State of Connecticut
Single Audit Report

For The Year Ended June 30, 2008

Auditors of Public Accounts
Hartford, Connecticut

STATE OF CONNECTICUT

Single Audit Report

For the Year Ended June 30, 2008

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Letter of Transmittal

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

March 26, 2009

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, 2008.

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 $5,800,000,000 in Federal financial assistance during the fiscal year ended June 30, 2008. 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
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

State of Connecticut
Financial Statements

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

Governor M. Jodi Rell
Members of the General Assembly

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

Government-wide Financial Statements

- the financial statements of the Special Transportation Fund account within the Transportation Fund and the Transportation Special Tax Obligations account within the Debt Service Fund, and the Clean Energy account within the Environmental Programs Fund, which in the aggregate, represent seven percent of the assets and six percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital 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 59 percent of the assets and 56 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 44 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 59 percent of the assets and 56 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audits of the Connecticut Development Authority, the Capital City Economic Development Authority, the Bradley International Airport Parking Facility, John Dempsey Hospital, Connecticut State University, Connecticut Community-Technical Colleges and the University of Connecticut Foundation were not conducted in accordance with *Government Auditing Standards*. 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.

As discussed in Note 14 of the financial statements, the State of Connecticut adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). This standard modifies the method that governments have reported the cost of providing such benefits, primarily retiree health care. It requires the systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and the disclosure of information about the actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Our audit disclosed that information pertaining to the Funded Status and Funding Progress, and Actuarial Methods and Assumptions for the State Employee OPEB Plan was not disclosed in Note 14 of the financial statements in compliance with GASB requirements.

In our opinion, except for the matter described in the preceding paragraph, 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, 2008, 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 27, 2009, 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 27, 2009
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is intended to provide readers of the State's financial statements with a narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2008. The information provided here should be read in conjunction with additional information provided in the letter of transmittal and in the basic financial statements.

FINANCIAL HIGHLIGHTS

Government-wide:
As of June 30, 2008, the State had a combined net asset deficit of $2.2 billion, an increase of $2.0 billion when compared to the prior year ending deficit balance. This increase resulted from a decrease of $2.0 billion in the net assets of governmental activities.

Fund Level:
The governmental funds had a total fund balance of $3.1 billion at year end. Of this amount, $3.7 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of $0.6 billion. The portion of the total unreserved fund balance deficit that pertains to the General Fund was a $1.1 billion deficit. The General Fund had an actual budget surplus of $0.1 billion this year.

The Enterprise funds had total net assets of $4.7 billion, substantially all of which was invested in capital assets or restricted for various purposes.

Long–Term Debt:
Total long-term debt was $20.3 billion for governmental activities, of which $16.2 billion was bonded debt.

Total long-term debt was $1.9 billion for business-type activities, of which $1.4 billion was bonded debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements comprise three components: 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 themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the State's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements are intended to distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include legislative, general government, regulation and protection, conservation and development, health and hospitals, transportation, human services, education, libraries, and museums, corrections, and judicial. The business-type activities of the State include the University of Connecticut and Health Center, State Universities, Bradley International Airport, Connecticut Lottery Corporation, Employment Security, and Clean Water, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The government-wide financial statements include not only the State itself (known as the primary government), but also the activities of eight legally separate Component Units for which the State is financially accountable: the Connecticut Housing Finance Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Development Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Resources Recovery Authority, the Connecticut Innovations, Incorporated, the Capital City Economic Development Authority, and the University of Connecticut Foundation, Incorporated. Financial information for these Component Units is reported separately from the financial information presented for the primary government itself. Financial information of the individual component units can be found in the basic financial statements following the fund statements, and complete financial statements of the individual component units can be obtained from their respective administrative offices.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, the Transportation Fund, and the Restricted Grants and Accounts Fund, all of which are considered to be major funds. Data from other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The State adopts a biennial budget for the General Fund, the Transportation Fund, and other Special Revenue funds. A budgetary comparison statement has been provided for the General Fund and the Transportation Fund to demonstrate compliance with the current fiscal year budgets.

Proprietary Funds

Proprietary funds (Enterprise funds and Internal Service funds) are used to show activities that operate more like those of commercial enterprises. Enterprise funds charge fees for services provided to outside customers. They are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the State's various functions. The State uses Internal Service funds to account for correction industries, information technology, and administrative services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held by the State in a trustee or agency capacity for others. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes information regarding the State's progress on funding its obligation to provide pension and other postemployment benefits to its employees.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains the following information.

- Combining Fund Statements and Schedules – Nonmajor funds
- Statistical Section

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of the State's financial position. During the current fiscal year, the combined net asset deficit of the State increased 807 percent to $2.2 billion. In comparison, last year the combined net asset deficit decreased 69 percent.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
ASSETS:						
Current and Other Assets	$ 5,172	$ 5,315	$ 3,804	$ 4,006	$ 8,976	$ 9,321
Capital Assets	10,045	9,952	3,348	3,263	13,393	13,215
Total Assets	15,217	15,267	7,152	7,269	22,369	22,536
LIABILITIES:						
Current Liabilities	3,078	2,900	741	700	3,819	3,600
Long-term Liabilities	19,027	17,211	1,727	1,968	20,754	19,179
Total Liabilities	22,105	20,111	2,468	2,668	24,573	22,779
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	4,931	4,269	2,579	2,455	7,510	6,724
Restricted	1,641	1,385	1,757	1,872	3,398	3,257
Unrestricted	(13,460)	(10,498)	348	274	(13,112)	(10,224)
Total Net Assets (Deficit)	$ (6,888)	$ (4,844)	$ 4,684	$ 4,601	$ (2,204)	$ (243)

The net asset deficit of the State's governmental activities increased $2.0 billion (42.2 percent) to $6.9 billion during the current fiscal year. Of this amount, $6.6 billion was invested in capital assets (buildings, roads, bridges, etc.) or was restricted for various purposes, resulting in an unrestricted net asset deficit of $13.5 billion. This deficit is the result of having long-term obligations that are greater than currently available resources. Specifically, the State has recorded the following outstanding long-term obligations which contributed to the deficit; a) general obligation bonds in the amount of $5.4 billion which were issued to finance various municipal grant programs (e.g., school construction) and construction projects at the University of Connecticut, and b) other long-term obligations in the amount of $4.1 billion (e.g., net pension obligation and compensated absences).

Net assets of the State's business-type activities increased $0.1 billion (1.8 percent) to $4.7 billion during the current fiscal year. Of this amount, $4.4 billion was invested in capital assets or was restricted for various purposes, resulting in unrestricted net assets of $0.3 billion. These resources cannot be used to make up for the net asset deficit of the State's 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 and Health Center, Bradley International Airport, and others).

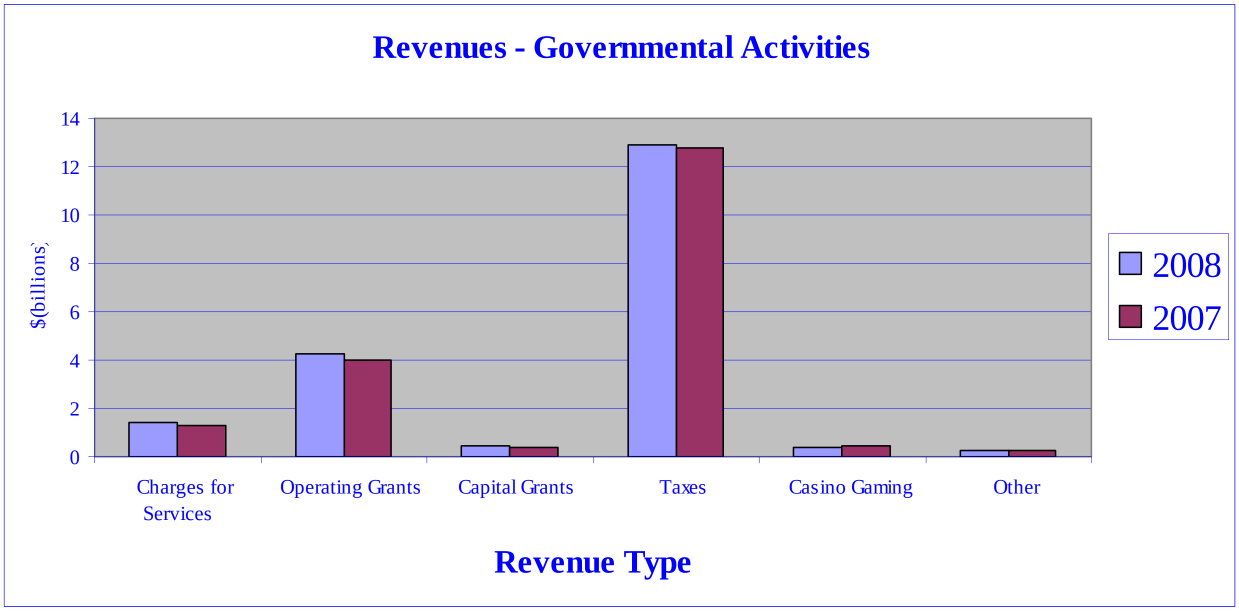
CHANGE IN NET ASSETS

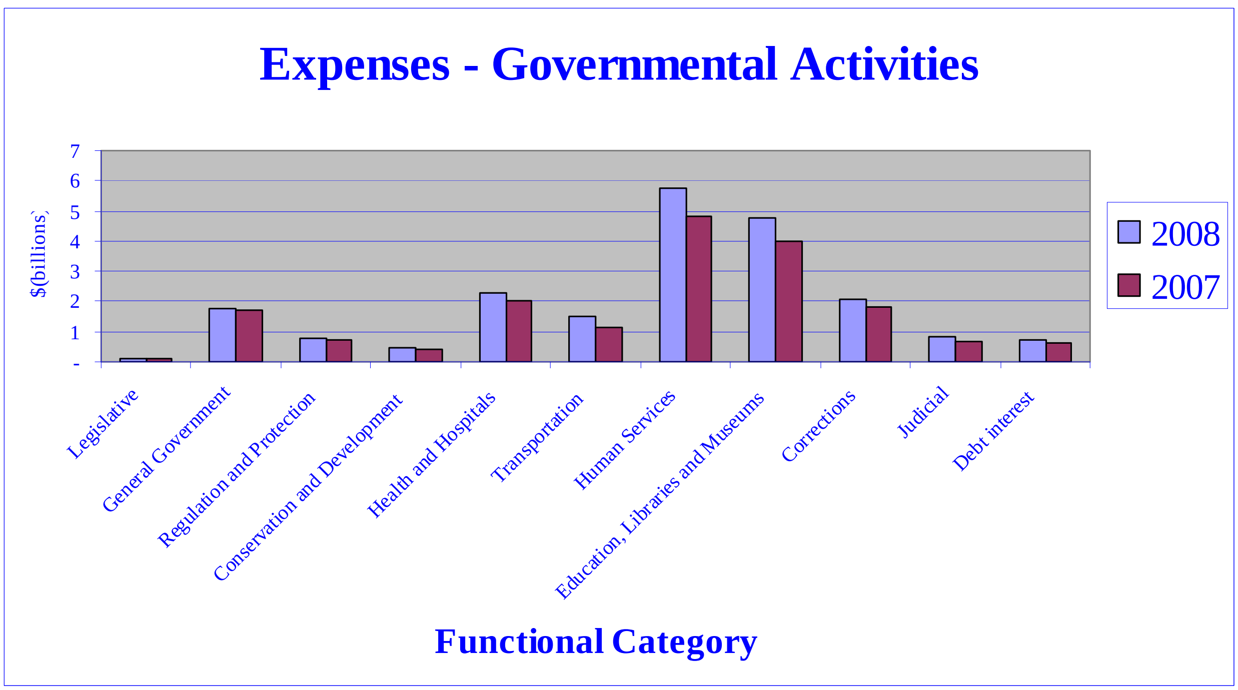
Changes in net assets for the years ended June 30, 2008 and 2007 were as follows:

