	**Report Date**	**Audit Date**
93.283	12/30/05-12/29/06	7/31/2007	December 2007
93.777	7/1/06-6/30/07	11/15/06-11/13/07 (quarterly)	December 2007

Payroll Transactions: The following personnel related costs were charged to grant years that were no longer available, resulting in subsequent adjustments to financial reports:

CFDA #	**Audit Exception**	**Population**
10.557	$ 91,338	$ 966,151
93.268	827,812	1,137,340
93.283	2,918,470	3,396,292
93.917	140,385	555,980
Total	$ 3,978,005	$ 6,055,763

Adjustments to correct these miscoded transactions require increased effort on the part of staff. Our audit of salary costs noted that proper adjustments were reflected in financial reports; however these adjustments were not always recorded in Core-CT in a timely manner. In addition, we also noted that during February 2006, the Department erroneously charged a transaction totaling $1,317 to the HIV award. Although no correction was recorded in Core-CT, the cost was not charged to the Federal award. Due to a lack of supporting documentation the Department could not determine which cost center to charge for the transaction. Therefore, at the time of our audit, November 2007, the DPH still had not posted an adjustment to Core-CT.

Nonpayroll Transactions: In addition to payroll transactions, we noted that the following nonpayroll transactions were also miscoded:

CFDA	Sample		Audit Exceptions (see note)		Population
#	#	Amount	#	Net Amount	Amount
10.557	22	$ 327,160	-	$ -	$ 11,527,605
93.268	18	902,260	3	9,459	3,119,887
93.283	38	1,106,658	3	447	13,221,221
93.917	10	3,148,818	-	-	14,973,988
Total	88	$ 5,484,896	6	$ 9,906	$ 42,842,701

Note: The aforementioned audit exceptions are comprised of transactions that are either pending adjustments by the DPH or are budget reference coding errors that do not represent questioned costs.

The following erroneous adjustments are included in the preceding table:

- Three of the 88 transactions in our sample were initially charged to the proper award but were subsequently adjusted to the wrong budget period by the Department, resulting in the following misstatements:

Budget Period	Overstated/ Understated	
CFDA:	93.268	93.283
2004	$ (8,486)	$ 300
2005	8,099	
2006	387	(300)
Net	$ -	$ -

- One of the 38 CDC transactions was a $125,024 adjustment that moved the cost from the 2003 and 2004 years' awards to the 2006 award. The Department later reversed the entry because there was no supporting documentation for the adjustment. We could not determine to which year's Federal award this amount belonged because of the lack of supporting documentation.

These types of 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 and creating cash management imbalances.

Effect: There were no questioned costs noted by this audit. However, failing to record the correct budget year at the time of the initial entry creates inefficiencies and increases the risk that errors will not be detected. A subsequent delay in posting corrections increases the risk for errors and further reduces the efficiency of staff. In addition, the errors and delays in recordkeeping have affected the Department's ability to estimate their cash needs accurately; they have made it more difficult to prepare accurate financial status reports in a timely manner; and have made monitoring for compliance with Federal period of availability requirements more difficult.

Due to a lack of adequate supporting documentation the Department was unable to determine whether one adjustment was appropriate and therefore subsequently reversed it.

Cause: Clerical errors may have contributed to some of these findings. The DPH's employees have stated that employee turnover has prevented staff from posting adjustments in a timely manner. Adequate supporting documentation was not retained for all 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 properly made in a timely manner. Adequate supporting documentation should be retained for all transactions.

Agency Response: "We agree in part with this finding.

The Department recognizes that Federal grant reporting using Core-CT presents many challenges and opportunities for errors. This is recognized as a statewide, on-going problem as related in the review of Core-CT by the APA where it is stated "The Core-CT accounting system did not provide its users with adequate functionality in reporting grant activity." The Department of Public Health has over 120 grants in addition to our State appropriated accounts. The majority of these involve accounting for periods other than the State Fiscal Year. The Department chose budget references to account for these differences. When an error is made using an incorrect budget reference, it remains in an improper year and cash draws may not be reflected properly until the differences are corrected.

Recently, Core-CT made an additional option, Projects, available to DPH and the Department has chosen to address these problems by utilizing the Projects Module of Core-CT. The agency will begin migrating grants to Projects beginning July 1, 2008. This function will allow the accountants to eliminate the users' ability to access prior periods' funding. It will still allow for payments against commitments processed during the prior periods to be made, but no new commitments will clear. In addition, personnel will be charging their time to Projects in real time, by utilizing the time and labor function, resulting in the need for fewer adjustments after the fact. These two factors should result in less opportunity for error within the system. Furthermore, by granting more people 'view only' access, any errors should be picked up earlier and corrected. In addition, the corresponding draws for Federal cash will match what is in Core-CT."

III.D.4. Allowable Costs/Cost Principles – Under Collection of Infant Formula Rebates

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 Year 2006-2007
Federal Award Number: 4CT700700

Criteria: Cost containment procedures established by 7 CFR 246.16a (b) and (c) require that if infant formula is purchased through a single-supplier system, the vendor shall provide rebates.

On October 1, 2006, a contract was executed between the New England States and Nestle USA, Inc. The agreement states that Nestle will provide to the States a rebate on infant formula manufactured by Nestle, based on the State's payments to approved WIC vendors and a per can rebate amount.

Condition: The DPH's method for calculating the monthly rebate erroneously excluded checks that were available for use more than 90 days prior to the bank date. The use of this method resulted in under collections of approximately $4,105 during the period of October 1, 2006 to June 30, 2007. The DPH collected $5,698,998 from the vendor during this time.

Effect: Because rebate income is used to offset the cost of food expenditures, the cost of approximately $4,105 in food expenditures could be considered unnecessary and possibly questioned.

Cause: We were told by DPH personnel that unrelated reporting requirements were used in determining the basis for calculating the rebate.

Recommendation: The DPH should correct its method for calculating formula rebates and should bill vendors for all of the rebates due the State.

Agency Response: "We agree in part with this finding.

The Department of Public Health did not previously capture the information necessary to report on the 'forced payments of checks'. These checks are returned to the Department's WIC program from the bank for various reasons and are not processed through the automated bank system. These checks are processed manually and our system did not capture the information on the monthly reports that is used for rebate calculation. Our system has been changed and the reports now capture this information when generated. The questioned costs of $4,105 were captured in the closeout report to USDA. These reports will now be available on a monthly basis and the data for the manual checks will be included in the monthly rebate billing."

III.D.5. Allowable Costs/Cost Principles – Contract Management

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 Number: 5U01CI000307-03

National Bioterrorism Hospital Preparedness Program (NBHPP) (Nonmajor Program) (CFDA# 93.889)
Federal Award Agency: Department of Health and Human Services
Award Year: September 1, 2005 to August 31, 2006
Federal Award Number: 6 U3RHS05970-01

Criteria: 45 CFR 92.20 (a) and (b) indicate, in part, that effective internal control and accountability must be maintained for all grantee and subgrantee assets, assuring its use solely for authorized purposes in accordance with State laws and procedures for expending and accounting for its own funds. Such State laws include Section 4-98 of the General Statutes, which requires that a valid commitment must be in place prior to incurring an obligation. Chapter 55a of the General Statutes requires that requests for Personal Service Agreements be submitted to the Office of Policy and Management (OPM) for approval.

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

Condition: Our sample of two NBHPP contracts totaling $2,626,071 revealed a variety of concerns over contract management, as follows:

- Both subgrantees' agreements were executed during the last month of the contracts' eleven-month terms.

- The intended periods of service were not accurately reflected in both subgrantees' agreements. We found that the Department requested OPM's approval of two backdated contracts, however OPM required the Department to use a date five weeks later. The contracts' amounts were not reduced for this shortened contract period. Since these contracts were renewals of previous agreements, both contractors continued to provide services without a written agreement during the five-week interim period. Both contractors were reimbursed for their costs including those that were incurred during the interim period.

  Subsequently, the Department again renewed both contractors' agreements. One of these agreements provides for the funds to reimburse the contractor for the costs incurred before the previous contracts' start date. We were told that the Department realizes that the contractor has already been reimbursed for these services and that it does not intend to issue a payment against the related purchase order's balance of $118,075.

- The Department disagreed with one of these contractors over expenditures that related to undocumented amendments of a prior year's expired agreement. Through negotiations with the contractor, the Department agreed that $207,410 of the $452,410 balance would be returned to the Department. The remaining $245,000 would be disbursed through August 2006. The Department never pursued a formal agreement for this carryover. As a result of this breakdown in controls, the

Department subsequently failed to sufficiently monitor the subgrantee's related disbursements. We brought this matter to the Department's attention during November 2007, at which time they requested that the subrecipient return $121,200, which is the unspent balance of the $245,000 carryover.

In our sample of eight CDC subgrantee agreements we noted that an amendment to reduce a contract by 7.5 percent was executed during the month following the expiration of the two-year agreement.

Effect: There is no known loss of Federal or State funds as a result of these conditions.

Cause: As a result of delays in executing contract amendments, disputes have occurred. The Department did not comply with its established internal controls over contracting and contract monitoring.

Recommendation: The Department should improve its compliance with established procedures over contracting and contract management.

Agency Response: "We agree with this finding.

The Department's contractual relationship with these healthcare partners is ongoing and very complex. The long-term nature of the health programs administered by these contracts helps to ensure that the client populations targeted for the services receive the best possible outcomes. The difficulties experienced with promulgating the agreements were the result of the complexities and disputes over legal language clauses required by both entities. This administrative function was necessary, while being completed late in the contract period, to facilitate the contractual obligations of the parties."

III.D.6. Equipment Management– Incomplete Records

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 2006-2007
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 Year: Federal Fiscal Year 2006-2007
Federal Award Number: U90/CCU116996-07

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

Condition: We noted that all four purchases of equipment in our sample of WIC and CDC program expenditures were not included in the Department's perpetual inventory records, and were not located during the physical inventory completed for June 2007. The following table summarizes our audit testing.

CFDA	Sample Size		Population	Audit Exception	
#	#	Amount		#	Amount
10.557	2	$ 9,752	$ 15,559	2	$ 9,752
93.283	2	24,902	194,782	2	24,902
	4	$ 34,654	$ 210,341	4	$ 34,654

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

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

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

Agency Response: "We agree with this finding.

The Department continues to apply the available resources to this administrative responsibility. We do not take lightly the need for administrative oversight. We have one staff member available to be assigned to these duties and with the limited resources available for all Department functions errors have occurred. We will continue to look for opportunities in both policy and procedural areas to improve on this finding."

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 2005-2006 and 2006-2007
Federal Award Numbers: G-0601CT1401 and G-0701CT1401

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G-0601CT1407 and G-0701CT1407

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G0601CTTANF and G0701CTTANF

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 shall include a listing of all Federal and non-Federal programs performed and administered. (45 CFR 95.507)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation. (OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment B, 8.h(4))

Administrative services costs incurred by Public Assistance Cost Allocation Plans (PACAP) should be allocated to all benefiting agency operations and programs. (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)

To be allowable under Federal programs, costs must be adequately documented. (OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment C, 1.(j))

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, Attachment C, 3.(a))

Condition: Our review of the Department's PACAP including individual transactions processed through such plan identified the following conditions:

The Department's PACAP narrative did not identify all programs it administers.

Employee salaries allocated to the Foster and Adoption Services Unit (FASU) administrative and FASU training cost pools were not supported by personnel activity reports or equivalent documentation reflecting the actual activity of each employee. The Department allocated FASU staff costs to the FASU administration and FASU training cost pools based on quarterly reports from supervisors identifying the percentage of time each employee spent on training activities. The percentage of time was not calculated using personnel activity or similar reports. The percentage of time was determined based on an assessment by supervisors regarding the amount of time their staff devoted to training activities. Costs allocated to the FASU administrative cost pool are reimbursed by the Federal government at 50 percent. Costs allocated to the FASU training cost pool are reimbursed by the Federal government at 75 percent.

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

Court monitor costs of $179,000, for the quarter ended March 31, 2007, were not adequately documented. We noted a report that indicated that the State had advanced the Court Monitor's office $388,952 as of June 30, 2007, to cover the expenditures of the fiscal year ended June 30, 2008. We did not see documentation regarding how much is required to be advanced to the Court Monitor's office; thus, we could not determine if all of the payments made prior to June 30, 2007, were required.

One transaction ($196) was incorrectly coded.

Effect: The collective effect of the above conditions results in an inequitable distribution of costs to Federal and State programs. The incorrectly coded transaction resulted in the State over claiming Federal reimbursement ($20) from the TANF program.

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 guidance published by the Division of Cost Allocation.

Recommendation: We recommend that the Department amend its cost allocation plan by identifying all programs it administers in the narrative portion of the plan; have employees prepare personal activity reports or equivalent documentation when they work on multiple activities or cost objectives; include all employee positions when calculating its full-time equivalent allocation base; obtain supporting documentation for Court Monitor costs prior to allocating such costs through its PACAP; and correct the miscoded transaction.

Agency Response: "The Department agrees with this finding.

The Cost Allocation Plan was amended in July 2007 to include all programs that it administers in the narrative portion.

Effective October 2007, the Department will discontinue allocating FASU salaries based on quarterly reports from supervisors.

The Cost Allocation Plan was modified in January 2007 to more specifically identify the staff being considered in the allocation process to include full time and part time General Fund employees and excluding temporary employees.

In addition to documentation supporting the actual payment made by the Comptroller's Department for Court Monitor costs, commencing October 2007 the Department will also request budget information to support the payment.

An adjustment of $196 will be made to correct the coding error."