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

	Governmental Activities		Business-Type Activities		Total		%change
	2008	2007	2008	2007	2008	2007	08-07
REVENUES							
Program Revenues							
Charges for Services	$ 1,448	$ 1,317	$ 3,000	$ 2,920	$ 4,448	$ 4,237	5.0%
Operating Grants and Contributions	4,271	3,974	323	297	4,594	4,271	7.6%
Capital Grants and Contributions	442	412	36	14	478	426	12.2%
General Revenues							
Taxes	12,901	12,803	-	-	12,901	12,803	0.8%
Casino Gaming Payments	411	430	-	-	411	430	-4.4%
Other	273	280	117	128	390	408	-4.4%
Total Revenues	19,746	19,216	3,476	3,359	23,222	22,575	2.9%
EXPENSES							
Legislative	112	97	-	-	112	97	15.5%
General Government	1,738	1,731	-	-	1,738	1,731	0.4%
Regulation and Protection	789	703	-	-	789	703	12.2%
Conservation and Development	474	429	-	-	474	429	10.5%
Health and Hospitals	2,298	2,004	-	-	2,298	2,004	14.7%
Transportation	1,482	1,151	-	-	1,482	1,151	28.8%
Human Services	5,744	4,828	-	-	5,744	4,828	19.0%
Education, Libraries and Museums	4,749	4,009	-	-	4,749	4,009	18.5%
Corrections	2,085	1,836	-	-	2,085	1,836	13.6%
Judicial	806	695	-	-	806	695	16.0%
Interest and Fiscal Charges	734	635	-	-	734	635	15.6%
University of Connecticut & Health Center	-	-	1,626	1,519	1,626	1,519	7.0%
State Universities	-	-	611	571	611	571	7.0%
Bradley International Airport	-	-	68	67	68	67	1.5%
CT Lottery Corporation	-	-	732	699	732	699	4.7%
Employment Security	-	-	632	586	632	586	7.8%
Clean Water	-	-	27	30	27	30	-10.0%
Other	-	-	476	432	476	432	10.2%
Total Expenses	21,011	18,118	4,172	3,904	25,183	22,022	14.4%
Excess (Deficiency) Before Transfers	(1,265)	1,098	(696)	(545)	(1,961)	553	-454.6%
Transfers	(779)	(866)	779	866	-	-	0.0%
Increase (Decrease) in Net Assets	(2,044)	232	83	321	(1,961)	553	-454.6%
Net Assets (Deficit) - Beginning	(4,844)	(5,076)	4,601	4,280	(243)	(796)	-69.5%
Net Assets (Deficit) - Ending	$ (6,888)	$ (4,844)	$ 4,684	$ 4,601	$ (2,204)	$ (243)	807.0%

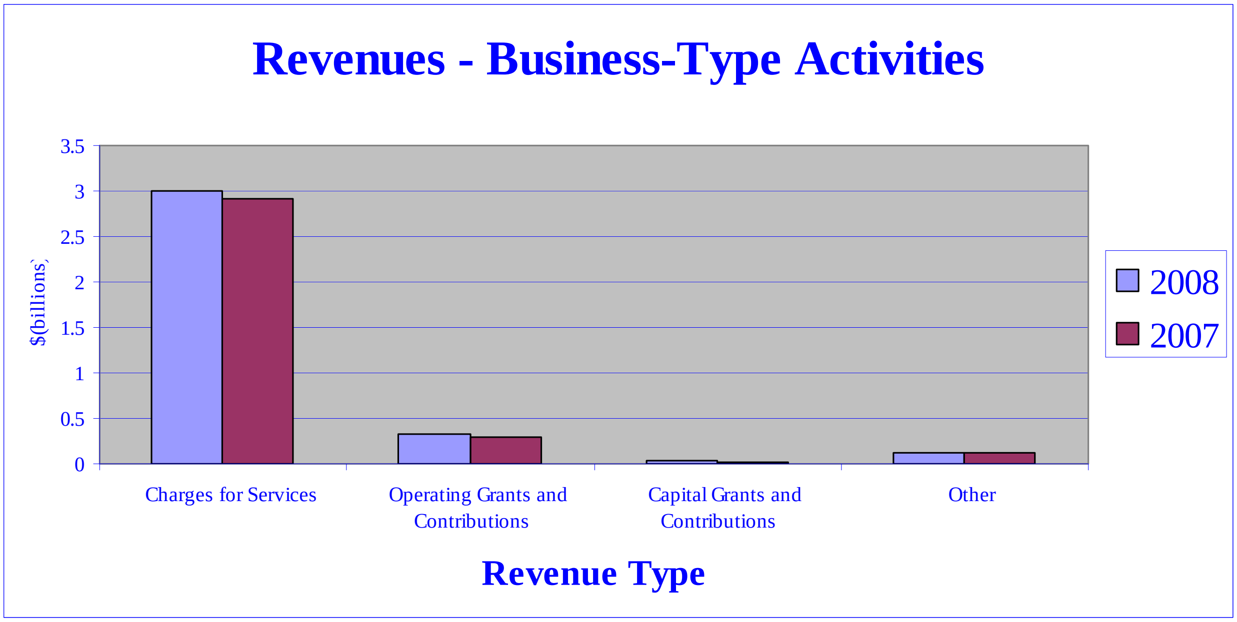
GOVERNMENTAL ACTIVITIES
The following charts provide a two year comparison of governmental activities revenues and expenses.

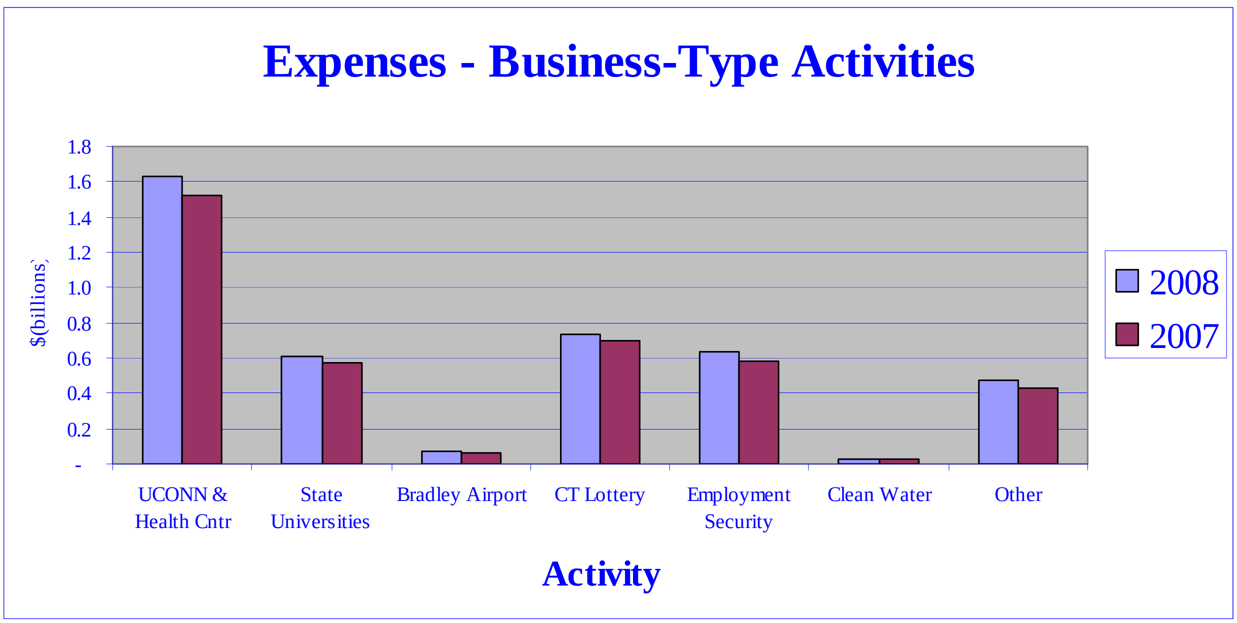




During the year, total revenues of governmental activities increased 2.8 percent to $19.7 billion, while total expenses increased 16.0 percent to $21.0 billion. In comparison, last year total revenues and expenses increased 4.1 percent and 3.9 percent, respectively. The increase in total expenses was due mainly to an increase in transportation, human services and education expenses of $2.0 billion or 19.9 percent. Although, total expenses exceeded total revenues by $1.2 billion, this excess was increased by transfers of $0.8 billion, resulting in a decrease in net assets of $2.0 billion.

BUSINESS-TYPE ACTIVITIES
The following charts provide a two year comparison of business-type activities revenues and expenses.





During the year, total revenues of business-type activities increased 3.5 percent to $3.5 billion, while total expenses increased by 6.9 percent to $4.2 billion. In comparison, last year total revenues decreased 0.3 percent, while total expenses increased 3.1 percent. The increase in total expenses was due mainly to an increase in University of Connecticut and Health Center expenses of $0.1 billion or 7.0 percent. Although, total expenses exceeded total revenues by $0.7 billion, this excess was reduced by transfers of $0.8 billion, resulting in an increase in net assets of $0.1 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance serves as a useful measure of the State's net resources available for spending at the end of the fiscal year.