III.E. 2 Eligibility – Unallowable Activities/Improper Payments

Foster Care-Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G-0601CT1401 and G-0701CT1401

Criteria: Funds may be expended for Foster Care maintenance payments on behalf of eligible children. The term "foster care maintenance payments" means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation. Costs claimed as foster care maintenance payments that include medical, education or other expenses not outlined above are unallowable. (42 USC 675(4)(A))

Costs of social services provided to a child, the child's family, or the child's foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors, or home conditions are unallowable. (45 CFR 1356.60(c)(3)).

Condition: Our testing of the Department's compliance with applicable laws and regulations relative to the Foster Care program's eligibility, activities allowed or unallowed and cost principle requirements and related internal controls noted the following:

- Two claims included costs for respite and/or consultative services.
- One claim was for the cost of a paternity test.
- One claim was made for services not received.

Effect: The following table can be used to judge the prevalence and significance of this finding.

Description	Number	Amount
Number of claims sampled	40	
Value of claims sampled		$35,143
Number of claims in sample with errors	3	
Value of claims in sample with errors		$682
Number of claims outside sample with errors	1	
Value of claims outside sample with error		$187
Number of claims in universe	Not determined	
Value of claims in universe		$34,562,542
Number of claims with errors representing improper payments	4	
Value of claims with errors representing improper payments		$869

Cause: The Department's claiming process is not adequately designed to accurately identify costs of unallowable services included in certain per diem rates and internal controls over the coding of transactions to a miscellaneous foster care service category are inadequate.

Two of the payment errors identified above were coded to special foster care rate service codes. One payment was made to a foster care family and one payment was made to a private child placing agency. Rates calculated for these service codes combine multiple service categories to arrive at a single per diem rate for the provider.

The payment error made to the foster care family included costs for respite services. This special service code was used to modify the standard age group per diem rate normally paid on behalf of a child. The standard rate was modified to reflect costs of respite services (unallowable) and extraordinary child care expenses (allowable) not included in the standard rate. The standard rate does not include costs for respite services.

The payment error made to the private child placing agency included costs for respite and consultative services. The per diem rate calculated for this provider was based on annualized costs of providing multiple services to a child. For claiming purposes, the Department decreased the claim by 5.07 percent to adjust for respite and consultative services. However, the percentage used to determine unallowable services was derived from a 2005 agreement with the same provider for services provided to a different child. The per diem rate paid on behalf of the child in our sample included 8.81 percent in respite and consultative costs.

The other two errors were coded to a miscellaneous foster care service code. The Department has identified this service code as an allowable Foster Care service. However, services coded to this service code could include unallowable services under the Foster Care program that could be claimed for Federal reimbursement and go undetected.

Recommendation: The Department should establish internal controls that accurately calculate the costs of unallowable services included in provider per diem rates.

The Department should also establish internal controls that reasonably ensure that costs claimed as miscellaneous foster care services are allowable services under the Foster Care program.

Agency Response: "The Department agrees with this finding.

The Department has established six new service types which replace the majority of expenses previously coded to miscellaneous categories. The Department will review whether additional breakouts are needed and adjust its claiming accordingly. In addition, the Department is exploring revisions to its rate structure for professional parent and therapeutic foster care services, in making those revisions, the Department will ensure that claimable and unclaimable costs can be clearly segregated in the revised system.

The Department will adjust its claim to remove the $869 claimed in error."

F. DEPARTMENT OF EDUCATION

III.F.1. Allowable Costs/ Cost Principles – Certification and Personal Activity Distribution Reports

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: H027A050021 and H027A060021

Special Education – Preschool Grants (IDEA Preschool)(CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: H173A050024 and H173A060024

Education of Homeless Children and Youth (CFDA # 84.196)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2005-2006 and 2006-2007
Federal Award Numbers: S196A050007 and S196A060007

Criteria: OMB Circular A-87, Attachment B, Section 8(h)(1) requires that, "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official (s) of the governmental unit."

In addition, OMB Circular A-87, Attachment B, Section 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 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."

OMB Circular A-87, Attachment B, Section 8(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: As part of our certification testing, we noted that two non-sample employees fully charged to individual Federal programs were not certified by their Bureau Chiefs as having worked full-time on those Federal programs.

- In a repeat condition from our prior audit, one employee fully funded from CFDA# 84.196 – "Education of Homeless Children and Youth" was certified as working only 40 percent on the program. The employee's total payroll and fringe benefit costs charged to the indicated Federal program for the period were $130,948. Of that amount, 60 percent or $78,569 should not have been charged to the program.

- One employee fully funded from CFDA# 84.173 – "Special Education - Preschool Grants" was certified as working only 70 percent on the program. The employee's total payroll and fringe benefit costs charged to the indicated Federal program for the period were $138,372. Of that amount, 30 percent or $41,512 should not have been charged to the program.

Our testing also included a review of adjusting journal entries made during the fiscal year. Seven adjusting journal entries were identified for follow-up with the following result:

- One employee had payroll costs of $19,273 transferred to CFDA# 84.027 "Special Education – Grants to States" without explanation or supporting documentation. The employee in question was certified as having worked exclusively on another Federal program during the fiscal year under review.

Effect: Our review of the Department's certification tracking system and adjusting entries found three employees whose payroll and fringe benefits were improperly charged to Federal programs. Their combined total payroll and fringe benefits were $288,593. The calculated amount of the improper payments was $139,354: CFDA# 84.027 ($19,273); CFDA# 84.173 ($41,512); and CFDA # 84.196 ($78,569).

Cause: While the Department's certification tracking system properly identified the exceptions noted above, that information was not used to adjust the payroll accounts for the three employees.

Recommendation: The Department should take the necessary steps to ensure that the work effort exceptions generated by their certification tracking system are used to adjust the related employee payroll and fringe benefits to reflect the actual time worked on Federal programs. The payroll for the employees charged to the "Education of Homeless Children and Youth (CFDA # 84.196)", "Preschool Grant (CFDA # 84.173)" and "Special Education – Grants to States" (CFDA # 84.027) should be adjusted to reflect the actual time worked on the respective Federal program.

Agency Response: "We agree with the finding. Department staff will take the additional steps necessary to ensure that the exceptions noted on the certification forms are reflected appropriately against the relative Federal payroll accounts. Further, sufficient documentation supporting such adjusting entries will remain on file."

III.F.2. 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 2005-2006 and 2006-2007
Federal Award Numbers: S010A050007 and S010A060007

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: H027A050021 and H027A060021

Special Education–Preschool Grants (IDEA Preschool) (CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: H173A050024 and H173A060024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: S367A050006 and S367A060006

School Breakfast Program (CFDA # 10.553)
National School Lunch Program (CFDA # 10.555)
Federal Award Agency: U.S. Department of Agriculture
Award Years: Federal Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 2005IN109844 and 2006IN109844

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 (SEFA).

Condition: Our review of the Department's process for examining submitted SEFA found the following:

- The Department's monitoring process had failed to disclose and resolve lacking or erroneous identification of Federal programs in three of the 15 or 20 percent of the SEFA 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. The exceptions noted for the three audited Schedules of Expenditures of Federal Awards were categorized as follows:

For the first SEFA exception our review found an incorrect Department of Education program code for one program and a reversal of the fiscal years for another program; for the second SEFA exception we found an incorrect CFDA number for one program, an incorrect program description for another program and an incorrect Department of Education number for a third program; for the third SEFA exception our review found an incorrect CFDA number for one program, and an incorrect Department of Education number for another program.

Cause: The Department's process for examining key information on submitted SEFA 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 the improperly reported Federal program expenditures by subrecipients.

Agency Response: "We agree with this finding. While some improvements have been made relative to the subrecipients reporting proper account codes in their Schedules of Expenditures, the Department will take the necessary steps to implement additional controls designed to lessen the recurrence of miscoding expenditure statements."

III.F.3. 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 2005-2006 and 2006-2007
Federal Award Numbers: 2005IN109844 and 2006IN109844

Criteria: Pursuant to 7 CFR §210.8 (c), §215.10 (d), and §220.11 (c) School Food Authorities (SFA) 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.

It is noted that the Department has recently received a proposal from a software vendor for work designed to address the issues noted. Pending contract execution, completion of work defined, and review of the planned changes it is determined that this recommendation be repeated for the current audit period.

Effect: The electronic form is used monthly by the 224 School Food Authorities to claim reimbursement from the Department pursuant to the program. The form 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 this finding. This finding has been partially corrected. In August of 2007, Department staff met with the vendor and outlined the necessary enhancements to be incorporated into the system to allow compliance with the auditors' recommendation. The enhanced system is now under development."

G. UNIVERSITY OF CONNECTICUT SYSTEM

III.G.1. 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, 2007
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: The University has not performed a physical inventory of equipment within the required time period.

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 performing a complete physical inventory and investigating differences that would result in making required 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. Inventory Control has resumed conducting physical inventories and has started reconciling the results of the physical inventory to the equipment records through the use of departmental contacts, improved system efficiencies and additional staff and student labor. A plan is in place to have departmental contacts conduct and reconcile their own physical inventories according to an annual cycling schedule beginning in 2008. We expect to gain optimum results after two full cycles of reconciliations have been completed.

The University is researching the possibility of increasing the capitalization threshold for equipment from $1,000 to $5,000. This would significantly decrease the number of equipment assets requiring tracking, would be more consistent with Federal requirements and policies of other higher education institutions, and would aid the University tremendously in regards to compliance with OMB Circulars A-21 and A-110."

III.G.2. Reporting (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Education
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Centers for International Business Education (CFDA # 84.220)
Grant # P220A020040-03
Account # 523065, "International Business Education"

Federal Award Agency: National Institutes of Health
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
(CFDA # 93.XXX)
Grant # HHS-N-278-2004-44090C
Account # 523886 "Internet Program to Train Clinicians in HIV Prevention"

Federal Award Agency: Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Improved Efficiency in Bovine Cloning (CFDA # 10.001)
Grant # 58-1265-2-018
Account # 523035, "Improved Efficiency in Bovine Cloning"

Federal Award Agency: Department of Agriculture
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Environmental Quality Incentive Program (CFDA # 10.901)
Grant # 65-1106-6-01
Account # 524170, "Integrated Pest Management Technical Assistance for the Environmental Quality Incentive Program"

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Military Medical Research and Development (CFDA # 12.420)
Grant # W81XWH-05-1-0539
Account # 523976, "Miniaturized, Wireless, Implantable Glucose Sensors"

Criteria: OMB Circular A-110, as well as individual grant awards, establish the financial reporting requirements to be followed by the University when receiving Federal grants.

Condition: We tested 15 grants, with expenditures totaling $2,273,772 during the fiscal year ended June 30, 2007, for compliance with Federal financial reporting requirements. We noted the following exceptions:

For the grant entitled "International Business Education" (CFDA # 84.220), a Financial Status Report was due on 12/31/06; as of 1/22/2008, no such report had been submitted. Expenditures for this grant totaled $168,953 for the fiscal year ended June 30, 2007.

For the grant entitled "Internet Program to Train Clinicians in HIV Prevention" (CFDA # 93.XXX), a Financial Status Report was due on 3/31/07; as of 1/22/08, no such report had been submitted. Expenditures for this grant totaled $118,776 for the fiscal year ended June 30, 2007.

For the grant entitled "Improved Efficiency in Bovine Cloning" (CFDA # 10.001), a Financial Status Report was due on 7/29/07; as of 1/22/08, no such report has been submitted. Expenditures for this grant totaled $684,343 for the fiscal year ended June 30, 2007.

For the grant entitled "Integrated Pest Management Technical Assistance for the Environmental Quality Incentive Program" (CFDA # 10.901), a Financial Status Report was due on 12/31/06, but was submitted on 1/24/07 (24 days late). Expenditures for this grant totaled $108,673 for the fiscal year ended June 30, 2007.

For the grant entitled "Miniaturized, Wireless, Implantable Glucose Sensors" (CFDA # 12.420), a Financial Status Report was due on 2/28/07 but was submitted on 10/4/07 (218 days late). Expenditures for this grant totaled $111,052 for the fiscal year ended June 30, 2007.

Effect: The University has not met the reporting requirements as established by Circular A-110.

Cause: University personnel charged with preparing and submitting the required financial reports failed to properly monitor the due dates for financial reporting and/or to submit the reports.

Recommendation: The University should prepare and submit financial reports in the manner established by Circular A-110 and individual grant awards.

Agency Response: We agree with this finding. Going forward, the Assistant Director (Post-Award) will take a more active role in monitoring closeout of awards. This will include generating a monthly report of all Financial Status Reports due, and follow-up with the responsible Grant Manager as the due date approaches.

III.G.3. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut Health Center)

Federal Award Agency: Department of Justice
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
National Institute of Justice Research, Evaluation and Development Project Grants (CFDA 16.560):
Account #539018 – "Connecticut Correctional Health Research Program" – 2002-IJ-CX-K009 from the National Institute of Justice, project period October 1, 2002 through December 31, 2007

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Mental Health Research Grants (CFDA 93.242):
Account #522860 – "Mental Health Research Infrastructure in Corrections" – 5R24-MN06030-03 from the National Institute of Mental Health, project period February 2, 2004 through January 31, 2007

Criteria: Per OMB Circular A-21 the distribution of salaries and wages must be supported by after-the-fact activity reports signed by responsible persons who have used suitable means of verification to confirm that the work was performed. The majority of the charges to Federal Research and Development Programs are for personal service costs. Accordingly, the accuracy and integrity of the time and effort system is crucial.

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. Passwords are used to confirm the identity of those responsible for review and certifying the charges. Though Circular A-21 doesn't address electronic signatures, they should be acceptable as long as they are functionally equivalent to the traditional "ink on paper" signature, i.e. they are unique and verifiable as executed by the signer.

Condition: In connection with a referral made under the Health Center's Corporate Compliance Program, the Health Center's Compliance Office reviewed time and effort reports for five employees. The Compliance Office first reviewed the reports with the department administrator and with the principal investigator responsible for the awards charged. Both individuals verified that the reports were accurate as filed.

However, after interviewing the five employees, the Compliance Office established that one employee charged exclusively to award 2002-IJ-CX-K009 during April thru July of 2005 actually worked 90 percent of the time on a different award. Similarly, another employee charged exclusively to award 5R24-MN06030-03 during April through September of 2005 actually worked 15 percent of the time on a different award.

Awards 2002-IJ-CX-K009 and 5R24-MN06030-03 were credited for the costs involved. The department administrator and principle investigator were not reprimanded.

In a related matter, during our previous review, we found that the integrity of the certifications made by one of the researchers included in our test check had been compromised, as his password had been disclosed to others. In our current review, we noted that two of the researchers included in our test check had disclosed their passwords.

Effect: The conditions described above raise questions regarding the accuracy and integrity of the time and effort reporting system.

Cause: No explanation was provided for the questioned charges to award 2002-IJ-CX-K009; it was represented that the second individual was charged exclusively to award 5R24-MN06030-03 because funding was not available from the other award she was working on.

Recommendation: The University should take whatever steps are required, including disciplinary action as necessary, to impress on staff the importance of the accuracy and integrity of the time and effort reporting system and the importance of not disclosing passwords to other staff.

Agency Response: "We agree with this finding."

III.G.4. Allowable Costs/Cost Principles – Cost Transfers (University of Connecticut Health Center)

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Discovery and Applied Research for Technological Innovations to Improve Human Health (CFDA 93.286):
Account #522840 – "Potentiometric Dyes and Membrane Permeability" – 5 R01 EB001963-23 from the National Institutes of Health, project period

September 1, 1984 through July 31, 2008

Extramural Research Programs in the Neurosciences and Neurological Disorders (CFDA 93.853):

Account #522715 – "Excitotoxicity and Inflammation" – 5 R01 NS036812-10 from the National Institutes of Health, project period September 1, 1007 through May 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.

Condition: We tested forty cost transfers totaling $128,849. Four of the items tested, totaling $32,442, involved the transfer of personal service costs. Two of the four transfers, each involving a single employee, were not supported by the time and effort reporting system. These unsupported costs totaled $2,236 charged to account #522715 and $14,641 charged to account #522840.

In both instances, there were completed time and effort reports on file that supported the distribution of the employees' personal service costs as it was reflected in the accounting system prior to the transfers. We were told that the $14,641 transfer was made in error. However, we were told that the $2,236 charge to account #522715 was valid and the time and effort report on file was in error.

Effect: Erroneous charges were transferred to account #522840. Also, with respect to the charge to account #522840, the subsequent adjustment of the distribution of personal service costs that had already been certified as accurate raises questions as to the accuracy of the time and effort reporting system.

Cause: Staff responsible for processing the transfers did not check the relevant time and effort reports before processing the charges.

Recommendation: The University should require staff responsible for processing cost transfers involving personal service costs to verify that the revised distribution is in accordance with the actual distribution of time and effort as certified by the time and effort reporting system.

Agency Response: "We agree with this finding."

III.G.5. Allowable Costs/Cost Principles - Nepotism (University of Connecticut Health Center)

Federal Award Agency: Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
National Institutes of Health

Criteria: The National Institutes of Health require grantees to establish safeguards to prevent employees, consultants, members of governing bodies, and others who may be involved in grant-supported activities from using their positions for purposes that are, or give the appearance of being, motivated by a desire for private financial gain for themselves or others, such as those with whom they have family, business, or other ties. These safeguards must be reflected in written standards of conduct. The standards must be consistent with State and local laws and cover, at a minimum, expected conduct in regard to financial interests, gifts, gratuities and favors, nepotism, and such other areas as political participation and bribery.

The principal investigator is the primary individual responsible for both the scientific or technical aspects of a grant and for day-to-day management of the project or program.

Condition: The Health Center has a nepotism policy, titled “Employment of Relatives and Unmarried Partners.” This policy provides that:

- No relative or unmarried partner of an employee of the University of Connecticut Health Center shall be eligible for appointment, employment, or promotion to a position over which that individual exercises jurisdiction.

- No employee is permitted to supervise, either directly or indirectly, within the line of supervision, a relative or unmarried partner working in a state position.

In practice, the Health Center considers that supervision is evidenced by characteristics such as formal reporting relationships, approval of time and attendance records and performance of annual employee evaluations. The Health Center does not consider the oversight exercised by a principal investigator to be supervision for purposes of this policy, even though principal investigators approve the time and effort reports for employees charged to their grants (an activity that seems similar to approval of time and attendance records).

During a review for possible instances of nepotism at the Health Center, we noted four instances where principal investigators were currently approving the time and effort reports of family members working on National Institutes of Health grants. We feel that a principal investigator's grant related responsibilities include the supervision of staff working on the investigator's grants, regardless of whether or not this supervisory relationship is formally acknowledged. Therefore, we believe that these instances are violations of the Health Center's nepotism policy.

Effect: The Health Center is not adequately addressing the potential conflicts of interest, both financial and programmatic, which arise when a principal investigator supervises a related individual.

Cause: The policy does not address this issue.

Recommendation: The Health Center should recognize the supervisory responsibilities inherent in the position of principal investigator and apply its nepotism policy accordingly.

Agency Response: "We do not agree with this finding. We believe the Health Center's current nepotism policy is consistent with State law and that potential conflicts of individuals related to a principal investigator are appropriately handled through reassignment of the direct or indirect line of supervision to a party other than the related party. However, in November 2007, the Health Center sought guidance from the Office of State Ethics to ensure that the Health Center's nepotism policy and practices are aligned with State law."

Auditors' Concluding Comments:

The State Code of Ethics is concerned with financial interests. We believe that the National Institutes of Health is also concerned with the possible effect of personal relationships on programmatic integrity. Also, we feel that it is important to comply with the spirit of the law, i.e., avoid actual conflicts of interest, in addition to achieving technical compliance.

In any case, principal investigators have a significant degree of control over and responsibility for matters related to the grants they administer. Changing reporting relationships on paper doesn't really affect this. Principal investigators have an obligation to supervise staff charged to the grants they administer; they cannot, as a practical matter, relinquish this responsibility and still function as principal investigators.

III.G.6. Allowable Costs/Cost Principles – Fringe Benefits (University of Connecticut Health Center)

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs

Criteria: The Health Center has developed a set of composite fringe benefit rates to be applied to various classes of employees charged to restricted accounts. The rates, which are approved by the Federal government prior to their application, incorporate a roll forward adjustment to compensate for the differences between rates charged, which are based on an analysis of prior year activity, and actual experience.

Condition: Though the charges appeared reasonable, we noted inconsistencies in the way fringe benefit rates were applied to restricted salaries and wages during the fiscal year ended June 30, 2007. We were told the automated payroll system calculated fringe benefit assessments using a table that relied on minor object codes to determine the rate to apply. However, when we recalculated the charges, we found that the system was actually using a different method that yielded similar, but not identical, results. Also, we noted that the rates used for hazardous duty employees were not included on the approved rate agreement.

Future roll forward adjustments are likely to compensate for these relatively minor issues. It is important, though, that those responsible for calculating the roll forward adjustment have a clear understanding of how the rates were applied.

Effect: If those responsible for calculating the roll forward adjustment do not have a clear understanding of how the rates were applied, the adjustment may not be completely accurate.

Cause: There may have been inadequate communication between the administrators responsible for determining how the fringe benefit assessments would be applied and the Information Technology unit employees that implemented the process.

Recommendation: The University should document exactly how fringe benefit assessments are applied to restricted accounts so that those involved in calculating the rates have a clear understanding of the process.

Agency Response: “We agree with this finding.”

III.G.7. Cash Management (University of Connecticut Health Center)

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Military Medical Research and Development (CFDA 12.420)

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: In our previous report we noted that, for Department of Defense awards, the Health Center was holding enough cash to cover an entire year's worth of expenditures. This condition continues unchanged. The aggregate cash balance held for Department of Defense awards under Military Medical Research and Development programs increased from $2,363,556 as of June 30, 2006, to $2,485,190 as of June 30, 2007. Per the Schedule of Expenditures of Federal Awards, expenditures under Military Medical Research and Development programs totaled $2,217,230 for the 2006-2007 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 established.

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."

III.G.8. Reporting (University of Connecticut Health Center)

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Research Related to Deafness and Communication Disorders (CFDA 93.173):
Account #522487 – "Neuroimaging of HIV and Comorbid Disorders" – 5R01-MH061346-05 from the National Institute of Mental Health, project period September 30, 1999 through May 31, 2006 Drug Abuse and Addiction Research Programs (CFDA 93.279):

Account #522546 – "Contingency Management for Marijuana Dependence" – 5R01-DA012728-05 from the National Institute on Drug Abuse, project period August 1, 2000 through June 30, 2006

Microbiology and Infectious Diseases Research (CFDA 93.856):

Account #522583 – "Factors Affecting Growth of Brugia Malavi in Scid Mice" – R01-AI039075-9 from the National Institute of Allergy and Infectious Diseases, project period December 15, 2000 through November 30, 2006

Vision Research (CFDA 93.867):

Account #522544 – "Molecular Genetics of Primary Cogenital Glaucoma" – R01-EY011095 from the National Eye Institute, project period August 1, 2000 through July 31, 2006

Criteria: Per the NIH Grants Policy Statement (12/03), grantees must submit a final Financial Status Report within 90 days of the end of grant support, unless an extension is granted.

Condition: Four out of the five Financial Status Reports we tested were not filed on a timely basis.

- Award 5R01-MH061346-05 ended May 31, 2006; the final Financial Status Report was filed January 22, 2007.
- Award 5R01-DA012728-05 ended June 30, 2006; the final Financial Status Report was filed October 31, 2006.
- Award R01-AI039075-9 ended June 30, 2006; the final Financial Status Report was filed October 16, 2006.
- Award R01-EY011095 ended July 31, 2006; the final Financial Status Report was filed February 12, 2007.

Effect: Per the NIH Grants Policy Statement (12/03), failure to submit timely and accurate final reports may affect future funding to the organization or awards with the same principal investigator.

Cause: Adequate resources were not assigned to the task.

Recommendation: The University should assign resources as necessary to assure that reports are completed within the required timeframe.

Agency Response: "We agree with this finding."

III.G.9. Subrecipient Monitoring (University of Connecticut Health Center)

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs

Criteria:	As stated in the OMB Circular A-133 Compliance Supplement, a pass through entity is responsible for ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.
Condition:	In order to track compliance, the Health Center creates a list of subrecipients by extracting data from a contract preparation system and by reviewing payments to subrecipients. When we reviewed the agency's current listing in August 2007, we noted that, though 11 of the 50 subrecipients had not responded to requests made in January 2007, and two had submitted audit reports covering the wrong year, no follow-up action had been taken.
Effect:	The agency cannot fulfill its responsibility to ensure that appropriate corrective action is taken in a reasonable timeframe if it is not aware of the need for such corrective action.
Cause:	The task was not assigned a high enough priority.
Recommendation:	The University should discharge subrecipient monitoring responsibilities in a timely fashion.
Agency Response:	"We agree with this finding."

III.G.10. Special Tests and Provisions – Key Personnel (University of Connecticut Health Center)

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2007
Research and Development Programs:
Research Related to Deafness and Communication Disorders (CFDA 93.173):
Account #522487 – "Neuroimaging of HIV and Comorbid Disorders" – 5R01-MH061346-05 from the National Institute of Mental Health, project period September 30, 1999 through May 31, 2006 Heart and Vascular Diseases Research (CFDA 93.837):
Account #522621 – "Signaling Mechanisms of Vegf Receptor in Vasculogenis" – 5R01-HL-068168-04 from the National Heart Lung and Blood Institute, project period July 1, 2001 through May 31, 2006
Microbiology and Infectious Diseases Research (CFDA 93.856):
Account #522583 – "Factors Affecting Growth of Brugia Malavi in Scid Mice" – R01-AI039075-9 from the National Institute of Allergy and Infectious Diseases, project period December 15, 2000 through November 30, 2006

Criteria: Per the NIH Grants Policy Statement, “The grantee is required to notify the GMO in writing if the PI or key personnel specifically named in the NGA will withdraw from the project entirely, be absent from the project during any continuous period of 3 months or more, or reduce time devoted to the project by 25 percent or more from the level that was approved at the time of award (for example, a proposed change from 40 percent effort to 30 percent or less effort). NIH must approve any alternate arrangement proposed by the grantee, including any replacement of the PI or key personnel named in the NGA.”

Condition: Our review disclosed the following:

- The principal investigator on award 5R01-MH061346-05 committed 20 percent of his effort to the grant. However, his time and effort report showed 5 percent effort for the quarter ended December 1999 and 10 percent effort for March, April and May of 2000.

- The principal investigator on award 5R01-HL-068168-04 initially committed 50 percent of his effort to the grant. A letter on file dated November 26, 2001, documents that he received approval to reduce his committed effort to 35 percent. However, his time and effort report showed no effort for the period from June 1, 2005 through June 30, 2006.

- The principal investigator on award R01-AI039075-9 committed 20 percent of his effort to the grant. However, his time and effort report showed 15 percent effort for the period from May 1, 2003 through November 30, 2005.

Effect: The Federal government approves applications based on various factors, one being the key personnel listed. Failure to maintain promised key personnel and level of effort commitments could affect institutions ability to secure grants in the future.

Cause: No explanation was provided.

Recommendation: The University should ensure that key personnel maintain the required level of effort.

Agency Response: “We agree with this finding. The Investigator who failed to report time and effort from June 1, 2005 through June 30, 2006, was on a no-cost extension. The investigator was not charged to the award during this period. Adequate funds to cost share his effort existed for the time in question.”