As of June 30, 2008, the State's governmental funds had fund balances of $3.1 billion, a decrease of $0.2 billion when compared to the prior year ending fund balances. Of the total governmental fund balances, $3.7 billion represents reserved fund balance, meaning that this portion is not available for the new spending because it has already been committed for specific purposes. The remainder of fund balance is an unreserved deficit fund balance of $0.6 billion.

General Fund

The General Fund is the chief operating fund of the State. As of June 30, 2008, the General Fund had a fund balance of $0.9 billion. Of this amount, $2.0 billion was reserved for various purposes, leaving a deficit of $1.1 billion in unreserved fund balance. Fund balance decreased by $0.4 billion during the current fiscal year.

Debt Service Fund

As of June 30, 2008, the Debt Service Fund had a fund balance of $684 million, all of which was reserved. Fund balance increased by $7 million during the current fiscal year.

Transportation Fund

As of June 30, 2008, the Transportation Fund had a fund balance of $220 million. Of this amount, $60 million was reserved for various purposes, leaving $160 million in unreserved fund balance. Fund balance decreased by $28 million during the current fiscal year.

Restricted Grants and Accounts Fund

As of June 30, 2008, the Restricted Grants and Accounts Fund had a fund balance of $666 million, all of which was reserved. Fund balance increased by $312 million during the fiscal year.

Proprietary Funds

The State's Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Accordingly, a discussion of the financial activities of the Proprietary funds has been provided in that section.

Fiduciary Funds

The State maintains Fiduciary funds for the assets of Pension and Other Employee Benefit Trust funds, an Investment Trust fund, and a Private-Purpose Trust fund. As of June 30, 2008, the net assets of the State's Fiduciary funds totaled $27 billion, showing no change when compared to the prior year ending net asset balance.

Budgetary Highlights-General Fund

The General Fund surplus was originally estimated to be $0.7 million. Although the economy weakened during the year, the surplus estimate grew to $22 million by the end of the fiscal year.

Although actual fund expenditures exceeded revenues by $209 million, this excess was reduced by other financing sources of $308 million, resulting in an actual surplus of $99 million. This surplus was reserved by the State legislature to be spent in fiscal year 2009.

During the year, actual revenues exceeded original budget revenues by $103 million. A tax revenue variance of $71 million accounts for much of the total variance. Some of the tax revenues that were over or (under) the original budget were: personal income, $319 million; oil companies, $71 million; corporations, ($136) million; and real estate, ($41) million.

During the year, final appropriations exceeded original appropriations by $18 million or 0.1 percent.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008 totaled $13.4 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress. The net increase in the State's investment in capital assets for the current fiscal was $0.2 billion, a 1 percent increase for governmental activities and a 3 percent increase for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Additions to infrastructure of $0.4 billion.
- Additions to equipment of $0.3 billion
- Depreciation expense of $1.0 billion.

The following table is a two year comparison of the investment in capital assets presented for both governmental and business-type activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	$ 1,402	$ 1,354	$ 60	$ 59	$ 1,462	$ 1,413
Buildings	1,116	1,090	2,406	2,390	3,522	3,480
Improvements Other than Buildings	174	175	249	254	423	429
Equipment	280	379	383	369	663	748
Infrastructure	4,964	4,994	-	-	4,964	4,994
Construction in Progress	2,109	1,960	250	191	2,359	2,151
Total	$ 10,045	$ 9,952	$ 3,348	$ 3,263	$ 13,393	$ 13,215

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

Long-term Debt
Bonded Debt

At the end of the current fiscal year, the State had total bonded debt of $17.6 billion. Pursuant to various public and special acts, the State has authorized the issuance of the following types of debt: general obligation debt (payable from the General Fund), special tax obligation debt (payable from the Debt Service Fund), and revenue debt (payable from specific revenues of the Enterprise funds).

The following table is a two year comparison of bonded debt presented for both governmental and business-type activities:

State of Connecticut's Bonded Debt (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	$ 13,092	$ 10,597	$ -	$ -	$ 13,092	$ 10,597
Transportation Related Bonds	2,791	2,822	-	-	2,791	2,822
Revenue Bonds	-	-	1,358	1,578	1,358	1,578
Premiums and deferred amounts	348	302	20	25	368	327
Total	$ 16,231	$ 13,721	$ 1,378	$ 1,603	$ 17,609	$ 15,324

The State’s total bonded debt increased by $2.4 billion during the current fiscal year. This increase resulted mainly from an increase in general obligation bonds of $2.5 billion that was offset by a decrease in revenue bonds of $0.2 billion.

The State’s General Obligation Bonds are rated Aa3, AA and AA by Moody’s Investor Service, Standard and Poor’s Corporation, and Fitch Ratings, respectively. Special tax obligation Bonds are rated A1, AA, AA- by Moody’s Investor Service, Standard and Poor’s Corporation, and Fitch Ratings, 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 2008, the State had a debt incurring margin of $5.7 billion.

Other Long-Term Debt

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Net Pension Obligation	$ 1,917	$ 3,828	$ -	$ -	$ 1,917	$ 3,828
Net OPEB Obligation	1,234	-	-	-	1,234	-
Compensated Absences	482	474	130	128	612	602
Workers Compensation	413	382	-	-	413	382
Lottery Prizes	-	-	232	266	232	266
Other	66	68	163	171	229	239
Total	$ 4,112	$ 4,752	$ 525	$ 565	$ 4,637	$ 5,317

The State's other long-term obligations decreased by $0.7 billion during the year. This decrease was due mainly to a decrease in the Net Pension Obligation of $1.9 billion that was offset by an increase in the Net OPEB Obligation of $1.2 billion.

Additional information on the State's long-term debt can be found in Notes 17 and 18 of this report.

Economic Factors and Next Year's Budget

During the fiscal year, the State added 6,000 payroll jobs. In the prior fiscal year, the State gained 20,800 jobs. The State's unemployment rate ended the fiscal year at 5.5 percent, its highest rate since fiscal year 2003. Existing home sales in the State hit a ten year low during the fiscal year, while new housing permits declined 25 percent. Taxable sales were weak expanding 2.5 percent. Personal income in the State grew by close to 4 percent throughout most of the fiscal year and ranked in the top quarter of all states for income growth. The State's export industries continue to show strength with exports continuing to expand at double-digit rates into the fiscal year.

For fiscal year 2009, the General Fund had a budget deficit initially estimated to be $10 million. Budgeted appropriations were expected to increase 4.7 percent to $17,083 million, while budgeted revenues were expected to increase 4.6 percent to $17,073 million. Some of the major increases in budgeted appropriations were $164 million for Medicaid assistance, $145 million for debt service, and $135 million for employee fringe benefit payments. However, because the economy went into a recession during the fiscal year, budgeted revenues are now expected to be $980 million lower than initially anticipated, resulting in a projected budget deficit of $922 million for fiscal year 2009. To help reduce the estimated budget deficit, the Governor has implemented certain measures, which include a ban on out-of-state travel, a hiring freeze, and a budget allotment rescission program.

<u>CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT</u>

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, 2008

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 1,602,206	$ 628,173	$ 2,230,379	$ 227,305
Deposits with U.S. Treasury	-	610,917	610,917	-
Investments	738,830	53,361	792,191	381,095
Receivables, (Net of Allowances)	2,023,492	703,619	2,727,111	50,527
Due from Primary Government	-	-	-	12,800
Inventories	50,020	11,860	61,880	3,710
Restricted Assets	-	46,631	46,631	1,805,387
Internal Balances	(222,678)	222,678	-	-
Other Current Assets	14,355	18,704	33,059	2,365
Total Current Assets	4,206,225	2,295,943	6,502,168	2,483,189
Noncurrent Assets:				
Cash and Cash Equivalents	-	154,333	154,333	-
Due From Component Units	5,057	-	5,057	-
Investments	-	287,993	287,993	40,573
Receivables, (Net of Allowances)	204,537	559,743	764,280	151,609
Restricted Assets	684,117	460,606	1,144,723	4,073,221
Capital Assets, (Net of Accumulated Depreciation)	10,045,466	3,347,602	13,393,068	425,087
Other Noncurrent Assets	71,847	46,260	118,107	9,780
Total Noncurrent Assets	11,011,024	4,856,537	15,867,561	4,700,270
Total Assets	15,217,249	7,152,480	22,369,729	7,183,459
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	785,414	292,693	1,078,107	72,351
Due to Component Units	12,800	-	12,800	-
Due to Other Governments	124,070	33	124,103	-
Current Portion of Long-Term Obligations	1,315,880	176,196	1,492,076	193,749
Amount Held for Institutions	-	-	-	1,139,532
Deferred Revenue	11,538	198,204	209,742	-
Medicaid Liability	507,899	-	507,899	-
Liability for Escheated Property	184,235	-	184,235	-
Other Current Liabilities	135,727	73,950	209,677	39,305
Total Current Liabilities	3,077,563	741,076	3,818,639	1,444,937
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	19,027,615	1,726,924	20,754,539	3,898,073
Total Noncurrent Liabilities	19,027,615	1,726,924	20,754,539	3,898,073
Total Liabilities	22,105,178	2,468,000	24,573,178	5,343,010
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,930,749	2,578,856	7,509,605	304,906
Restricted For:				
Transportation	137,370	-	137,370	-
Debt Service	647,400	66,376	713,776	17,181
Restricted Purposes	661,371	-	661,371	-
Capital Projects	-	99,922	99,922	-
Unemployment Compensation	-	740,636	740,636	-
Clean Water and Drinking Water Projects	-	655,557	655,557	-
Bond Indenture Requirements	-	2,508	2,508	812,680
Loans	-	6,241	6,241	-
Permanent Investments or Endowments:				
Expendable	2,446	-	2,446	109,978
Nonexpendable	92,015	14,846	106,861	249,762
Other Purposes	100,775	171,760	272,535	51,151
Unrestricted (Deficit)	(13,460,055)	347,778	(13,112,277)	294,791
Total Net Assets (Deficit)	$ (6,887,929)	$ 4,684,480	$ (2,203,449)	$ 1,840,449