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, 2007:

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 – Subsidized and Unsubsidized Loans Packaging

Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria: 34 CFR 685.203 establishes loan limits for subsidized and unsubsidized loans. Limits are based on graduate vs. undergraduate enrollment, independent vs. dependent status, and class rank (as determined by the University according to number of credits earned). Qualifications for subsidized loans are based on financial need, which is defined as the student's cost of attendance less expected family contribution and other resources.

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. From this sample of 12 students, we noted that three students who received unsubsidized loans or a combination of unsubsidized and subsidized loans should have received strictly subsidized loans.

Effect: The students received unsubsidized loans, rather than the subsidized loans to which they were entitled. Therefore, they incurred a higher cost of repayment, as the Federal government pays the interest on subsidized loans.

Cause: For two of the students, procedures related to the posting of insurance waivers or insurance to student budgets resulted in the incorrect calculation of financial need. The cause for the third student's incorrect packaging was unclear.

Recommendation: The University should develop procedures to ensure compliance with Federal regulations related to the packaging of subsidized and unsubsidized Direct Loans.

Agency Response: *Central CSU:* "We agree with this finding."

III.H.2. Special Tests: Verification

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Work-Study Program (CFDA # 84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Academic Competitiveness Grant (CFDA # 84.375)

Federal National Science and Mathematics Access to Retain Talent Grant (CFDA # 84.376)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria: 34 CFR 668.53 requires an institution to establish policies for verifying information contained in a student aid population.

Condition: We selected ten students from UConn for verification testing. From this sample we noted one instance in which the Verification Worksheet for a dependent student did not contain the student's parent's signature.

Effect: This condition resulted in noncompliance with verification requirements.

Cause: The University did not follow its procedures for verification.

Recommendation: The University should complete verification in accordance with Federal regulations.

Agency Response: *UConn:* "We agree with this finding."

III.H.3. Special Tests: Disbursements – PLUS Loans

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria:

- Per 34 CFR 668.164(e), whenever an institution disburses Title IV program funds by crediting a student's account and the total 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.

  In addition, the 2006-2007 Federal Student Aid Handbook states, "The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent."

- Per 34 CFR 668.165(a)(2), if an institution credits a student's account at the institution with FFEL funds, the institution must notify the parent [in the case of PLUS loans] of the date and amount of disbursement, the parent's right to cancel all or a portion of that loan or disbursement and have the loan proceeds returned to the holder of that loan, and the procedures and the time by which the parent must notify the institution that he or she wishes to cancel the loan or loan disbursement.

Additionally, we contacted an official of the US Dept. of Education, who told us that, if the funds being credited to the student's account are PLUS loan funds, then the notification must be sent to the parent, not the student.

- Per 34 CFR 668.165(b)(1), if an institution obtains written authorization from a . . . parent [in the case of PLUS loans], the institution may use the parent's Title IV funds to pay for current and minor prior award year charges.

  In addition, the *Blue Book* states, "You may pay other current charges that a student has incurred for educationally-related activities if you obtain the student's written authorization to pay those charges, or the parent's written authorization, in the case of PLUS loan funds."

Condition: We selected 24 students from UConn for disbursements testing. From this sample, we noted the following:

- Six students had credit balances in their accounts created by the posting of PLUS loans. In each of these instances, the excess funds were returned to the student, rather than the parent, without written authorization to do so from the parent borrower.

- During the audited period, notifications related to the crediting of student accounts with PLUS loan funds were made to the students rather than the parents.

We also noted an instance in which a student requested the University to cancel a PLUS loan disbursement for the spring semester. Only the parent borrower has the right to cancel the PLUS loan disbursement. The University should have contacted the parent for cancellation of the PLUS loan.

- During the audited period, students were able to authorize the use of PLUS loans to satisfy current and minor prior award year charges. For PLUS loans, this is the parent's authority.

Effect: Parents, who are legal holders of PLUS loans, are not receiving the excess balances of these funds and are not being given the information necessary to exercise control of these funds.

Cause: The University is refunding excess balances of PLUS loan funds to students rather than the student's parents. Notification of PLUS loan disbursements is being made to the students rather than the parents. In certain instances, the University allowed the student to cancel a PLUS loan disbursement, rather than the parent. The authority to use PLUS loan funds to satisfy current and minor prior award year charges is being given to students rather than a parent.

Recommendation: The University should be making refund of excess PLUS loan funds to parents rather than to students. The University should also be making notification of PLUS disbursements to parents rather than students. In addition, the control over the application of PLUS loan funds to specific charges should be given to the parent rather than the student.

Agency Response: *UConn:* "Partial agreement. According to the FSA Handbook, if a student has a credit balance that was caused by multiple kinds of payments (e.g., checks, loans, grants, etc.) institutions '*have the latitude to determine which FSA program funds create an FSA credit balance. At this time, the Department [of Education] does not specify how a school must determine which FSA program funds create an FSA credit balance.*' Of the six students cited, five had non-PLUS payments that exceeded the refund amount. However, one student was a PLUS-only payment, and in this case the audit finding appears to be correct."

Auditors Concluding Comment:

In our review, we noted that it is the practice of the University's information system to apply PLUS loan credits to outstanding charges after all other Federal aid credits have been posted. The University could revise its application procedures so that PLUS loan credits are not last in this sequence.

III.H.4. Special Tests: Disbursements – Credit Balances

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Family Education Loans (CFDA # 84.032)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Pell Grant Program (CFDA # 84.063)
Federal Academic Competitiveness Grant (CFDA # 84.375)
Federal National Science and Mathematics Access to Retain Talent Grant (CFDA # 84.376)
Federal Award Agency: Department of Education
Award Year: 2006-2007

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 selected ten Title IV recipients from Southern CSU for disbursements testing. From this sample, we noted three 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 $865 and $1,865 were paid to the students between one day and 11 days later than required.

Effect: The University is not in compliance with the required timeframe for paying students the credit balance in their student accounts.

Cause: The University set specific dates for the Fall 2006 and Spring 2007 distributions of credit balances; these dates did not always allow for compliance with the Federal regulation.

Recommendation: The University 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:* "The University agrees with this finding."

III.H.5. Special Tests: Disbursements – Notifications

Federal Family Education Loans (CFDA # 84.032)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria: Per 34 CFR 668.165(a)(2), if an institution credits a student's account at the institution with FFEL or Federal Perkins Loan Program funds, the institution must notify the student of the date and amount of disbursement, the right to cancel all or a portion of that loan or disbursement and have the loan proceeds returned to the holder of that loan, and the procedures and the time by which the student must notify the institution that he or she wishes to cancel the loan or loan disbursement.

Condition:

- From our eligibility sample of 37 students at UConn, seven students received Federal Perkins Loans. We noted that six of these students were not notified of the date and the amount of the Spring disbursement of

Perkins Loan funds to their accounts, and one student was not notified of an increase to his Fall disbursement. For these Federal Perkins Loan borrowers, the PeopleSoft Financial Aid Status screen did not indicate that any communication had been made notifying them of the disbursements to their accounts.

- We selected ten FFEL recipients from Southern CSU for disbursements testing. From this sample we noted that all ten students did not receive the required notifications either in writing or electronically.

Effect: In certain instances, UConn students receiving Federal Perkins Loan funds, and in all instances, Southern CSU students receiving FFEL funds were not notified of the date and amount of funds credited to their accounts. In addition, the UConn students were not notified of their rights regarding cancellation of their Perkins Loan.

Cause:

- At UConn, there were problems with the query used to notify students by email of the crediting of Federal Perkins Loans to their accounts for the Spring 2007 semester.
- At Southern CSU, the current procedure consists of sending a postcard and email to a student notifying the student of the initial FFEL award. There is no subsequent procedure.

Recommendation: These universities should comply with the Federal regulations related to Federal Perkins Loan fund and/or FFEL Program fund notifications.

Agency Response: *UConn:* "We agree."

Southern CSU: "The University agrees with this finding."

III.H.6. Special Tests: Disbursements – Student Gaining Eligibility

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria: The 2006-2007 Federal Student Aid Handbook states, "A student who *gains eligibility* is one who was previously ineligible for some reason. In general, when a student gains eligibility, she may receive Pell and campus-based funds for the entire payment period and Stafford and PLUS loans for the period of enrollment in which she became eligible."

The Handbook defines a payment period for term-based credit hour programs as a semester.

Condition: From a sample of ten Title IV funds recipients at Eastern CSU, we noted one instance in which a student received a Pell Grant for both the Fall 2006 and Spring 2007 semesters. The total of these Pell Grants was $4,050.

Further review of the student's records noted that the student was in default on a Federal loan before the start of the 2006-2007 award year, which would render the student ineligible for Title IV funds. The student's default status was resolved with the US Department of Education on May 16, 2007.

When the student gained eligibility on May 16, 2007, the University awarded the student Title IV aid for the entire award year. This aid consisted of Stafford Loans totaling $10,500 and Pell Grants totaling $4,050.

Effect: The student received a Pell Grant for the Fall 2006 semester, for which he was ineligible. We are treating this amount, $2,025, as a questioned cost. Total Pell Grant awards in our sample were $27,750, while the total of Pell Grant awards at Eastern CSU was $2,229,773.

Cause: It appears that a misinterpretation of the Handbook was the cause.

Recommendation: When a student gains eligibility, the University should award Pell and campus-based funds for only the payment period.

Agency Response: *Eastern CSU:* "We agree with this finding."

III.H.7. Special Tests: Disbursements – FFEL Funds

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria: 34 CFR 668.167 (b) (1) and (2) require FFEL funds to be disbursed to students or parents within three business days if the lender provided the funds by electronic funds transfer.

Condition: From a sample of ten FFEL recipients at Eastern CSU, we noted an instance in which two separate subsidized Stafford loans, which were received via EFT by the institution, were disbursed to the student three and four days later than required in the Spring 2007 semester.

From a sample of ten FFEL recipients at Southern CSU, we noted one instance in which funds received via EFT by the institution were disbursed to the student seven later days than required in the Fall 2006 semester and 2 days later than required in the Spring 2007 semester.

Effect: Disbursements to students were not made within the required timeframe.

Cause: The cause is not known.

Recommendation: These universities should implement procedures to ensure compliance with Federal disbursements requirements.

Agency Response: *Eastern CSU:* “We agree with this finding.”

Southern CSU: “The University agrees with this finding.”

III.H.8. Special Tests: Student Status Changes

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2006-2007

Criteria: 34 CFR 682.610(c) requires that changes in enrollment to less-than-half-time, graduated, or withdrawn, must be reported within 30 days. However, if a roster file is expected within 60 days, the changes in enrollment status may be provided on that roster file.

Condition: From a sample of 25 students who received FFEL funds and also separated from UConn, we noted the following:

- The enrollment status for nine borrowers who graduated effective May 5, 2007, was reported by the National Student Clearinghouse (NSC) on Graduates Only transmissions. These transmissions were sent on either May 17, 2007, or June 15, 2007. Because a Subsequent-of-Term transmission was sent to the Clearinghouse on June 22, 2007, the enrollment status of each of these nine borrowers was reported by the Clearinghouse reflecting their individual status in the Spring 2007 semester (prior to graduation). Subsequently, in the September 10, 2007, First-of-Term transmission, their status was reported by the Clearinghouse as withdrawn effective May 5, 2007.

- Two students who graduated, one in Summer 2007 and one in Fall 2007, were reported by the Clearinghouse as withdrawn with a status date of May 5, 2007, on the September 10, 2007, First-of-Term transmission.

- Two students’ changes in enrollment status (academic dismissal and deceased) were not reported to the National Student Loan Data System (NSLDS) within 30 days (a roster file would not be expected within 60 days).

- One student's status first-started-date was reported incorrectly.

We selected ten FFEL recipients who had also separated from Manchester Community College for our testcheck of student status changes. From this sample, we noted that two students weren't reported to the NSC within the required 60 days.

Effect: Enrollment information for certain students was not provided to the loan community in a timely and/or 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 and accurate reporting of enrollment data for Federal student loan borrowers is critical.

Cause: At UConn, Subsequent-of-term transmissions were submitted to the Clearinghouse after Graduates Only transmissions and more than two weeks after the end of classes for the semester in an effort to report dismissed students accurately.

Because roster files are not created during the summer, we noted two instances in which the changes in enrollment status (academic dismissal and death) were not reported to the NSLDS within the required timeframe.

The incorrect withdrawal date was due to untimely entering of information into PeopleSoft at the Hartford branch.

At Manchester Community College, because of the timing difference between the date the College entered the change in enrollment reports and the date the students were withdrawn and certified by the College, there were two instances in which the change in enrollment status was not reported to the NSC within the required timeframe.

Recommendation: These institutions should comply with the reporting requirements related to student status changes.

Agency Response: *UConn:* "We agree."

Manchester Community College: "We agree with the finding in part. The National Student Clearinghouse (NSC) report was scheduled for transmission on April 9, 2007. The Registrar's Office actually forwarded the enrollment report to the NSC when the withdrawal period was over on April 11, 2007.

Another report was forwarded on the scheduled date of submission of June 1, 2007, the end of the term. The final Spring 2007 report went to the NSC on July 2, 2007."

III.H.9. Special Tests: Student Loan Repayments

Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)
Federal Award Agency: Department of Education
Award Year: 2006-2007

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 Perkins Loan recipients at Eastern CSU, we noted seven instances in which the change in a student's enrollment status was not reported to the Perkins Loan servicer in a timely manner. These seven students separated from the University between December 2001 and December 2005. Each of these students was reported as separated to the loan servicer in June 2006; The separation dates for these students were reported between six months and four-and-a-half years later than required.

From a sample of ten Perkins Loan recipients at Southern CSU, we noted one instance in which the change in a student's enrollment status was not reported to the Perkins Loan servicer in a timely manner. The student separated from the University in December 2005, but this was not reported to the loan servicer until August 2006.

Effect: These universities were not in compliance with Federal due diligence requirements.

Cause: Controls in place were not sufficient to prevent this from occurring.

Recommendation: These universities should develop procedures to ensure that a change in the enrollment status of Perkins Loan recipients is reported to the loan servicer in a timely manner.

Agency Response: *Eastern CSU:* "We agree with this finding in part. The University believes that it has addressed the issues included in this finding and as noted in the conditions above, the student files in question were corrections from earlier fiscal years. Current policy requires manual case review by a designated Financial Aid administrator to ensure prompt notification of the change in enrollment status of Perkins Loan recipients. The University believes that all issues in this finding have been addressed."

Southern CSU: "The University agrees with this finding."

I. DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT

III.I.1. Equipment Management

Homeland Security Grant Program (CFDA #97.067)
State Domestic Preparedness Equipment Support Program (CFDA # 97.004)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2003-2004, 2004-2005, 2005-2006
Federal Award Numbers: 2004GET44053, 2005GET50016, 2006GET60008

Criteria: Title 28 of the Code of Federal Regulations (CFR) Part 66 Section 32(b) and Title 44 CFR Part 13 Section 32(b) require States to use, manage, and dispose of equipment acquired under a grant to the State in accordance with State laws and procedures. Section 4-36 of the Connecticut General Statutes requires that each State Agency establish and keep an inventory account in a form prescribed by the State Comptroller. The State Property Control Manual requires that all State agencies have policies and procedures in place to ensure that the State's property, plant and equipment are properly managed. The Property Control Manual specifies requirements and standards that State agencies' property control systems must comply with, including the maintenance of inventory records within the Core-CT Asset Management Module.

Condition: During the fiscal year ended June 30, 2007, the Department made purchases of at least $359,491 in Homeland Security Grant Program funds for capitalized equipment retained for use by the Department. Our review disclosed that at the time of our examination, the Department was unable to provide us with a complete equipment and property inventory listing, as recorded within the Statewide Core-CT Asset Management Module.

Effect: Deficiencies in the control over the equipment inventory result in a decreased ability to properly safeguard State assets. There is non-compliance with Federal and State regulations.

Cause: We were informed that, due to a lack of staff, the Department has not been able to devote enough time to asset management.

Recommendation: The Agency should maintain capital asset records in accordance with the State Property Control Manual to ensure compliance with Federal and State regulations.

Agency Response: "We agree with the finding and to enhance equipment management, DEMHS hired a Storekeeper in July 2007 to assist in the proper handling of Agency assets and controllable property. Efforts to adhere to Core-CT Asset Management processing and listing have also begun within the Purchasing and Accounts Payable modules."

III.I.2. Subrecipient Monitoring

Homeland Security Grant Program (CFDA #97.067)
State Domestic Preparedness Equipment Support Program (CFDA # 97.004)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2003-2004, 2004-2005, 2005-2006
Federal Award Numbers: 2004GET44053, 2005GETG50016, 2006GET60008

Background: During the audit period DEMHS administered the Homeland Security Grant Program (HSGP) subgrants through various methods dependent on the Federal grant award year and option selected by the subgrantee. The subgrantees had three options to administer the funds. The first option was to administer the funds at the local level. When this option was selected the subgrantee was responsible for administering the grant and a formal grant award notice was signed. For the 2004 grant award, the subrecipient received funds from DEMHS through a reimbursement basis. For the 2005 and 2006 awards, subgrantees were permitted to request funds in advance. The second option was to have a Regional Planning Organization (RPO) administer the funds on the subgrantee's behalf. When this option was selected, funds were disbursed in the same manner as in option 1. The final option was for the subgrantee to request that DEMHS, the State Administrative Agency (SAA), administer the funds on the subgrantee's behalf. When this option was selected, DEMHS was responsible for performing all procurement, fiscal, grant reporting and audit requirements for the subgrantee. The option selected by the subgrantee is documented through the use of a Designation of Administrator Form that is completed by the subgrantee.

Criteria: Title 28 of the Code of Federal Regulations (CFR) Part 66 Section 26 and Title 44 CFR Part 13 Section 26 require that grantees and subgrantees be responsible for obtaining audits in accordance 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 HSGP Program Guidelines and Application Kits for the 2004, 2005 and 2006 Federal awards have certain requirements for any HSGP programs involving pass-through of funds. Specifically, the State may retain some or all of the local unit of government's allocation of grant funds for expenditures made by the State on behalf of the local unit of government only if requested in writing by that local unit of government or urban area. States holding grant funds on behalf of local units of government must enter into a formal memorandum of understanding (MOU) with the local unit of government specifying the amount of funds to be retained by the State and the intended use of funds. A final, executable copy of the MOU must be kept on file with the SAA.

The Department's grant award agreements with subgrantees require that financial reports be completed for each funded project and submitted along with the Reimbursement Form to recover grant costs.

Condition: Our review of the files of thirteen subgrantees that were required to submit single audit reports disclosed that in seven instances the audit reports were not on hand and there was no documentation to support that the Agency followed up with the subrecipients. In addition, for three audit reports on hand, we noted discrepancies in the CFDA numbers reported that were not identified or followed-up by the Agency.

Our review of the files of subgrantees also disclosed the following:

- Financial reports were not on hand for two of six subgrantees that were required to submit reports and there was no documentation that the Department followed up to request such reports prior to our inquiry.
- For two instances, the Agency did not have either a signed MOU or grant award document on hand. For one of these subgrantees the Agency also did not have a signed Designation of Administrator Form on hand.

- For five subgrantees, the Department processed reimbursements to the subgrantees without providing the subgrantees with required Federal award information.

Effect: There is non-compliance with OMB Circular A-133.

Cause: The Department does not have a procedure in place to ensure all required audits reports of subrecipients are received. We were unable to determine why signed MOU's and financial reports were not on hand. Subrecipients were not notified about all required Federal award information because the CFDA number is reported on the grant award notices, but is not included in the MOU's. In these instances, although the subrecipients opted to have DEMHS administer their grants through an MOU, the subrecipients subsequently made their own purchases, for which they were reimbursed.

Recommendation: The Department should strengthen internal controls over subrecipient monitoring to ensure compliance with OMB Circular A-133.

Agency Response: "We agree with the finding and to enhance subrecipient monitoring, DEMHS has taken several significant steps. First, the grant management database is now operational and will by the end of the first calendar quarter of 2008 house financial information for FY2006 State Homeland Security subgrant awards. It is anticipated that the database will continue to grow to include all future SHSP [State Homeland Security Program] subgrants and other grants administered by DEMHS. The database is a very efficient way to quickly ascertain the relative health of individual subgrants by examining expenditure levels and reporting compliance. Second, DEMHS staff have been trained to more closely monitor subgrant activity by corresponding with subgrantees on a more regular basis to oversee program activities and to solicit required compliance reports (financial and progress). Third, DEMHS is no longer serving as procurement agent for municipalities. The traditional subgrant model is now the preferred and common method of doing business with eligible grant recipients.

In the event DEMHS does again serve as procurement agent for municipalities, the necessary Federal documentation (Federal grant award, assurances and CFDA number) will be shared. Also, with the benefit of temporary workers, it is anticipated that all necessary grant paperwork will be filed appropriately and completely from this point forward. DEMHS will also develop a procedure involving the Fiscal and Grant Units' efforts to monitor subrecipients' audit report submittals and compliance with OMB A-133."

III.I.3. Allowable Costs/Cost Principles – Program Certifications

Homeland Security Grant Program (CFDA #97.067)
State Domestic Preparedness Equipment Support Program (CFDA # 97.004)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2003-2004, 2004-2005, 2005-2006
Federal Award Numbers: 2004GET44053, 2005GET50016, and 2006GET60008

Emergency Management Performance Grants (CFDA # 97.042)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2004-2005, 2005-2006 and 2006-2007
Federal Award Numbers: 2005GET50016, 2006EME60023, and 2007EME70037

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.

OMB Circular A-87, Attachment B Section 8(h)(4) and (5) 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 that must reflect an after the fact distribution of the actual activity of each employee, must account for the total activity for which each employee is compensated, must be prepared at least monthly and must coincide with one or more pay periods, and must be signed by the employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

Condition: Our review of employee payroll expenditures disclosed that salaries and wages charged to the Emergency Management Performance Grants and the Homeland Security Grant Program were not supported by periodic certifications stating that each employee worked solely on one of the respective programs.

Our review also disclosed two instances in which employee payroll expenditures were charged to the Homeland Security Grant Program at the rate of 100 percent and 50 percent respectively, for two employees who perform administrative functions for the Department and do not work solely on the Homeland Security Grant Program. The Agency did not maintain personnel activity reports or equivalent documentation to support the distribution of the employees' salaries.

Effect: The absence of the periodic certifications and personnel activity reports lessens the assurance that salaries and fringe benefits charged to the Emergency Management Performance Grants and the Homeland Security Grant Program totaling $1,296,230 and $801,264, respectively, are accurate.

Cause: The Department 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 and personnel activity reports or equivalent documentation for employees working on multiple activities or cost objectives.

Agency Response: "We agree with the finding and DEMHS will augment its current time and attendance system to include a certification, to be completed by individual employees whose salaries are in whole or in part supported by grant funds, to document work performed under grant programs. This certification, in the form of a stamp, will be affixed to standard time and attendance sheets on a biweekly basis and will also be signed by the employee's supervisor.

Those DEMHS employees who perform work under multiple grant programs or projects will now be required to complete a Personnel Activity Report (Actual Timesheet Allocation by Funding Source). These reports will be maintained by the employee and attached to their timesheet for authorization by their supervisor. They will be submitted with the employee's timesheet on a biweekly basis to the Department of Administrative Services (DAS), the agency responsible for DEMHS' payroll."

III.I.4. Special Tests and Provisions – Large Projects

Public Assistance Grants (CFDA #97.036)
Federal Award Agency: Department of Homeland Security
Award Years: Federal Fiscal Years 2005-2006, 2006-2007
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 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 30, 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 two large project payments totaling $346,289. Our sample was selected from a universe of three large project payments totaling $437,256. The remaining large project was for a project that was completed prior to application and supporting documentation was reviewed and approved by FEMA during the application process.

Our review of two projects disclosed that the Department paid one hundred percent of the approved estimates of eligible work on the project worksheets prior to project completion. One project had not been started at the time of project approval and the other project was 3% complete. Our review also disclosed that for the former project, the payment was made to cover the subrecipient’s insurance deductible. One year after the payment was made, DEMHS was notified by the subrecipient that the actual costs were less than the insurance deductible amount and less than the amount advanced. DEMHS officials have referred this case to FEMA to determine what action should be taken.

Effect: Payments were disbursed without verifying that work was complete, paid, and performed in accordance with grant conditions. We are considering payments totaling $341,676 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 the finding and to ensure compliance with the Connecticut Public Assistance Program Administrative Plan and to prevent premature payments, DEMHS planning staff will participate in Federally-sponsored Public Assistance Program training. In addition, the Project Worksheet spreadsheet, which contains all the financial data pertaining to both large and small Federal Public Assistance projects, has been revised to highlight large projects so that payments are made after project completion. Finally, DEMHS has more completely communicated program requirements to fiscal staff to assist with Administrative Plan compliance."

J. BOARD OF EDUCATION AND SERVICES FOR THE BLIND

III.J.1. Financial Reporting

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA# 84.126)
Federal Award Agency: Department of Education
Award Year: Federal Fiscal Year 2005-2006
Federal Award Number: H126A060008

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 SF-269 Financial Status Report.

Social Security reimbursement funds were disbursed during F.Y.E. June 30, 2007, totaling $132,925, which were earned under the Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA 84.126). These disbursements were used for the eligible program, Rehabilitation Services, Independent Living Services for Older Individuals who are Blind. However, as required, these disbursements were not reported under the program in which they were earned.

Criteria: The Technical Assistance Circular, RSA-TAC-01-01, instructs the agencies when completing the SF-269 Financial Status Report, that under the basic support program, all Social Security reimbursements must be reported in the program in which they are earned (Basic Support Program) as well as in the program(s) in which they are used (Basic Support program and other eligible programs). Any Social Security reimbursement funds that have been used under other eligible programs should be reported as a disbursement in Block 10r, and specifically annotated in Block 12, Remarks, of the report. This income must also be shown as obligated and/or expended in Block 12, Remarks on the Financial Status Report of the eligible program into which the funds were transferred.

Condition: Our review of the SF-269 Financial Status Report for the Grant Award H 126A060008 Quarter Ended June 30, 2007, disclosed the following:

Program income disbursed and undisbursed was erroneously reported on the SF-269. Program income disbursements totaling $132,925 were made in the Quarter Ended June 30, 2007, but were not reflected as disbursed on the SF-269 report for this quarter. The lack of reporting these disbursements caused the following:

- Disbursed program income using the addition alternative, line 10r, was understated by $132,925.
- Undisbursed program income, line 10q, was overstated by $132,925.
- In addition, a notation should have been made to line 12 under remarks explaining the transfer of these funds to the program(s) that benefited.

Effect: The SF-269 Financial Status Report was not prepared accurately.

Cause: The Board of Education and Services for the Blind was instructed by the Federal agency, Rehabilitation Services Administration, that they could use the Social Security Reimbursements (i.e. Vocational Rehabilitation program income) for other formula grants and was given instructions on how to report these disbursements as outlined in the Technical Assistance Circulars, RSA-TCA-01-01 and RSA-TCA-01-02 . These Technical Assistance Circulars were forwarded to the Department of Administrative Services (DAS), Business Unit, the agency responsible for completing the SF-269, detailing that the disbursements should be reported on the Basic Support Program's or Vocational Rehabilitation's SF-269, as well as the eligible program where the funds were transferred to and used. However, the DAS misinterpreted these instructions and believed that the disbursements should only be reported on the SF-269 for the eligible program where the funds were transferred and used.