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

Statement of Activities

For The Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services, Fees, Fines , and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Legislative	$ 111,910	$ 2,942	$ 23	$ -
General Government	1,737,917	382,296	6,288	-
Regulation and Protection	788,419	532,116	144,172	-
Conservation and Development	473,797	128,284	64,475	-
Health and Hospitals	2,298,272	75,240	172,210	-
Transportation	1,482,250	82,824	-	442,310
Human Services	5,743,810	83,561	3,308,219	-
Education, Libraries, and Museums	4,749,284	47,071	448,135	-
Corrections	2,085,053	9,049	121,117	-
Judicial	806,309	104,190	6,865	-
Interest and Fiscal Charges	733,791	-	-	-
Total Governmental Activities	21,010,812	1,447,573	4,271,504	442,310
Business-Type Activities:				
University of Connecticut & Health Center	1,626,532	853,586	179,199	6,803
State Universities	610,851	304,363	49,324	25,364
Bradley International Airport	67,635	57,801	-	3,755
Connecticut Lottery Corporation	731,851	998,361	-	-
Employment Security	631,935	573,524	14,874	-
Clean Water	27,181	16,398	10,737	-
Other	476,040	195,901	68,802	-
Total Business-Type Activities	4,172,025	2,999,934	322,936	35,922
Total Primary Government	$ 25,182,837	$ 4,447,507	$ 4,594,440	$ 478,232
Component Units				
Connecticut Housing Finance Authority (12-31-07)	$ 203,835	$ 183,901	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,199	6,019	-	-
Other	276,696	221,288	7,900	7,780
Total Component Units	$ 485,730	$ 411,208	$ 7,900	$ 7,780

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
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
$ (108,945)	$ -	$ (108,945)	$ -
(1,349,333)	-	(1,349,333)	-
(112,131)	-	(112,131)	-
(281,038)	-	(281,038)	-
(2,050,822)	-	(2,050,822)	-
(957,116)	-	(957,116)	-
(2,352,030)	-	(2,352,030)	-
(4,254,078)	-	(4,254,078)	-
(1,954,887)	-	(1,954,887)	-
(695,254)	-	(695,254)	-
(733,791)	-	(733,791)	-
(14,849,425)	-	(14,849,425)	-
-	(586,944)	(586,944)	-
-	(231,800)	(231,800)	-
-	(6,079)	(6,079)	-
-	266,510	266,510	-
-	(43,537)	(43,537)	-
-	(46)	(46)	-
-	(211,337)	(211,337)	-
-	(813,233)	(813,233)	-
(14,849,425)	(813,233)	(15,662,658)	-
-	-	-	(19,934)
-	-	-	820
-	-	-	(39,728)
-	-	-	(58,842)
6,588,233	-	6,588,233	-
548,539	-	548,539	-
3,537,911	-	3,537,911	-
1,544,801	-	1,544,801	-
487,568	-	487,568	-
192,663	-	192,663	-
411,411	-	411,411	-
141,348	-	141,348	-
131,915	117,360	249,275	73,603
-	-	-	38,162
(779,256)	779,256	-	-
12,805,133	896,616	13,701,749	111,765
(2,044,292)	83,383	(1,960,909)	52,923
(4,843,637)	4,601,097	(242,540)	1,787,526
$ (6,887,929)	$ 4,684,480	$ (2,203,449)	$ 1,840,449

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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 special tax obligation bonds of the Transportation fund.

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.

Restricted Grants and Accounts Fund:
This fund is used to account for resources which are restricted by Federal and other providers to be spent for specific purposes.

Nonmajor Funds:
Nonmajor governmental funds are presented, by fund type beginning on page 94.

Balance Sheet
Governmental Funds

June 30, 2008
(Expressed in Thousands)

	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	$ 295,723	$ -	$ 186,728	$ 602,339	$ 500,567	$ 1,585,357
Investments	601,176	-	-	-	137,654	738,830
Securities Lending Collateral	-	-	-	-	14,060	14,060
Receivables:						
Taxes, Net of Allowances	998,853	-	40,264	-	-	1,039,117
Accounts, Net of Allowances	185,023	-	10,504	19,188	28,220	242,935
Loans, Net of Allowances	-	-	-	-	204,537	204,537
From Other Governments	480,442	-	-	235,002	9,573	725,017
Interest	-	2,222	241	-	-	2,463
Other	-	-	-	6,229	5	6,234
Due from Other Funds	58,362	-	2,222	3,906	103,922	168,412
Advances to Other Funds	4,650	-	-	-	-	4,650
Due from Component Units	5,057	-	-	-	-	5,057
Inventories	25,319	-	20,938	-	-	46,257
Restricted Assets	-	683,636	-	-	481	684,117
Other Assets	-	-	-	-	218	218
Total Assets	$ 2,654,605	$ 685,858	$ 260,897	$ 866,664	$ 999,237	$ 5,467,261
Liabilities and Fund Balances						
Liabilities						
Accounts Payable and Accrued Liabilities	$ 354,143	$ -	$ 36,181	$ 177,423	$ 71,857	$ 639,604
Due to Other Funds	103,724	2,222	-	2,861	217,730	326,537
Due to Component Units	-	-	-	137	12,663	12,800
Due to Other Governments	122,701	-	-	1,369	-	124,070
Deferred Revenue	356,946	-	4,340	18,852	35,467	415,605
Medicaid Liability	507,899	-	-	-	-	507,899
Liability For Escheated Property	184,235	-	-	-	-	184,235
Securities Lending Obligation	-	-	-	-	14,060	14,060
Other Liabilities	121,667	-	-	-	-	121,667
Total Liabilities	1,751,315	2,222	40,521	200,642	351,777	2,346,477
Fund Balances						
Reserved For:						
Petty Cash	886	-	-	-	-	886
Inventories	25,319	-	20,938	-	-	46,257
Loans	9,707	-	-	-	204,537	214,244
Continuing Appropriations	455,441	-	38,693	-	2,239	496,373
Debt Service	-	683,636	-	-	-	683,636
Restricted Purposes	-	-	-	666,022	94,942	760,964
Surplus Transfer to FY 09	179,420	-	-	-	-	179,420
Budget Reserve Fund	1,381,748	-	-	-	-	1,381,748
Unreserved Reported In:						
General Fund	(1,149,231)	-	-	-	-	(1,149,231)
Transportation Fund	-	-	160,745	-	-	160,745
Special Revenue Funds	-	-	-	-	502,679	502,679
Capital Project Funds	-	-	-	-	(156,937)	(156,937)
Total Fund Balances	903,290	683,636	220,376	666,022	647,460	3,120,784
Total Liabilities and Fund Balances	$ 2,654,605	$ 685,858	$ 260,897	$ 866,664	$ 999,237	$ 5,467,261

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, 2008
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	3,120,784
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	2,750,789		
Equipment	1,377,724		
Infrastructure	10,867,383		
Other Capital Assets	3,901,018		
Accumulated Depreciation	(8,909,219)		9,987,695
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.			71,095
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.			404,196
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.			(13,140)
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	(1,916,537)		
Net OPEB Obligation	(1,234,395)		
Worker's Compensation	(412,619)		
Capital Leases	(51,748)		
Compensated Absences	(477,557)		
Claims and Judgments	(13,635)		(4,106,491)
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	(15,883,252)		
Unamortized Premiums	(561,058)		
Less: Deferred Loss on Refundings	212,830		
Accrued Interest Payable	(120,588)		(16,352,068)
Net Assets of Governmental Activities		$	(6,887,929)

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, 2008
(Expressed in Thousands)

	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Funds	Total Governmental Funds
Revenues						
Taxes	$ 12,296,461	$ -	$ 680,590	$ 10,000	$ 27,835	$ 13,014,886
Assessments	-	-	-	-	21,457	21,457
Licenses, Permits and Fees	171,940	-	307,816	8,935	61,334	550,025
Tobacco Settlement	-	-	-	-	141,347	141,347
Federal Grants and Aid	3,045,810	-	-	1,601,890	70,156	4,717,856
Charges for Services	30,012	-	64,184	-	5,947	100,143
Fines, Forfeits and Rents	40,942	-	30,082	50	2,370	73,444
Casino Gaming Payments	411,410	-	-	-	-	411,410
Investment Earnings	63,867	34,670	11,485	5,429	17,039	132,490
Miscellaneous	141,296	-	8,201	464,402	79,383	693,282
Total Revenues	16,201,738	34,670	1,102,358	2,090,706	426,868	19,856,340
Expenditures						
Current:						
Legislative	101,455	-	-	2,705	-	104,160
General Government	1,144,111	-	2,333	277,166	202,414	1,626,024
Regulation and Protection	378,024	-	88,895	84,987	183,969	735,875
Conservation and Development	149,621	-	-	98,838	194,060	442,519
Health and Hospitals	1,944,217	-	-	200,488	9,543	2,154,248
Transportation	-	-	632,267	554,782	3,601	1,190,650
Human Services	4,979,489	-	-	392,456	18,434	5,390,379
Education, Libraries, and Museums	5,123,150	-	-	460,517	723,403	6,307,070
Corrections	1,918,709	-	-	24,738	5,895	1,949,342
Judicial	721,643	-	-	15,091	17,489	754,223
Capital Projects	-	-	-	-	341,148	341,148
Debt Service:						
Principal Retirement	877,160	275,789	604	-	-	1,153,553
Interest and Fiscal Charges	610,316	144,954	3,581	44,161	7,285	810,297
Total Expenditures	17,947,895	420,743	727,680	2,155,929	1,707,241	22,959,488
Excess (Deficiency) of Revenues Over Expenditures	(1,746,157)	(386,073)	374,678	(65,223)	(1,280,373)	(3,103,148)
Other Financing Sources (Uses)						
Bonds Issued	2,127,310	-	-	176,313	1,385,000	3,688,623
Premiums on Bonds Issued	333	11,557	-	-	57,889	69,779
Transfers In	405,351	417,172	41,941	204,340	142,640	1,211,444
Transfers Out	(1,207,015)	(25,439)	(447,472)	(3,053)	(310,510)	(1,993,489)
Refunding Bonds Issued	-	231,085	-	-	-	231,085
Payment to Refunded Bond Escrow Agent	-	(241,560)	-	-	-	(241,560)
Capital Lease Obligations	437	-	-	-	-	437
Total Other Financing Sources (Uses)	1,326,416	392,815	(405,531)	377,600	1,275,019	2,966,319
Net Change in Fund Balances	(419,741)	6,742	(30,853)	312,377	(5,354)	(136,829)
Fund Balances - Beginning (as restated)	1,331,768	676,894	248,169	353,645	652,814	3,263,290
Changes in Reserves for Inventories	(8,737)	-	3,060	-	-	(5,677)
Fund Balances - Ending	$ 903,290	$ 683,636	$ 220,376	$ 666,022	$ 647,460	$ 3,120,784