Recommendation: The Agency responsible for completing the SF-269 Financial Status Report should follow the Federal Agency reporting instructions and complete the SF-269 as instructed to ensure that it is accurately prepared.

Agency Response: The agency agrees with the finding. The SF 269 for the period ending June 30, 2007, was revised in accordance with RSA guidance and instructions as outlined under RSA Technical Assistance Circulars. Additional expenditures from Social Security Reimbursement funds expended in programs other than Vocational Rehabilitation will be reported correctly in future SF 269 reports.

III.J.2. Activities Allowed or Unallowed

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 processing of vendor invoices into the State's Accounting System (i.e. Core-CT).

Criteria: The Office of Management and Budget Circular A-87 includes factors affecting allowability of costs reimbursable under Federal awards. To be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of the Federal Award and be allocable to the Federal award.

Condition: Our review of ten Vocational Rehabilitation expenditures, totaling $11,249 for allowable services, disclosed one payment of $1,408 incorrectly coded to the Vocational Rehabilitation program and reported as a Federal outlay on the SF-269, Financial Status Report. In addition, upon further review an additional amount of $1,159 was also found incorrectly coded to the Vocational Rehabilitation program. Both expenditures, totaling $2,567, were for Children Services. Therefore, activities were expended and claimed against the Vocational Rehabilitation Program, incorrectly.

Effect: Expenditures totaling $2,567 were incorrectly charged to the Vocational Rehabilitation program thereby overstating the Federal dollars expended and claimed.

Cause: Although BESB had provided to DAS the correct coding on its requisitions for a vendor covered under a blanket purchase order, the subsequent vendor invoices were incorrectly coded on the State's accounting system (Core-CT) as Vocational Rehabilitation program expenditures by the DAS Business Unit. DAS explained that these vendor invoices were processed with a large quantity of overdue invoices which may have caused the miscoding to occur.

Recommendation: The Agency responsible for processing the vendor invoices and inputting the coding on the State's Accounting System should ensure that all expenditures charged to the Vocational Rehabilitation program are actually Vocational Rehabilitation program charges.

Agency Response: The agency agrees with the finding. Adjustments were made to correct the coding and charge the proper account. A revised SF 269 was submitted to reflect the adjustments. DAS financial services staff have implemented a new review process to ensure correct coding of payments.

K. DEPARTMENT OF TRANSPORTATION

III.K.1. Real Property Acquisition

Highway Planning and Construction (CFDA 20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Project Number: 2761(011)
State Project: 95-212-16

Background: Real Property Acquisition is a significant part of the Federal Highway Planning and Construction program.

Criteria: Title 49 Code of Federal Regulations Part 24 Section 104 addresses the requirements for the review of appraisals associated with Real Property Acquisition for Federal and Federally-Assisted Programs, and Subsection (a) states the following concerning appraisal reviews: "…The level of review analysis depends on the complexity of the appraisal problem. As needed, the review appraiser shall, prior to acceptance, seek necessary corrections or revisions…"

Condition: Our review of real property acquisitions disclosed that the Department has an appraisal review process in place that meets the minimum requirements per Title 49 Code of Federal Regulations Part 24 Section 104. We note that the Department's policies require two appraisals for properties expected to be valued over $250,000; however, those policies do not include specific procedures to address instances in which the appraisal amounts that are received for any given property are significantly different from each other. It is essentially left to the professional judgment of the review appraiser, based on the review and evaluation of the appraisals received, to determine which appraisal to use in establishing an amount to offer as just compensation. That review and evaluation is signed off by a Supervising Appraiser and the Division Chief. The established amount is subsequently approved by a Review Panel.

Our test of property acquisitions included a total-take property that was acquired for $1,660,000 for a road widening project. We noted that there were two appraisals obtained to establish an amount to offer as just compensation for the property. The estimated values per the appraisals were $630,000 and $1,660,000. Both appraisals used the Income Approach, which resulted in estimates of $630,000 and $1,625,000. The higher appraisal also utilized a Sales Comparison Approach, which resulted in an estimated value of $1,680,000. After analyzing the appraisals and accepting both, the appraisal indicating $1,660,000 as the market value was approved as fair compensation for the property. It appears reasonable to conclude that when appraisals for a property are significantly different from each other, as was the case in this instance, there is a complex appraisal problem that should increase the level of the review analysis and, as per Title 49 Code of Federal Regulations Part 24 Section 104, Subsection (a) require that the review appraiser, prior to acceptance, seek necessary corrections or revisions.

Effect: The potential for overpaying for property acquisitions exists when there are no set quantitative parameters requiring further review and possibly another appraisal when the appraisals for a subject property are significantly different from each other. In this particular instance the Department may have paid significantly more for the property than it could have.

Cause: The lack of established quantitative parameters for appraisal differences that would require an increase in the level of the review analysis appears to be the cause. The Appraisal Division followed its established procedures, which consisted of desk reviews of the appraisals received, sign-offs by a Supervising Appraiser and the Division Chief, and approval of a Review Panel, to conclude that the appraisal chosen was well enough documented and supported to preclude the necessity of further review or obtaining another appraisal.

Recommendation: The Department should establish a quantitative threshold to apply to the differences in the appraisal values it receives for total-take property acquisitions to determine what would constitute a complex appraisal problem and require an increase in the level of the review analysis.

Agency Response: "We agree with this finding in part. The Department's Office of Rights of Way, Appraisal Division, utilizes both contract and staff professionals who are State licensed "Certified General Real Estate Appraisers," to perform appraisal and appraisal review functions. All appraisal assignments are conducted in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), as well as all current Federal and State requirements and best practices.

The Office of Rights of Way is currently in the process of reviewing and revising its "Technical Appraisal Review" format, in partnership with the Federal Highway Administration.

The Office of Rights of Way has identified areas in the current appraisal review process which can be modified, especially with regard to the more involved and complex appraisal problems. The objective is to outline a definitive procedure the State's Reviewer will be required to comply with when processing this type of assignment."

III.K.2. Matching Requirements

Highway Planning and Construction (CFDA 20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Project Number: Q930H017002
State Project: 92-531

Criteria: 23 USC 120 sets the Federal share allowed for Federal highway projects. The State is generally required to pay a portion of the project costs. Portions vary according to the type of funds authorized and are stated in project agreements.

Condition: Our expenditure review disclosed an instance in which the Federal Government was billed at an incorrect rate. The Federal aid agreement for the above mentioned project allows 80 percent Federal participation but the DOT billed the Federal Government for 82.36 percent of the eligible costs in error. The error was made in the processing of a manual billing, in which an original contract for one project was terminated and the funding was re-allocated to two projects. We note that manual billings do not make up a significant amount of the Federal billings, but there are instances in which they are required.

Effect: The error resulted in the Federal Government being over-billed by $11,852. The error was corrected in November 2007, after we brought it to the agency's attention.

Cause: An error was made when entering the manual claim into the billing system and the internal controls in place did not detect it.

Recommendation: The Department's Federal Billing Unit should improve internal controls over the manual claims it prepares to ensure that billings are made at the correct reimbursement rates.

Agency Response: "We agree with this finding. The Department's Federal Billing Unit has performed a review of all ledger pages pertaining to active Federal agreements to verify the validity of Federal billings through June 30, 2007. This review has ensured that the Department has made billings to the Federal Highway Administration at the correct reimbursement rate. At the beginning of fiscal year 2008, the Department began using the Core-CT Federal billing module. Use of this module limits the ability to manually change billings.

Billing adjustments are now linked to a correction of the original expenditure entry."

III.K.3. Allowable Costs/Cost Principles - Missing approval signatures on timesheets

State and Community Highway Safety (CFDA # 20.600)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 402 - OP (Occupant Protection)
State Project: DOT01877002

Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (CFDA # 20.601)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 410 – J8 (New 410 Alcohol)
State Projects: Various

Alcohol Open Container Requirements (CFDA # 20.607)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 154 Transfer Funds (154 AL - Alcohol)
State Projects: Various

Criteria: The Office of Management and Budget (OMB) Circular No. A-87 Cost Principles for State, Local, and Indian Tribal Governments, Attachment B – Section 8 (h) 1 states that "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit."

The Department's Transportation Safety Section administers several grant programs under the U.S. Department of Transportation National Highway Traffic Safety Administration. The time sheets applicable to those programs require that both the employee participating in the program and the employee's supervisor sign them for the employee to be paid from the program. An adequate internal control system should include procedures designed to ensure that program requirements are met.

Condition:	The Department's Transportation Safety Section makes grants to local police departments for DUI Enforcement Programs and Seat Belt Spot Check Programs. The grants are made on a cost reimbursement basis, whereby the subgrantees submit expenditure documentation supporting its requests for reimbursement. The Department claims Federal reimbursement for the grant payments it makes for these purposes. Our review of 35 expenditure transactions disclosed eight instances in which the Department made payments to subgrantees that were based on employee timesheets that were not approved by a supervisor or for timesheets that were signed by one person as the employee and the supervisor. These are considered questioned costs, and totaled $5,682. Although we did not identify $10,000 of such questioned costs, it is reasonable to conclude that such costs would exceed that amount if additional items were reviewed.
Effect:	The exceptions noted resulted in identified questioned costs totaling $5,682.
Cause:	Weak internal controls within the grant review and payment processes appears to be the cause.
Recommendation:	The Department's Transportation Safety Section should improve internal controls over the grant reimbursement payments it makes to subgrantees, to ensure that all program requirements are met prior to making such payments.
Agency Response:	"We agree with this finding. The Department's Transportation Safety Section's Highway Safety Grant Reimbursement and Reporting Procedures Instruction Sheet has been revised to include the following instructions: "4. Highway Safety Project Time Sheet & Activity Report: A time sheet MUST be completed for each officer for hours worked to be claimed for reimbursement under this project. <u>No one person as the employee can approve his/her time sheet. All time sheets MUST have a signature from a supervisor other than the person signing as the employee.</u> Each report must ONLY reflect the officer's time worked and wages paid under this highway safety project. The PREVIOUS DAILY ACTIVITY REPORT FORM HAS BEEN ELIMINATED and in its place is an activity report summary which highlights the number of contacts that were made by this police officer while working under this project. A blank reporting form for photocopying and use is enclosed." In addition, where the employee is required to sign their name on the time sheet the following language has been added: "All time sheets MUST have a signature from a supervisor other than the person signing as the employee," and where the supervisor signs on the time sheet the following language has been added: "Supervisor's Ink Signature Required -- EMPLOYEE CANNOT

SIGN AS SUPERVISOR EVEN IF THEY ARE THE HIGHEST RANKING OFFICER IN CHARGE OF THE DETAIL."

In addition, the unit has instituted a Highway Safety Project Reimbursement Checklist listing the Project Number and Project (Program Area) Manager's name and the Project Title. The Project Manager is required to initial that all work, expenses, and backup documentation is submitted and accurate and then it is signed and dated by the Project Manager."

III.K.4. Equipment and Real Property

State and Community Highway Safety (CFDA # 20.600)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 402 – PT (Police Traffic Services)
State Project: DOT001877125

Safety Belt Performance Grants (CFDA # 20.609)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 406 - K4 (Safety Belts Incentive)
State Project: DOT01877246

Criteria: Title 23 Code of Federal Regulations Part 1200 Section 21, Subsection (b) states that "All equipment shall be used for the originally authorized grant purposes for as long as needed for those purposes …" and Subsection (c) states that "…States and their subgrantees and contractors shall manage and dispose of equipment acquired under the Section 402 program in accordance with State laws and procedures".

Title 49 Code of Federal Regulations Part 18 Section 32, Subsection (d) (Management requirements), states that "Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. (4) Adequate maintenance procedures must be developed to keep the property in good condition..."

Condition: The Department provides funding to subgrantees to purchase equipment but does not maintain records in the form required under Title 49 Code of Federal Regulations Part 18 Section 32, Subsection (d) (1). Further, physical inventories are not taken as required under Title 49 Code of Federal Regulations Part 18 Section 32, Subsection (d) (2). During the fiscal year ended June 30, 2007, the Department provided $241,225 to subgrantees for equipment.

Effect: Without adequate internal controls in place, the risk that subgrantees may be able to dispose of the equipment and use the money for purposes other than for those authorized is increased.

Cause: We did not determine the cause.

Recommendation: The Department should maintain accounting records of all of the equipment purchased with Federal funds and perform physical inventories of such equipment as required by Federal regulations.

Agency Response: "We agree with this finding. The Department's Transportation Safety Section has developed and implemented a procedure to maintain a physical inventory of any and all equipment purchased by sub-grantees through the Highway Safety Grant Program. A record of each equipment purchase through the grant program is kept in a binder designated by year and contains the following information: Federal fiscal year, highway safety program area, name of municipality, State project number, the percentage of Federal participation, and a physical description of equipment.

The Transportation Safety Section is developing a procedure to create a record of the physical locations where the equipment is used, the time used, the condition of use, and a physical inventory."

III.K.5. Matching – Section 402 and 410 Programs

State and Community Highway Safety (CFDA # 20.600)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: Federal Fiscal Year Ended September 30, 2007
Federal Award Numbers: Section 402 (Various)
State Projects: Various

Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (CFDA # 20.601)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: Federal Fiscal Year Ended September 30, 2007
Federal Award Number: Section 410 – J8 (New 410 Alcohol)
State Projects: Various

Alcohol Open Container Requirements (CFDA # 20.607)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Numbers: Section 154 Transfer Funds (Various)
State Projects: Various

Criteria: The matching requirements that are set for the individual Federal programs should be considered individually for each program and not offset by the matching requirements of other similar programs.

The matching requirements for the State and Community Highway Safety program (Section 402 programs) specify that the Federal share shall not exceed 80 percent or the applicable sliding scale.

The matching requirements for the Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants program (Section 410 programs) state that "The Federal share of programs funded under this section shall not exceed 75 percent in the first and second years in which a State receives a grant, and 50 percent in the third and fourth years in which a State receives a grant."

The matching requirements for the Alcohol Open Container Requirements program (Section 154 programs) state that "The Federal share is determined by the requirements of the programs to which the States allocate the funds." However, there are Section 154 funds used by the Department that are transferred from the Federal Highway Administration as required under Title 23 Code of Federal Regulations Part 1270 Section 6; which requires such a transfer if a State does not have in effect or is not enforcing an open container law as described in Title 23 Code of Federal Regulations Part 1270 Section 4. The use of the transferred funds is regulated by Title 23 Code of Federal Regulations Part 1270 Section 7, Subsection (d), which states that "the Federal share of the cost of any project carried out with the funds transferred under Sec. 1270.6 (Section 154) shall be 100 percent."

Condition: Our review disclosed that the Department was applying the matching requirements for the Highway Safety Program on an overall basis rather than to the individual programs for which the matching requirements are set. From our expenditure test of 35 transactions we noted eleven payments related to the State and Community Highway Safety Program (Section 402 programs) for which the Department received 100 percent Federal reimbursement, when the requirements clearly limit the maximum Federal share to be 80 percent. The match shortfall we identified relating to this program is $15,980. Our testing also disclosed four payments related to the Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants Program (Section 410 programs) in which the Department used grant money in its third and fourth years that required a 50 percent match, but claimed and received 75 percent Federal reimbursement. The match shortfall we identified relating to this program is $22,906.

Our testing also included transactions charged to the Alcohol Open Container Requirements program. There were seven transactions we noted in which the Department applied a 25 percent match, when it should not have applied any since the Federal share should always be 100 percent. The over-match we identified relating to this program is $20,624.

Effect: The matching requirements for certain tested transactions for the State and Community Highway Safety Program and the Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants program were not met, resulting in identified under matched amounts totaling $38,886. Also, the matching requirements were exceeded for certain tested transactions for the Alcohol Open Container Requirements program, resulting in an identified excess match of $20,624

Cause: The Department considered the matching requirements for the overall Highway Safety Program rather than applying the matching requirements to the individual programs. The Department believes that the matching requirements would have been met if they were applied to the overall Highway Safety Program, rather than individually. We did not attempt to confirm that this is the case.

Recommendation: The Department should implement procedures to ensure that it is meeting the matching requirements that are stated for each Federal program within the Highway Safety Program.

Agency Response: "We do not agree with this finding.

The criteria that was used to determine "matching requirements," per the audit report, was that *"matching requirements that are set for the individual Federal programs should be considered individually for each program and* *not offset by the matching requirements of other similar programs."*

While we do agree with the audit report that minimum match requirements for CFDA 20.600 shall be 20 percent, CFDA 20.601 minimum match requirement of 50 percent for third and fourth year funds, and 20.607, minimum match requirement at 0 percent, we do not agree that the match that is gathered cannot span program areas, specifically when like funds (alcohol program) are used.

It has been determined by the recent management review of the Highway Safety Program (May 2007) that the 25 percent contributed by the sub-grantees as their portion of the match in the DUI enforcement grants funded through the 154AL (20.607) and 164AL (20.608) *"could have been used to satisfy the match shortfall for all programs which were either alcohol-related (i.e. Section 410) or which took on the characteristics of the Section 402 Program (i.e. Sections 402, 2003B and 157 Incentive grants)."* Refer to Attachment 1.

In addition, the Department's Transportation Safety Section recently received an e-mail from Mr. Philip Weiser, Regional Administrator of the New England Region dated December 17, 2007 stating the following: *"… match is not required for 154 (and 164) expenditures.…These match expenditures should be used for other impaired driving prevention grant programs that do require match, such as 402 AL and 410."* Refer to Attachment 2."

Auditors' Concluding Comments:

The documentation referred to as Attachment 1 in the Agency Response applies to a period when the Highway Safety Program consisted of one Program, the State and Community Highway Safety program, CFDA 20.600. Now there are several Programs each with a specific CFDA number and specific matching requirements. As indicated in the Audit Finding, these requirements were not met for each Program. Further, the matching funds applicable to the Alcohol Open Container Requirements program were obtained by the Department from sub-grantees through agreements that the Department made with local Police using Federal monies that require no match. Therefore, it does not appear reasonable for these matching funds to be applied to other Programs.

III.K.6. Financial Reporting

State and Community Highway Safety (CFDA # 20.600)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007

Federal Award Numbers: Section 402 (Various)
State Projects: Various

Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (CFDA # 20.601)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Numbers: Section 410 – J8 & K8 (New 410 Alcohol & 410 Alcohol SAFETEA-LU)
State Projects: Various

Occupant Protection (CFDA # 20.602)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: Federal Fiscal Year Ended September 30, 2007
Federal Award Numbers: Section 405 – J2 & K2 (Occupant Protection & OP SAFETEA-LU)
State Projects: Various

Safety Belt Performance Grants (CFDA # 20.609)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 406 - K4 (Safety Belts Incentive)
State Projects: DOT01877246

Incentive Grant Program to Increase Motorcyclist Safety (CFDA # 20.612)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Number: Section 2010 – K6 (Motorcycle Safety Incentive)
State Projects: Various

Criteria: The Department is required to submit monthly vouchers for reimbursement, as per Title 23 Code of Federal Regulations Part 1200 Section 23, Subsection (b), which states that, "At a minimum, vouchers shall be submitted to the Approving Official on a quarterly basis, no later than 15 working days after the end of each quarter, except that where a State receives funds by electronic transfer at an annualized rate of one million dollars or more, vouchers shall be submitted on a monthly basis, no later than 15 working days after the end of each month. Failure to meet these deadlines may result in delayed reimbursement."

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Condition: Our review disclosed that the Department did not meet the voucher deadline for eight of the twelve months during the fiscal year. For five of the eight instances, the number of days in which the vouchers were submitted late ranged from 19 to 39 days, and there were no vouchers submitted during November 2006 and May 2007.

Effect: Federal reimbursements are delayed because the Department is not submitting it vouchers as required.

Cause: We were told that the State fiscal year closing procedures cause a delay in submitting the Federal reimbursement vouchers, affecting June, July and August each year. We did not determine the cause for the other late billings.

Recommendation: The Department should submit its monthly National Highway Transportation Safety Administration Federal reimbursement vouchers no later than 15 working days after the end of each month, as required by Title 23 Code of Federal Regulations Part 1200 Section 23, Subsection (b).

Agency Response: "We agree with this finding. The Department's Office of Highway Safety employee responsible for reviewing the billing before submission was out on medical leave from November 2006 to January 2007. This precluded October, November and December vouchers from being submitted on time. In addition, the Federal Billing Unit employee responsible for completing the NHTSA bill was also out on medical leave for an extended period of time. The processing of vouchers has been dependent on the availability of the two staff persons responsible for the vouchers to be submitted. The Federal Billing Unit will be cross training another employee and the Office of Highway Safety plans to add another position to their unit to be a back-up in the Federal billing process."

III.K.7. Sub-recipient Monitoring

State and Community Highway Safety (CFDA # 20.600)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Numbers: Section 402 - Various
State Projects: Various

Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (CFDA # 20.601)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007

Federal Award Number: Section 410 – J8 (New 410 Alcohol)
State Projects: Various

Alcohol Open Container Requirements (CFDA # 20.607)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Numbers: Section 154 Transfer Funds (Various)
State Projects: Various

Criteria: Under Title 49 Code of Federal Regulations Part 18 Section 37, Subsection (a), States are required to ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations and to ensure that subgrantees are aware of requirements imposed upon them by Federal statutes and regulations. Under Title 49 Code of Federal Regulations Part 18 Section 40, Subsection (a), grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities and grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements, and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition: Our review disclosed that the Department does not include the respective Federal statutes and implementing regulations in its agreements with subgrantees. The project agreements include the requirement that "All costs incurred under this project must be in full compliance with both Federal and state regulations, policies, and procedures that govern the use of highway safety funds." However, the agreements do not identify the specific Federal regulations or other relevant information to ensure that the subgrantees are aware of the requirements imposed upon them by Federal statutes and regulations. Our review also disclosed that the Department does not have formal procedures in place to continuously monitor the activities of the subgrantees to assure compliance with applicable Federal requirements. For the ten projects we selected for testing we noted that there was a final review done for each, but no other documented reviews that would support continuous monitoring.

Effect: Subgrantees may not be aware of all of the applicable requirements of the grant award, which could result in non-compliance with Federal regulations. The lack of continuous monitoring could also result in such a situation.

Cause: The Department has not developed and implemented formal procedures to address these matters.

Recommendation: The Department should include the applicable Federal statutes and regulations in the agreements it makes with subgrantees and should develop and implement formal procedures for continuous monitoring of its subgrantees.

Agency Response: "We agree with this finding. In past years when the Department's Transportation Safety Section was named the Division of Highway Safety, procedure dictated that a document entitled "Regulations Governing Highway Safety Projects" was included with each Highway Safety application and was included with all approved projects. At some point, including this document with the application was discontinued as most grantees were existing traffic safety partners who applied for multiple grants in any given Federal fiscal year and were previously provided this document. Accordingly, it was viewed as a measure to reduce the cost of mailings.

The Transportation Safety Section has recreated this document and will be including it with all future Highway Safety Grant applications."

III.K.8. Reporting - Misstatements in the State's Accounting System (Core-CT)

State and Community Highway Safety (CFDA # 20.600)
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (CFDA # 20.601)
Occupant Protection (CFDA # 20.602)
Alcohol Open Container Requirements (CFDA # 20.607)
Minimum Penalties for Repeat Offenders for Driving while Intoxicated (CFDA # 20.608)
Safety Belt Performance Grants (CFDA # 20.609)
Incentive Grant Program to Increase Motorcyclist Safety (CFDA # 20.612)
Federal Award Agency: Department of Transportation (National Highway Transportation Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2007
Federal Award Numbers: Various
State Projects: Various

Criteria: Title 49 Code of Federal Regulations Part 18 Section 20 sets the standards for financial management. Section (a) of Title 49 Code of Federal Regulations Part 18 Section 20 indicates, in part, that a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds and that fiscal control and accounting procedures of the State must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The State Accounting Manual establishes the Comptroller's records as the official accounting records of the State of Connecticut, and a centralized information system, Core-CT, is used to maintain those records.

Condition: The expenditures recorded in Core-CT do not represent all of the expenditures made for all of the National Highway Transportation Safety Administration (NHTSA) Federal programs administered by the Department. Our review disclosed that the expenditures recorded in Core-CT for the State fiscal year ended June 30, 2007, are approximately $500,000 less than the actual amount. The total expenditures recorded in Core-CT for all of the NHTSA programs were approximately $11,500,000, while separately maintained Department records of expenditures and the Federal reimbursed expenditures associated with those expenditures present the amount to be approximately $12,000,000. Further, the expenditures and Federal reimbursements associated with each program were not recorded to the correct Federal Special Identification (SID) accounts assigned to each of the Federal programs in Core-CT. This required significant adjustments to be made to the accounting records so that accurate Federal expenditures could be reported in the Schedule of Expenditures of Federal Awards. We also noted that there were SIDs set up in Core-CT to account for the transactions for certain Federal programs which were deleted prior to the start of the fiscal year, and for which the Department recorded expenditures and Federal reimbursements.

Effect: The Schedule of Expenditures of Federal Awards could not be accurately completed using the information recorded in the State's official accounting system, Core-CT.

Cause: Effective October 1, 2006, the several individual programs within the NHTSA program that were previously treated as one program, the State and Community Highway Safety program, CFDA 20.600, which was broken up into several individual programs, each with a specific CFDA number. There was a lack of communication between the units within the Department that were assigned to account for the NHTSA funds, resulting in transactions being recorded to incorrect SIDs in Core-CT.

Recommendation: The Department should implement a system to reconcile its NHTSA expenditure and revenue records with the expenditure and revenue it records in Core-CT and should improve communication between the units assigned to account for the NHTSA Funds.

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Agency Response: "We agree with this finding. During fiscal year 2007, Federal reimbursements were based on expenditures in the Department's TAB [Tabulation] system.

Until the implementation of the Project Module in July 2007, Core-CT was unable to process a Federal billing. With the help of staff from the Office of Policy and Management, the Department is in the process of reconciling historical TAB expenditures to Core-CT expenditures. Any discrepancies will be adjusted at this time.

Federal billing requests in fiscal year 2008 are now based on expenditures in Core-CT."

L. DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

III.L.1. Subrecipient Monitoring – Identification and Audit of Federal Award, Timeliness of Monitoring Letters

Community Development Block Grants/State's Program (CDBG) (CFDA # 14.228)
Federal Awarding Agency: Department of Housing and Urban Development
Award Year: Federal Fiscal Year 2005-2006
Federal Award Number: B-05-DC-090001

Criteria: The Office of Management and Budget (OMB) Circular A-133 requires that for the Federal awards it makes, a pass-through entity shall:

(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 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 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.

The receipt and review of subrecipient audit reports is one of the Department's key internal controls for subrecipient monitoring.

The Department's CDBG Internal Process Manual requires that the Department's report of its on-site monitoring must be completed and transmitted to the municipality within 30 days of the date that the monitoring review was completed.

Condition: Identification and Audit of Federal Award

The Department of Economic and Community Development did not inform its subrecipients of the program's CFDA title and number.