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, 2008

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ (136,829)
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	(3,688,623)	
Refunding Bonds Issued	(231,085)	
Premium on Bonds Issued	(69,779)	(3,989,487)
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	1,153,553	
Payments to Refunded Bond Escrow Agent	241,715	
Capital Lease Payments	4,933	1,400,201
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		(437)
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	897,191	
Depreciation Expense	(803,175)	
Retirements	(5,149)	88,867
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.		(5,677)
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	(19,777)	
Decrease in Interest Accreted on Capital Appreciation Debt	64,923	
Amortization of Bond Premium	48,024	
Amortization of Loss on Debt Refundings	(29,340)	
Increase in Compensated Absences Liability	(8,517)	
Increase in Workers Compensation Liability	(30,491)	
Increase in Claims and Judgments Liability	(6,055)	
Decrease in Net Pension Obligation	1,911,379	
Increase in Net OPEB Obligation	(1,234,395)	695,751
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 decreased by this amount this year		(110,566)
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		1,362
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	18,160	
Amortization of Debt Issue Costs	(5,637)	12,523
Change in Net Assets of Governmental Activities		$ (2,044,292)

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, 2008

(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	Original	Final	Actual	(negative)
Budgeted:				
Taxes, Net of Refunds	$ 12,453,200	$ 12,460,900	$ 12,523,911	$ 63,011
Operating Transfers In	397,900	402,900	402,904	4
Casino Gaming Payments	437,500	411,400	411,410	10
Licenses, Permits, and Fees	163,600	171,700	171,739	39
Other	323,200	297,400	294,020	(3,380)
Federal Grants	2,643,100	2,701,900	2,701,602	(298)
Refunds of Payments	(600)	(500)	(501)	(1)
Operating Transfers Out	(102,300)	(102,300)	(86,300)	16,000
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	16,315,600	16,343,400	16,418,785	75,385
Expenditures				
Budgeted:				
Legislative	79,555	79,731	72,488	7,243
General Government	712,529	668,423	602,849	65,574
Regulation and Protection	293,121	296,294	280,991	15,303
Conservation and Development	146,712	151,163	119,758	31,405
Health and Hospitals	1,602,576	1,629,473	1,606,711	22,762
Transportation	30,081	15,981	127	15,854
Human Services	4,782,044	4,767,410	4,629,658	137,752
Education, Libraries, and Museums	4,065,649	4,118,889	3,892,796	226,093
Corrections	1,560,047	1,584,434	1,549,792	34,642
Judicial	518,291	522,002	515,738	6,264
Non Functional	3,471,818	3,446,008	3,356,539	89,469
Total Expenditures	17,262,423	17,279,808	16,627,447	652,361
Appropriations Lapsed	116,480	150,800	-	(150,800)
Excess (Deficiency) of Revenues Over Expenditures	(830,343)	(785,608)	(208,662)	576,946
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	831,070	831,070	831,070	-
Appropriations Continued to Fiscal Year 2009	-	-	(504,098)	(504,098)
Miscellaneous Adjustments	-	(23,128)	(18,890)	4,238
Total Other Financing Sources (Uses)	831,070	807,942	308,082	(499,860)
Net Change in Fund Balance	$ 727	$ 22,334	99,420	$ 77,086
Budgetary Fund Balances - July 1			1,181,229	
Changes in Reserves			(596,244)	
Budgetary Fund Balances - June 30			$ 684,405	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 707,000	$ 683,100	$ 680,787	$ (2,313)
-	-	-	-
-	-	-	-
400,600	380,000	379,286	(714)
47,000	36,500	36,555	55
-	-	-	-
(2,900)	(2,600)	(2,719)	(119)
(9,500)	(9,500)	(9,500)	-
(15,300)	(20,800)	(20,800)	-
1,126,900	1,066,700	1,063,609	(3,091)
-	-	-	-
2,375	2,375	2,362	13
78,908	79,201	61,743	17,458
-	-	-	-
-	-	-	-
489,662	510,906	492,749	18,157
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
579,552	574,696	540,082	34,614
1,150,497	1,167,178	1,096,936	70,242
11,000	31,500	-	(31,500)
(12,597)	(68,978)	(33,327)	35,651
40,662	40,662	40,662	-
-	-	(38,693)	(38,693)
-	16,683	16,681	(2)
40,662	57,345	18,650	(38,695)
$ 28,065	$ (11,633)	(14,677)	$ (3,044)
		233,608	
		(1,968)	
		$ 216,963	

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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 Aviation and Ports of the State of Connecticut, Department of Transportation and the Board of Directors of the Airport. In 1982, the State issued the Airport, 1982 series Revenue Bonds in the aggregate principal amount of $100,000,000 and established the Airport as an enterprise fund. The State also donated in the same year capital assets having a net book value of $33.3 million to the enterprise fund.

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 116.

Statement of Net Assets
Proprietary Funds

June 30, 2008
(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	$ 266,691	$ 119,897	$ 49,394	$ 37,035
Deposits with U.S. Treasury	-	-	-	-
Investments	2,686	14,620	-	36,055
Receivables:				
Accounts, Net of Allowances	115,457	141,930	4,964	12,305
Loans, Net of Allowances	2,616	2,004	-	-
Interest	-	-	-	7,650
From Other Governments	-	1,499	3,417	-
Due from Other Funds	62,522	54,313	-	-
Inventories	10,420	-	-	-
Restricted Assets	34,407	-	12,224	-
Other Current Assets	14,091	1,402	609	1,877
Total Current Assets	508,890	335,665	70,608	94,922
Noncurrent Assets:				
Cash and Cash Equivalents	1,468	99,968	-	-
Investments	12,310	26,668	-	193,959
Receivables:				
Accounts, Net of Allowances	-	-	-	-
Loans, Net of Allowances	9,288	8,919	-	-
Restricted Assets	16,162	-	105,226	-
Capital Assets, Net of Accumulated Depreciation	1,699,046	860,933	302,949	2,939
Other Noncurrent Assets	2,412	3,272	6,441	4,991
Total Noncurrent Assets	1,740,686	999,760	414,616	201,889
Total Assets	2,249,576	1,335,425	485,224	296,811
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	132,339	53,499	15,028	23,246
Due to Other Funds	16,345	2,930	3,425	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	48,848	21,442	9,605	38,085
Deferred Revenue	33,324	157,601	1,674	812
Other Current Liabilities	16,305	7,700	-	34,282
Total Current Liabilities	247,161	243,172	29,732	96,425
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	341,553	338,210	198,889	194,198
Total Noncurrent Liabilities	341,553	338,210	198,889	194,198
Total Liabilities	588,714	581,382	228,621	290,623
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,384,600	645,613	110,183	2,939
Restricted For:				
Debt Service	10,035	-	27,625	-
Unemployment Compensation	-	-	-	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	27,597	-	72,325	-
Nonexpendable Purposes	13,779	1,047	-	-
Bond Indentures	-	-	2,508	-
Loans	6,241	-	-	-
Other Purposes	18,721	28,839	-	6,188
Unrestricted (Deficit)	199,889	78,544	43,962	(2,939)
Total Net Assets (Deficit)	$ 1,660,862	$ 754,043	$ 256,603	$ 6,188

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**
$ -	$ -	$ 155,156	$ 628,173	$ 16,849
610,917	-	-	610,917	-
-	-	-	53,361	-
134,687	765	18,740	428,848	833
-	213,911	28,754	247,285	-
-	9,263	1,778	18,691	-
3,686	193	-	8,795	-
691	-	137,164	254,690	3,165
-	-	1,440	11,860	3,763
-	-	-	46,631	-
-	-	725	18,704	77
749,981	224,132	343,757	2,327,955	24,687
-	29,944	22,953	154,333	-
-	39,597	15,459	287,993	-
-	-	-	-	-
-	500,722	40,814	559,743	-
-	285,431	53,787	460,606	-
-	-	481,735	3,347,602	57,771
-	27,474	1,670	46,260	752
-	883,168	616,418	4,856,537	58,523
749,981	1,107,300	960,175	7,184,492	83,210
-	12,017	56,564	292,693	20,122
9,312	-	-	32,012	65,925
33	-	-	33	-
-	23,052	35,164	176,196	255
-	-	4,793	198,204	129
-	-	15,663	73,950	-
9,345	35,069	112,184	773,088	86,431
-	455,034	199,040	1,726,924	9,919
-	455,034	199,040	1,726,924	9,919
9,345	490,103	311,224	2,500,012	96,350
-	-	435,521	2,578,856	49,666
-	-	28,716	66,376	-
740,636	-	-	740,636	-
-	569,248	86,309	655,557	-
-	-	-	99,922	-
-	-	20	14,846	-
-	-	-	2,508	-
-	-	-	6,241	-
-	-	118,012	171,760	-
-	47,949	(19,627)	347,778	(62,806)
$ 740,636	$ 617,197	$ 648,951	$ 4,684,480	$ (13,140)

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

For The Fiscal Year Ended June 30, 2008
(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	$ 758,582	$ 284,513	$ 44,698	$ 998,148
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	146,543	31,352	-	-
State Grants, Contracts and Other Aid	25,430	15,267		
Private Gifts and Grants	36,293	2,705	-	-
Interest on Loans	-	-	-	-
Other	59,371	16,221	-	207
Total Operating Revenues	1,026,219	350,058	44,698	998,355
Operating Expenses				
Salaries, Wages and Administrative	1,405,157	543,887	39,692	97,938
Lottery Prize Awards	-	-	-	608,218
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	127,886	42,654	17,686	832
Other	77,592	24,310	-	7,812
Total Operating Expenses	1,610,635	610,851	57,378	714,800
Operating Income (Loss)	(584,416)	(260,793)	(12,680)	283,555
Nonoperating Revenue (Expenses)				
Interest and Investment Income	16,987	11,658	6,775	18,573
Interest and Fiscal Charges	(15,897)	-	(10,257)	(17,051)
Other	6,566	3,629	13,103	6
Total Nonoperating Revenues (Expenses)	7,656	15,287	9,621	1,528
Income (Loss) Before Capital Contributions, Grants, and Transfers	(576,760)	(245,506)	(3,059)	285,083
Capital Contributions	6,803	25,364	3,755	-
Federal Capitalization Grants	-	-	-	-
Transfers In	527,874	266,132	9,448	-
Transfers Out	-	-	-	(283,000)
Change in Net Assets	(42,083)	45,990	10,144	2,083
Total Net Assets (Deficit) - Beginning	1,702,945	708,053	246,459	4,105
Total Net Assets (Deficit) - Ending	$ 1,660,862	$ 754,043	$ 256,603	$ 6,188