In our review of nine audit reports submitted by subrecipients of CDBG funding we found that four contained CFDA 14.219, which has different laws and regulations than CFDA 14.228. When we inquired of the Department about the audits referring to a different CFDA number than the Department's program, we were informed that CFDA number 14.219 was the appropriate CFDA number for the subrecipient to use and that CFDA number 14.228 was incorrect. The Department did not question the audits being based on the wrong CFDA number when it performed its reviews of those audit reports.

Timeliness of Monitoring Letters

The Department performs on-site monitoring of subrecipients and reports its findings to them. Six of the ten on-site monitorings that we reviewed contained findings. The Department's written letters to subrecipients, to inform them of monitoring findings, were dated between six and 124 days after the on-site reviews; four letters were sent at least 50 days after the reviews were performed.

Effect: Since the review of subrecipient audit reports is a key internal control of the Department, if the audit reports contain an inaccurate CFDA number the Department cannot rely on the audit reports for assurance of subrecipient compliance with the laws and regulations pertaining to the program that the Department administers.

If subrecipients are not made aware of noncompliance with Federal grant requirements, the noncompliance may continue.

Cause: The Department does not have adequate procedures in place to notify its subrecipients of the Federal award information or to ensure that it receives audit reports covering its CDBG program. It appears that staff has not received adequate training on the OMB Circular A-133 audit requirements.

The Department does not enforce its policy to promptly notify subrecipients of monitoring findings.

Recommendation: The Department should inform its subrecipients of the CFDA number and title for the CDBG program, promptly inform subrecipients in writing of the findings of on-site monitoring, and ensure that the required audit reports are received and reviewed for compliance with OMB Circular A-133. Staff responsible for reviewing subrecipient audit reports should be trained on

OMB Circular A-133 requirements.

Agency Response: [Subrecipient Audits of Federal Award]
"We agree with this finding in part.

Over the last 22 years, for which DECD has records, the HUD Hartford Office has never informed DECD that it was using an incorrect CFDA number. It is important to note that under the Small Cities Program, DECD does not rely solely on CPA conducted audits. DECD staff conducts financial monitoring at least once during the life of the individual contract.

As a result of this finding, DECD will include 14.228 in its Small Cities Grant Management Manual and DECD's Audit Desk Review Checklist for future years."

[Identification of Federal Award and Timeliness of Monitoring Letters]
"We agree with this finding in part.

DECD monitors each grant a minimum of once in the life of the grant to insure compliance with laws, regulations and the provisions of contracts and grant agreements; and that performance goals are achieved.

Exit interviews are held at the end of the on-site monitoring visit, at which time DECD explains the findings and concerns that resulted from the monitoring visit.

At the exit interview, subrecipients are able to ask questions about the findings and concerns and to provide additional information that was not provided during the monitoring. DECD provides suggestions on how to initiate corrective action. Subrecipients often take corrective action prior to receipt of the monitoring letter.

DECD then prepares the monitoring letter with the goal of producing the letter within 30 days of the conclusion of monitoring. Letters can be delayed for various reasons. DECD will amend its monitoring letter procedures to allow some flexibility in the 30-day timeframe and will also track that monitoring letters are issued promptly.

Although the Small Cities Program Grant Management Manual contains a chapter on financial management, which includes a section on audit requirements and a copy of OMB Circular A-133, the manual does not reference the CFDA title and number. DECD is working on a revision to the grant management manual and will include the CFDA title and number under the audit requirement portion of the revised manual."

III.L.2. Allowable Costs/Cost Principles - Payroll Expenditures

Home Investment Partnership Program (HOME) (CFDA # 14.239)
Federal Awarding Agency: Department of Housing and Urban Development
Award Year: State Fiscal Year 2006-2007
Federal Award Number: M06-SG090100

Economic Adjustment Assistance Program (EAA) (CFDA # 11.307)
Federal Awarding Agency: Department of Commerce
Award Year: State Fiscal Year 2006-2007
Federal Award Number: 01-39-019646-01

Criteria: OMB Circular A-87 requires that:

- To be allocable to a Federal program, the goods or services involved are chargeable or assignable to that program in accordance with relative benefits received.
- Direct costs are those that can be identified specifically with a particular final cost objective. A typical direct cost is compensation of employees for the time devoted and identified specifically to the performance of the award.
- 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.

Condition: Federal and State programs are charged for the amount of payroll expenditures coded to the accounts assigned to each program. We found that those accounts did not accurately reflect the payroll expenditures for the actual employee time recorded as worked on Federal programs.

Each employee within the agency is assigned to one expenditure coding for payroll. Biweekly payroll expenditures are coded to the assigned expenditure code. In addition to a biweekly timesheet, each employee prepares a biweekly work distribution report of the hours worked on each Department program. Many employees work on more than one program, but payroll expenditures are originally charged to only the one assigned program.

Original coding for payroll expenditures did not match the allocations for the time actually worked on programs as reflected on work distribution reports (e.g., an employee whose payroll was assigned to program A worked on program A for 20 hours, and program B for 20 hours. All 40 hours were charged to program A. As a result, Program A was overcharged for 20 hours and program B was undercharged for 20 hours.)

Periodically, usually near the end of the fiscal year, the agency makes adjustments to correct some of the coding for time charged to Federal programs that was actually worked on other programs, per the biweekly work distribution reports. We found that after the adjustments were made, expenditures for certain programs still exceeded the related charges for the time worked on those programs as reflected on the biweekly work distribution reports.

Further audit analysis of biweekly work distribution reports found that in addition to some programs being overcharged, the Department also expended additional State funds that could be claimed for Federal reimbursement. The net result was that HOME was overcharged by $230,070 and EAA was overcharged by $85,468.

Effect: We reviewed payroll totaling $13,165,245 for all of the Department's employees and found some accounts that had net overcharges and some that had net undercharges. The net questioned costs for overcharges to Federal programs are reflected below:

Program	Amount		Percent of Total Program Payroll Expenditures
HOME	$	230,070	20 %
EAA		85,468	51 %
Total	$	315,538	

Cause: The Department does not have procedures in place to either make the adjustments necessary to align payroll expenditures with time worked or to make initial payroll charges to the proper funding.

Recommendation: DECD should institute procedures to ensure all payroll expenditures represent actual work on the programs charged.

Agency Response: "We agree with this finding.

The Department agrees that certain payroll expenditures were not adjusted and the Federal Programs noted have been overcharged. Corrective action will include future review of all work distribution adjustments by the Supervisor of the Budget Unit to ensure completeness and accuracy. DECD will develop procedures to conform to Federal guidelines."

M. DEPARTMENT OF INFORMATION TECHNOLOGY

III.M.1. Allowable Costs/Cost Principles – Statewide Cost Allocation Plan – Central Service Costs

Child Support Enforcement (CFDA # 93.563)
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 0504CT4004, 0604CT4004 and 0704CT4004

Foster Care Title IV-E (CFDA # 93.658)
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G-0501CT1401, G-0601CT1401 and G-0701CT1401

Adoption Assistance (CFDA # 93.659)
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: G-0501CT1407, G-0601CT1407 and G-0701CT1407

Medical Assistance Program (Medicaid) (CFDA # 93.778)
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0505CT5028, 05-0605CT5028 and 05-0705CT5028

State Children's Insurance Program (SCHIP) (CFDA # 93.767)
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 05-0505CT5021, 05-0605CT5021 and 05-0705CT5021

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 2005-2006 and 2006-2007
Federal Award Number: 4CT400400

Vocational Rehabilitation Services (CFDA # 84.126)
Federal Award Agency: United States Department of Education
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: H126A050007, H126A060007 and H126A070007

Social Security Disability Insurance (CFDA # 96.001)
Federal Award Agency: Social Security Administration (SSA)
Award Years: State Fiscal Years 2005-2006 and 2006-2007
Federal Award Numbers: 04-0504CTDI00, 04-0604CTDI00 and 04-0704CTDI00

Background: The Department of Information Technology (DOIT), which provides a great range of products, technical services and support to all State agencies, bills such user agencies at rates based upon total State-wide utilization of specific services and its related costs to provide such services.

The Departments of Social Services (DSS) and Children and Families (DCF), being significant users of DOIT mainframe services, routinely submit the billed costs for those services to the Federal government for a percentage reimbursement.

Criteria: Appendix C to 2CFR Part 225 – *State/Local-Wide Central Service Cost Allocation Plans* indicates that under Billed Services/Internal Service Funds that for each internal service fund, the plan shall include a brief description of each service; a description of the procedures used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and a schedule comparing total revenues generated by the service to the allowable costs of the service.

The Appendix also indicates that a comparison shall be made at least annually of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service. An adjustment will be made for the difference between the revenue and the allowable costs through one of four adjustment methods: a cash refund to the Federal government for the Federal share of the adjustment; credits to the amounts charged to the individual programs; adjustments to future billing rates; or adjustments to allocated central service costs.

Condition: We noted that during the 2006 and 2007 State fiscal years, DOIT appeared to have generated revenues in excess of allowable costs for mainframe services billed without corresponding adjustments being made. Upon our inquiry, DOIT provided an estimate of the potential overcharge of mainframe services costs as $2,585,198 and $2,672,041 for DCF and $2,973,668 and $3,210,455 for DSS, for the 2006 and 2007 State fiscal years, respectively. DOIT management indicated that these figures would be used for computing a percentage reimbursement by the Federal government. However, they also indicated that further consideration must also be made for the other data processing services DOIT provides but does not bill to State agencies.

For the Department of Children and Families, the Federal Foster Care program and the Adoption Assistance program are the two primary Federal programs receiving significant reimbursements from the Federal government for mainframe service costs charged by DOIT. We estimate that the excess

Federal reimbursement claimed by DCF from the overcharge for mainframe services was, based on the applicable Federal reimbursement rates, $672,416 and $687,446, for the 2006 and 2007 State fiscal years, respectively.

For the Department of Social Services, the Medicaid, Food Stamp, Child Support Enforcement, Vocational Rehabilitation Services, Disability Insurance, and State Children's Insurance programs were the primary Federal programs receiving significant reimbursements for mainframe service costs charged by DOIT. By applying the applicable Federal reimbursement rates we estimate that the excess Federal reimbursement claimed by DSS from the Federal government was $1,340,523 and $1,355,502, for the 2006 and 2007 State fiscal years respectively.

Effect: Since mainframe services costs were apparently overcharged during the 2006 and 2007 fiscal years without corresponding adjustments being provided by DOIT, the surplus that was claimed for Federal reimbursement would appear to be due back to the Federal government. However, it is not known what the monetary offset would be for the services that have been provided by DOIT but not charged to the respective Federal programs. The final resolution regarding the fiscal impact to the State will be decided upon the collaboration and agreement between DOIT and the Department of Health and Human Services.

Cause: DOIT management explained that they had difficulty with establishing rates for newer products and services without reliable utilization and cost projections. These services, although provided to agencies, were never billed. The costs incurred related to these services ended up being covered by the profit generated by the overbilling of mainframe services.

Recommendation: DOIT should consider meeting with appropriate Federal program officials to determine what actions are necessary to remedy the apparent overcharge to the Federal government.

Agency Response: "The Department of Information Technology (DOIT) brought this issue to the attention of the appropriate authorities, including the State auditors, the Federal Department of Health and Human Services (HHS) and is working with HHS and the Office of Policy and Management (OPM) to resolve it.

An examination of accounting practices over the past three fiscal years (FY 2005, FY 2006, and FY 2007) indicated that the Revolving Fund surplus was partially the result of a change in accounting procedures instituted by a departmental reorganization between FY 2005 and FY 2006. New cost centers, aligned with the new organization, were created, and expenses previously counted as overhead to the Revolving Fund were reallocated to them.

The removal of many of these expenses from overhead was a major accounting error that went undetected, and resulted in the appearance of a Revolving Fund surplus larger than it actually was. Many of the costs shifted out of the overhead account were legitimate overhead costs and should not have been moved to separate cost centers.

While the Revolving Fund surplus was actually much lower than previously believed, the fact remains that the existence of a surplus, regardless of the total, should have triggered a rebate to agencies but did not.

To resolve this matter, the following steps are currently being taken.

1. DOIT will revisit financial reports for FY 2006 and FY 2007 to ascertain the proper overhead that should have been charged to mainframe services. This will enable us to properly determine a more accurate amount of the overcharge to agencies.

2. DOIT will provide this information, along with documentation on the overcharges, to DHHS. DHHS has given DOIT four months to do so with the hope of resolving the issue by the end of the 2008 fiscal year.

In 2005, DOIT undertook a multi-year process to get its financial house in order and address chronic audit issues, including that of mainframe rates. Rates had not been revisited for many years, a fact that was rightfully highlighted in previous audit reports.

As part of this effort, a products and services catalog, along with new proposed rates for services provided to agencies for free, was created. It was approved by the Office of Policy and Management in 2008, and a restructured schedule of rates for products and services is now being introduced. In the current fiscal year, this new rate schedule will reduce mainframe service rates by approximately eight percent.

The new rate schedule will impact 52 agencies and includes charges for 21 products and services for which agencies have not previously been charged. OPM has authorized, and FAC approval is being sought for, the transfer of funds to agencies to cover these new expenses.

DHHS has expressed satisfaction with DOIT's method of correcting the current fiscal year and moving forward by charging State agencies for all of the IT services that were not previously billed. They also agreed with OPM's authorization of the transfer of services such as email, internet and State-wide procurement to the General Fund, which helps reduce mainframe rates for the current year.

It should be noted that DOIT's fiscal office has undergone several changes over the past five years, including the retirement of key fiscal officials with a wealth of Revolving Fund knowledge and experience. In addition, the transition to the Core-CT system in 2003 posed additional challenges as the new system did not provide data necessary to reassess expenses and rates.

Despite these challenges DOIT will continue to work on a short and long term measures to prevent a recurrence of this matter."