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
$ -	$ -	$ 143,218	$ 2,229,159	$ 90,720
563,851	-	44,247	608,098	-
14,874	-	37,851	230,620	-
6,783		16,290	63,770	-
-	-	2,199	41,197	-
-	14,835	1,696	16,531	-
2,890	-	3,789	82,478	170
588,398	14,835	249,290	3,271,853	90,890
-	564	391,016	2,478,254	68,858
-	-	-	608,218	-
631,935	-	-	631,935	-
-	-	37,540	37,540	-
-	-	16,592	205,650	20,061
-	-	19,372	129,086	-
631,935	564	464,520	4,090,683	88,919
(43,537)	14,271	(215,230)	(818,830)	1,971
28,938	23,422	11,007	117,360	220
-	(26,617)	(11,520)	(81,342)	(45)
-	1,563	2,951	27,818	(784)
28,938	(1,632)	2,438	63,836	(609)
(14,599)	12,639	(212,792)	(754,994)	1,362
-	-	-	35,922	-
-	10,737	12,462	23,199	-
-	2,584	284,337	1,090,375	-
(18,671)	-	(9,448)	(311,119)	-
(33,270)	25,960	74,559	83,383	1,362
773,906	591,237	574,392	4,601,097	(14,502)
$ 740,636	$ 617,197	$ 648,951	$ 4,684,480	$ (13,140)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2008
(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	$ 774,144	$ 300,915	$ 44,158	$ 996,345
Payments to Suppliers	(444,394)	(7,425)	(23,006)	(21,391)
Payments to Employees	(980,625)	(375,466)	(15,840)	(13,873)
Other Receipts (Payments)	277,088	(129,864)	-	(662,027)
Net Cash Provided by (Used in) Operating Activities	(373,787)	(211,840)	5,312	299,054
Cash Flows from Noncapital Financing Activities				
Retirement of Bonds and Annuities Payable	-	-	-	(42,015)
Interest on Bonds and Annuities Payable	-	-	-	(18,508)
Transfers In	440,263	234,463	9,448	-
Transfers Out	-	-	-	(283,000)
Other Receipts (Payments)	24,391	3,602	3,712	6,850
Net Cash Flows from Noncapital Financing Activities	464,654	238,065	13,160	(336,673)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(96,497)	(33,686)	(11,043)	(2,289)
Proceeds from Capital Debt	-	204	-	-
Principal Paid on Capital Debt	(74,846)	(18,669)	(9,410)	-
Interest Paid on Capital Debt	(54,857)	-	(10,690)	-
Transfer In	112,924	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	22,314	1,781	-
Other Receipts (Payments)	(16,305)	10	15,254	-
Net Cash Flows from Capital and Related Financing Activities	(129,581)	(29,827)	(14,108)	(2,289)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	1,365	-	-	41,903
Purchase of Investment Securities	-	(250)	-	(6,843)
Interest on Investments	18,021	12,490	7,146	20,029
(Increase) Decrease in Restricted Assets	-	-	9,681	-
Other Receipts (Payments)	2,172	-	-	-
Net Cash Flows from Investing Activities	21,558	12,240	16,827	55,089
Net Increase (Decrease) in Cash and Cash Equivalents	(17,156)	8,638	21,191	15,181
Cash and Cash Equivalents -Beginning of Year	335,761	211,227	115,804	21,854
Cash and Cash Equivalents -End of Year	$ 318,605	$ 219,865	$ 136,995	$ 37,035
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (584,416)	$ (260,793)	$ (12,680)	$ 283,555
Adjustments not Affecting Cash:				
Depreciation and Amortization	127,886	42,654	17,686	832
Other	73,950	389	(5)	124
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	1,230	(34,959)	(540)	(2,330)
(Increase) Decrease in Due from Other Funds	7,366	-	-	-
(Increase) Decrease in Inventories and Other Assets	(6,086)	(323)	-	(400)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	6,283	41,192	851	17,273
Increase (Decrease) in Due to Other Funds	-	-	-	-
Total Adjustments	210,629	48,953	17,992	15,499
Net Cash Provided by (Used In) Operating Activities	$ (373,787)	$ (211,840)	$ 5,312	$ 299,054
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 266,691	$ 119,897	$ 49,394	
Cash and Cash Equivalents - Noncurrent	1,468	99,968	-	
Cash and Cash Equivalents - Restricted	50,446	-	87,601	
	$ 318,605	$ 219,865	$ 136,995	

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
$ 562,279	$ 62,694	$ 189,175	$ 2,929,710	$ 98,583
-	-	(80,359)	(576,575)	(43,798)
-	(439)	(311,900)	(1,698,143)	(28,633)
(572,546)	(118,064)	64,956	(1,140,457)	811
(10,267)	(55,809)	(138,128)	(485,465)	26,963
-	(42,520)	(32,570)	(117,105)	-
-	(26,200)	(8,069)	(52,777)	-
-	2,584	245,575	932,333	-
(18,671)	-	(9,448)	(311,119)	-
-	(109,825)	297	(70,973)	-
(18,671)	(175,961)	195,785	380,359	-
-	-	(9,944)	(153,459)	(24,677)
-	-	-	204	-
-	-	-	(102,925)	-
-	-	(3,116)	(68,663)	-
-	-	42,970	155,894	-
-	10,590	14,084	24,674	-
-	-	-	24,095	-
-	-	(101,528)	(102,569)	(205)
-	10,590	(57,534)	(222,749)	(24,882)
-	-	-	43,268	-
-	-	-	(7,093)	-
28,938	23,508	11,414	121,546	220
-	93,180	(2,828)	100,033	-
-	100,834	5,771	108,777	(624)
28,938	217,522	14,357	366,531	(404)
-	(3,658)	14,480	38,676	1,677
-	3,658	140,676	828,980	15,172
$ -	$ -	$ 155,156	$ 867,656	$ 16,849
$ (43,537)	$ 14,271	$ (215,230)	$ (818,830)	$ 1,971
-	-	16,592	205,650	20,061
-	-	(4,604)	69,854	-
(1,514)	(70,080)	71,315	(36,878)	2,880
(58)	-	-	7,308	4,983
31,862	-	(7,776)	17,277	640
-	-	1,575	67,174	(3,572)
2,980	-	-	2,980	-
33,270	(70,080)	77,102	333,365	24,992
$ (10,267)	$ (55,809)	$ (138,128)	$ (485,465)	$ 26,963

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Fiduciary Fund Financial Statements

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

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

Individual fund descriptions and financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 128
Agency Funds, page 134

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2008

(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	$ 69,412	$ -	$ -	$ 112,654	$ 182,066
Receivables:					
Accounts, Net of Allowances	16,437	-	-	5,151	21,588
From Other Governments	4,521	-	-	-	4,521
From Other Funds	1,955	-	-	4,795	6,750
Interest	2,365	2,896	-	121	5,382
Investments	25,779,186	974,341	-	-	26,753,527
Inventories	-	-	-	399	399
Securities Lending Collateral	3,018,240	-	-	-	3,018,240
Other Assets	-	24	95,346	333,413	428,783
Total Assets	28,892,116	977,261	95,346	$ 456,533	30,421,256
Liabilities					
Accounts Payable and Accrued Liabilities	1,263	1,724	-	$ 4,705	7,692
Securities Lending Obligation	3,018,240	-	-	-	3,018,240
Due to Other Funds	3,831	-	-	4,712	8,543
Funds Held for Others	-	-	-	447,116	447,116
Total Liabilities	3,023,334	1,724	-	$ 456,533	3,481,591
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	25,778,510	-	-		25,778,510
Other Employee Benefits (Note 15)	90,272	-	-		90,272
Individuals, Organizations, and Other Governments	-	975,537	95,346		1,070,883
Total Net Assets	$ 25,868,782	$ 975,537	$ 95,346		$ 26,939,665

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, 2008
(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	$ 380,781	$ -	$ -	$ 380,781
State	3,728,016	-	-	3,728,016
Municipalities	39,274	-	-	39,274
Total Contributions	4,148,071	-	-	4,148,071
Investment Income	(1,054,669)	60,618	-	(994,051)
Less: Investment Expense	(205,569)	(337)	-	(205,906)
Net Investment Income	(1,260,238)	60,281	-	(1,199,957)
Escheat Securities Received	-	-	30,628	30,628
Pool's Share Transactions	-	(82,884)	-	(82,884)
Transfers In	2,789	-	-	2,789
Other	5,065	-	-	5,065
Total Additions	2,895,687	(22,603)	30,628	2,903,712
Deductions				
Administrative Expense	2,286	-	-	2,286
Benefit Payments and Refunds	2,927,526	-	-	2,927,526
Escheat Securities Returned or Sold	-	-	8,579	8,579
Distributions to Pool Participants	-	60,282	-	60,282
Other	2,788	-	26,465	29,253
Total Deductions	2,932,600	60,282	35,044	3,027,926
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	(36,913)	-	-	(36,913)
Individuals, Organizations, and Other Governments	-	(82,885)	(4,416)	(87,301)
Net Assets - Beginning (as restated)	25,905,695	1,058,422	99,762	27,063,879
Net Assets - Ending	$ 25,868,782	$ 975,537	$ 95,346	$ 26,939,665

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 138.

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Statement of Net Assets
Component Units

June 30, 2008

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-07)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 23,199	$ 204,106	$ 227,305
Investments	-	-	381,095	381,095
Receivables:				
Accounts, Net of Allowances	-	174	29,141	29,315
Loans, Net of Allowances	-	-	20,250	20,250
Other	-	-	962	962
Due From Primary Government	-	-	12,800	12,800
Restricted Assets	584,040	1,139,562	81,785	1,805,387
Inventories	-	-	3,710	3,710
Other Current Assets	-	156	2,209	2,365
Total Current Assets	584,040	1,163,091	736,058	2,483,189
Noncurrent Assets:				
Investments	-	-	40,573	40,573
Accounts, Net of Allowances	-	-	26,164	26,164
Loans, Net of Allowances	-	-	125,445	125,445
Restricted Assets	3,998,044	2,247	72,930	4,073,221
Capital Assets, Net of Accumulated Depreciation	3,517	296	421,274	425,087
Other Noncurrent Assets	-	-	9,780	9,780
Total Noncurrent Assets	4,001,561	2,543	696,166	4,700,270
Total Assets	4,585,601	1,165,634	1,432,224	7,183,459
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	31,549	1,739	39,063	72,351
Current Portion of Long-Term Obligations	166,202	-	27,547	193,749
Amount Held for Institutions	-	1,139,532	-	1,139,532
Other Liabilities	28,121	-	11,184	39,305
Total Current Liabilities	225,872	1,141,271	77,794	1,444,937
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,543,532	2,247	352,294	3,898,073
Total Noncurrent Liabilities	3,543,532	2,247	352,294	3,898,073
Total Liabilities	3,769,404	1,143,518	430,088	5,343,010
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,517	296	301,093	304,906
Restricted:				
Debt Service	-	-	17,181	17,181
Bond Indentures	812,680	-	-	812,680
Expendable Endowments	-	-	109,978	109,978
Nonexpendable Endowments	-	-	249,762	249,762
Other Purposes	-	-	51,151	51,151
Unrestricted	-	21,820	272,971	294,791
Total Net Assets	$ 816,197	$ 22,116	$ 1,002,136	$ 1,840,449

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/07)	$ 203,835	$ 183,901	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,199	6,019	-	-
Other Component Units	276,696	221,288	7,900	7,780
Total Component Units	$ 485,730	$ 411,208	$ 7,900	$ 7,780

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 (12-31-07)	**Connecticut Health & Educational Facilities Authority**	**Other Component Units**	**Totals**
$ (19,934)	$ -	$ -	$ (19,934)
-	820	-	820
-	-	(39,728)	(39,728)
(19,934)	820	(39,728)	(58,842)
79,938	836	(7,171)	73,603
-	-	38,162	38,162
79,938	836	30,991	111,765
60,004	1,656	(8,737)	52,923
756,193	20,460	1,010,873	1,787,526
$ 816,197	$ 22,116	$ 1,002,136	$ 1,840,449

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Notes to the Financial Statements
June 30, 2008

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, 2007.

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.

Restricted Grants and Accounts - This fund is used to account for resources which are restricted by Federal and other providers to be spent for specific purposes.

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, 12, and 14.

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 carryforwards 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. Carryforward 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 2008 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 and OPEB obligations.

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.

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 18).

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)	$ 99,420	$ (14,677)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(238,498)	(2,161)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	60,353	(11,215)
Salaries and Fringe Benefits Payable	(14,044)	(987)
Decrease in Continuing Appropriations	(326,972)	(1,968)
Fund Reclassification-Bus Operations	-	155
Net change in fund balances (GAAP basis)	$ (419,741)	$ (30,853)

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).

3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Nonmajor Fund Deficits

The following funds have deficit fund/net assets balances at June 30, 2008, none of which constitutes a violation of statutory provisions (amounts in thousands).

Capital Projects	
State Facilities	$ 233,621
Enterprise	
Bradley Parking Garage	$ 16,233
Rate Reduction Bond Operations	$ 90,582
Internal Service	
Administrative Services	$ 35,575

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 eleven Combined Investment Funds.

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 accompanying financial statements. Instead, investments in the internal portion of STIF by participant funds are reported as cash equivalents in the government-wide and fund financial statements.

As of June 30, 2008, STIF had the following investments and maturities (amounts in thousands):

Short-Term Investment Fund

		Investment Maturities (in years)	
Investment Type	Amortized Cost	Less Than 1	1-5
Floating Rate Notes	$ 708,204	$ 636,607	$ 71,597
Secured Liquidity Notes	47,019	47,019	-
Federal Agency Securities	922,160	922,160	-
Repurchase Agreements	820,912	820,912	-
Money Market Funds	450,000	450,000	-
Total Investments	$ 2,948,295	$ 2,876,698	$ 71,597

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, 2008, the weighted average maturity of the STIF was 19 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, 2008, the amount of STIF's investments in variable-rate securities was $855 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, 2008, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Investment Fund

		Quality Ratings			
Investment Type	Amortized Cost	AAA	AA	A	D
Floating Rate Notes	$ 708,204	$ 330,165	$ 200,789	$ 119,918	$ 57,332
Secured Liquidity Notes	47,019	-	-	47,019	-
Federal Agency Securities	922,160	922,160	-	-	-
Repurchase Agreements	820,912	-	-	820,912	-
Money Market Funds	450,000	450,000	-	-	-
Total Investments	$ 2,948,295	$ 1,702,325	$ 200,789	$ 987,849	$ 57,332

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 any one issuer, except for overnight or two-business day repurchase agreements and U.S. government and agency securities. As of June 30, 2008, STIF's investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Bank of America	$ 849,096
FHLB	$ 174,421
FHLMC	$ 398,679
FNMA	$ 299,253

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, 2008, $2,099,600 of the bank balance of STIF's deposits of $2,100,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 1,889,600
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	210,000
Total	$ 2,099,600

Short-Term Plus Investment Fund (STIF Plus)

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. The State Treasurer is authorized to invest monies of STIF Plus in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptance, repurchase agreements, and asset-backed securities. 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 and is not reported in the accompanying financial statements. Instead, investments in STIF Plus by participant funds are reported as other investments in the government-wide and fund financial statements.

As of June 30, 2008, 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	$ 88,065	$ 5,036	$ 83,029
Corporate Notes	77,674	4,135	73,539
Asset Backed Securities	21,746	9,160	12,586
Repurchase Agreements	12,069	12,069	-
Total Investments	$ 199,554	$ 30,400	$ 169,154

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, 2008, the weighted average maturity of STIF Plus was 303 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 reprise frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2008, STIF Plus's investment in variable-rate securities was $94.9 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, 2008, 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
Federal Agency Securities	$ 88,065	$ 88,065	$ -	$ -
Corporate Notes	77,674	14,913	53,889	8,872
Asset Backed Securities	21,746	20,718	728	300
Repurchase Agreements	12,069	-	-	12,069
Total	$ 199,554	$ 123,696	$ 54,617	$ 21,241

Concentration of Credit Risk

STIF 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, 2008, STIF Plus' investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Fair Value
Bank of America	$ 21,981
Citigroup	$ 14,620
FHLB	$ 37,678
FHLMC	$ 30,270
FNMA	$ 15,090
General Electric	$ 14,913
Wells Fargo	$ 14,857

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, 2008, $109,600 of the bank balance of STIF Plus' deposits of $110,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 98,600
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	11,000
Total	$ 109,600

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 accompanying financial statements. Instead, investments in the CIFS by participant funds are reported as equity in the CIFS in the government-wide and fund financial statements. As of June 30, 2008, the amount of equity in the CIFS reported in the financial statements was as follows (amounts in thousands):

	Primary Government Governmental Activities	Business-Type Activities	Fiduciary Funds
Equity in the CIFS	$ 92,014	$ 623	$ 25,779,186
Other Investments	646,816	52,738	974,341
Total Investments-Current	$ 738,830	$ 53,361	$ 26,753,527

As of June 30, 2008, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
		Investment Maturities (in Years)			
Cash Equivalents	$ 1,287,507	$ 1,248,429	$ 25,119	$ -	$ 13,959
Asset Backed Securities	267,219.0	885	213,715	52,619	-
Government Securities	2,596,352.0	332,630	569,493	453,363	1,240,866
Government Agency Securities	1,646,888.0	529	19,300	47,830	1,579,229
Mortgage Backed Securities	956,383.0	5,640	23,499	47,136	880,108
Corporate Debt	2,108,881.0	179,950	721,380	766,588	440,963
Convertible Debt	28,276.0	2,224	18,599	2,675	4,778
Mutual Fund	387,049.0	-	-	-	387,049
Total Debt Instruments	9,278,555	$ 1,770,287	$ 1,591,105	$ 1,370,211	$ 4,546,952
Common Stock	13,809,214				
Preferred Stock	105,945				
Real Estate Investment Trust	102,406				
Mutual Fund	186,304				
Limited Liability Corporation	4,242				
Trusts	5,864				
Limited Partnerships	2,636,631				
Total Investments	$ 26,129,161				

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, 2008, CIFS' debt investments were rated by Moody's as follows (amounts in thousands):

Combined Investment Funds

	Fair Value	Cash Equivalents	Asset Backed Securities	Government Securities	Government Agency Securities	Mortgage Backed Securities	Corporate Debt	Convertible Debt	Mutual Fund
Aaa	$ 4,329,454	$ -	$ 232,479	$ 1,997,087	$ 1,286,118	$ 622,580	$ 191,190	$ -	$ -
Aa	527,787	-	513	30,757	-	11,888	484,432	197	-
A	374,100	-	2,625	73,527	-	2,734	294,528	686	-
Baa	535,481	-	4,137	82,828	-	55,721	391,731	1,064	-
Ba	266,007	-	-	97,276	-	10,829	157,902	-	-
B	457,427	-	-	82,813	-	5,291	368,703	620	-
Caa	107,771	-	-	-	-	4,246	98,975	4,550	-
Ca	5,237	-	-	3,244	-	-	1,993	-	-
C	1,082	-	-	-	-	1,082	-	-	-
Prime 1	642,881	642,881	-	-	-	-	-	-	-
Not Rated	2,031,328	644,626	27,464	228,821	360,771	242,011	119,426	21,160	387,049
Total	$ 9,278,555	$ 1,287,507	$ 267,218	$ 2,596,353	$ 1,646,889	$ 956,382	$ 2,108,880	$ 28,277	$ 387,049

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, 2008, 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	$ 735	$ 130	$ 438	$ -	$ -	$ -	$ 167	$ -	$ -
Australian Dollar	245,789	1,403	-	-	910	-	243,466	-	10
Brazilian Real	136,048	305	34,298	-	5,903	-	38,429	57,113	-
Canadian Dollar	52,800	1,763	-	-	130	-	50,907	-	-
Chilean Peso	1,357	19	-	-	-	-	1,338	-	-
Colombian Peso	7,368	-	5,872	-	1,496	-	-	-	-
Czech Koruna	21,998	2	6,084	-	-	-	15,912	-	-
Danish Krone	61,586	268	-	-	203	-	61,115	-	-
Egyptian Pound	23,362	5,790	12,051	-	-	-	5,521	-	-
Euro Currency	1,788,381	457	46,801	19,941	3,101	-	1,688,490	29,591	-
Hong Hong Dollar	202,702	612	-	58	-	-	199,755	-	2,277
Hungarian Fornit	35,205	7	9,944	-	-	-	25,254	-	-
Iceland Krona	84	-	-	-	-	-	84	-	-
Indian Rupee	4,316	-	-	-	4,316	-	-	-	-
Indonesian Rupiah	26,689	94	6,139	-	3,513	-	16,943	-	-
Israeli Shekel	10,827	8	-	-	-	-	10,819	-	-
Japanese Yen	1,049,339	5,965	9,146	5,719	-	1,287	1,025,344	-	1,878
Kazakhstan Tenge	772	-	-	-	772	-	-	-	-
Malaysian Ringgit	63,190	409	23,891	-	9,567	-	29,207	116	-
Mexican Peso	47,473	876	29,258	-	-	-	17,339	-	-
Moroccan Dirham	1,210	(24)	-	-	-	-	1,234	-	-
New Russian Rubel	4,522	19	-	-	4,503	-	-	-	-
New Taiwan Dollar	66,466	6	-	-	-	-	66,460	-	-
New Turkish Lira	52,953	83	13,263	-	1,843	-	37,764	-	-
New Zealand Dollar	7,659	633	-	-	2,143	-	4,883	-	-
Norwegian Krone	43,798	290	-	-	-	-	43,508	-	-
Pakistan Rupee	9,634	18	-	-	-	-	9,616	-	-
Peruvian Nouveau S	1,017	-	238	-	706	-	73	-	-
Philippine Peso	6,571	10	-	-	-	-	6,561	-	-
Polish Zloty	43,538	81	20,245	-	-	-	23,212	-	-
Pound Sterling	908,081	4,531	14,786	-	11,693	-	874,355	-	2,716
Singapore Dollar	89,018	126	5,898	-	8,822	-	69,320	-	4,852
South African Rand	71,545	825	6,091	-	2,385	-	62,244	-	-
South Korean Won	317,075	164	-	-	-	-	306,830	10,081	-
Swedish Krona	74,969	180	-	-	-	-	74,789	-	-
Swiss Franc	367,204	3,033	-	-	-	-	364,171	-	-
Thailand Baht	52,224	222	2,796	-	1,023	-	48,183	-	-
Uruguayan Peso	709	-	709	-	-	-	-	-	-
Yuan Renminbi	304	(34)	-	-	-	-	338	-	-
Total	$ 5,898,518	$ 28,271	$ 247,948	$ 25,718	$ 63,029	$ 1,287	$ 5,423,631	$ 96,901	$ 11,733

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 Liquidity Account which is a cash management pool investing in highly liquid money market securities. As of June 30, 2008, the CIFS had deposits with a bank balance of $29.8 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, 2008, the State had other investments and maturities as follows (amounts in thousands):

Other Investments

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Repurchase Agreements	$ 2,873	$ 2,873	$ -	$ -	$ -
State/Municipal Bonds	55,312	-	10,407	3,489	41,416
U.S. Government Securities	33,971	23,852	8,105	-	2,014
U.S. Agency Securities	159,468	31,084	118,415	9,969	-
Guaranteed Investment Contracts	444,892	-	194,123	80,085	170,684
Tax Exempt Proceeds Fund	46,944	46,944	-	-	-
Money Market Funds	23,718	23,718	-	-	-
Mortgage-Backed Securities	21,865	-	-	6,015	15,850
Corporate Bonds	2	2	-	-	-
Total Debt Investments	789,045	$ 128,473	$ 331,050	$ 99,558	$ 229,964
Annuity Contracts	230,014				
Endowment Pool	12,308				
Total Investments	$ 1,031,367				

Credit Risk
As of June 30, 2008, 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	$ 2,873	$ 2,873	$ -	$ -	$ -
State/Municipal Bonds	55,312	-	55,312	-	-
U.S. Agency Securities	159,468	128,384	-	31,084	-
Guaranteed Investment Contracts	444,892	266,922	177,970	-	-
Tax Exempt Proceeds Fund	46,944	-	-	-	46,944
Money Market Funds	23,718	20,033	-	-	3,685
Mortgage-Backed Securities	21,865	21,865	-	-	-
Corporate Bonds	2	-	-	-	2
Total	$ 755,074	$ 440,077	$ 233,282	$ 31,084	$ 50,631

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, 2008, $235,562 of the bank balance of the Primary Government of $238,435 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 212,427
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	23,135
Total	$ 235,562

Component Units

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) reported the following investments and maturities as of 12-31-07 and 6-30-08, respectively (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	$ 2,030	$ -	$ -	$ -	$ 2,030
Corporate Finance Bonds	7,810	2,157	5,653	-	-
Corporate Notes	4,104	2,755	-	-	1,349
Federated Funds	14,962	14,962	-	-	-
Fidelity Tax Exempt Fund	9,164	9,164	-	-	-
GNMA Program Assets	950,612	-	-	-	950,612
Guaranteed Investment Contracts	434,350	177,413	256,937	-	-
Investment Agreements	1,148	-	1,148	-	-
Mortgage Backed Securities	3,250	-	219	746	2,285
Repurchase Agreements	2,872	-	-	-	2,872
U.S. Government Securities	789	-	-	-	789
Structured Securities	516	-	-	-	516
Money Market Funds	696,633	696,633	-	-	-
Municipal Bonds	1,868	-	-	-	1,868
Certificate of Deposits	3,000	3,000	-	-	-
Total	$ 2,133,108	$ 906,084	$ 263,957	$ 746	$ 962,321

The CHFA and the CHEFA own 47.1 percent and 52.9 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 Statutes 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.

CHFA's and CHEFA's investments were rated as of 12-31-07 and 6-30-08, respectively, as follows (amounts in thousands):

Component Units

Investment Type	Fair Value	Quality Ratings AAA	AA	A	BBB	D	Unrated
Collateralized Mortgage Obligations	$ 2,030	$ 368	$ 1,662	$ -	$ -	$ -	$ -
Corporate Finance Bonds	7,810	-	-	2,157	5,653	-	-
Corporate Notes	4,104	-	-	2,755	1,349	-	-
Federated Funds	14,962	-	-	-	-	-	14,962
Fidelity Tax Exempt Fund	9,164	-	-	-	-	-	9,164
GNMA Assets	950,612	-	-	-	-	-	950,612
Guaranteed Investment Contracts	434,350	532	256,405	177,413	-	-	-
Investment Agreements	1,148	-	-	-	-	-	1,148
Mortgage Backed Securities	3,250	388	-	-	-	-	2,862
Repurchase Agreements	2,872	-	-	-	-	-	2,872
Structured Securities	516	-	-	-	-	516	-
Money Market Funds	696,633	696,633	-	-	-	-	-
Municipal Bonds	1,868	1,868	-	-	-	-	-
Certificate of Deposits	3,000	-	-	-	-	-	3,000
Total	$ 2,132,319	$ 699,789	$ 258,067	$ 182,325	$ 7,002	$ 516	$ 984,620

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, 2007, 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 Morgan Stanley and Trinity 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 borrows failed to return the loaned securities or pay distributions thereon. As of June 30, 2008, the funds had no credit exposure to the borrowers, because the value of collateral held and the market value securities on loan were $3,380.7 million and $3,276.2 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 42.9 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, 2008, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,189,785	$ -	$ -
Accounts	1,061,830	518,652	29,553
Loans-Current Portion	-	247,285	22,502
Other Governments	725,017	8,795	-
Interest	2,463	13,421	962
Other (1)	13,127	5,270	-
Total Receivables	2,992,222	793,423	53,017
Allowance for Uncollectibles	(968,730)	(89,804)	(2,490)
Receivables, Net	$ 2,023,492	$ 703,619	$ 50,527

(1) Includes a reconciling amount of $6,893 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2008 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 294,417	$ -	$ 294,417
Income Taxes	518,900	-	518,900
Corporations	77,432	-	77,432
Gasoline and Special Fuel	-	40,653	40,653
Various Other	258,383	-	258,383
Total Taxes Receivable	1,149,132	40,653	1,189,785
Allowance for Uncollectibles	(150,279)	(389)	(150,668)
Taxes Receivable, Net	$ 998,853	$ 40,264	$ 1,039,117

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2008, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	$ -	$ -	$ 26,164
Loans	213,911	562,619	135,452
Total Receivables	213,911	562,619	161,616
Allowance for Uncollectibles	(9,374)	(2,876)	(10,007)
Receivables, Net	$ 204,537	$ 559,743	$ 151,609

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 $501 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 10.25 percent. As of June 30, 2008, the noncurrent portion of loans receivable was $28 million. In addition, loans in the amount of $5.5 million (including loans of $5.4 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $(184) 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, 2008, 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	$ 555,176	$ 128,460	$ -	$ -	$ 683,636
Environmental	-	481	-	-	481
Total-Governmental Activities	$ 555,176	$ 128,941	$ -	$ -	$ 684,117
Business-Type Activities:					
Bradley International Airport	$ 87,601	$ 28,258	$ -	$ 1,591	$ 117,450
UConn/Health Center	50,446	123	-	-	50,569
Clean Water	-	285,431	-	-	285,431
Other Proprietary	-	53,787	-	-	53,787
Total-Business-Type Activities	$ 138,047	$ 367,599	$ -	$ 1,591	$ 507,237
Component Units:					
CHFA	$ 2,258	$ 1,403,829	$ 3,016,363	$ 159,634	$ 4,582,084
CHEFA	165	1,141,060	-	584	1,141,809
Other Component Units	101,145	53,568	-	2	154,715
Total-Component Units	$ 103,568	$ 2,598,457	$ 3,016,363	$ 160,220	$ 5,878,608

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2008, 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	$ 121,252	$ 232,891	$ -	$ -	$ 354,143
Transportation	23,804	12,377	-	-	36,181
Other Governmental	223,751	22,488	-	3,041	249,280
Internal Service	4,672	2,056	-	13,394	20,122
Reconciling amount from fund financial statements to government-wide financial statements	-	-	120,588	5,100	125,688
Total-Governmental Activities	$ 373,479	$ 269,812	$ 120,588	$ 21,535	$ 785,414
Business-Type Activities:					
UConn/Health Center	$ 41,352	$ 73,782	$ -	$ 17,205	$ 132,339
State Universities	11,756	39,639	2,104	-	53,499
Other Proprietary	24,342	28,156	17,748	36,609	106,855
Total-Business-Type Activities	$ 77,450	$ 141,577	$ 19,852	$ 53,814	$ 292,693

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	$ 1,354,085	$ 52,670		$ 5,149	$ 1,401,606
Construction in Progress	1,960,175	650,735		501,663	2,109,247
Total Capital Assets not being Depreciated	3,314,260	703,405		506,812	3,510,853
Other Capital Assets:					
Buildings	2,788,045	95,856		130,619	2,753,282
Improvements Other than Buildings	455,223	21,908		13,405	463,726
Equipment	1,496,689	178,340		114,397	1,560,632
Infrastructure	10,443,317	424,065		-	10,867,382
Total Other Capital Assets at Historical Cost	15,183,274	720,169		258,421	15,645,022
Less: Accumulated Depreciation For:					
Buildings	1,698,832	68,832		130,619	1,637,045
Improvements Other than Buildings	279,868	23,879		13,405	290,342
Equipment	1,118,151	277,174		114,397	1,280,928
Infrastructure	5,448,699	453,395		-	5,902,094
Total Accumulated Depreciation	8,545,550	823,280	*	258,421	9,110,409
Other Capital Assets, Net	6,637,724	(103,111)		-	6,534,613
Governmental Activities, Capital Assets, Net	$ 9,951,984	$ 600,294		$ 506,812	$ 10,045,466

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 5,920
General Government	35,205
Regulation and Protection	32,753
Conservation and Development	15,075
Health and Hospitals	13,705
Transportation	592,738
Human Services	2,264
Education, Libraries and Museums	35,429
Corrections	49,397
Judicial	20,689
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	20,105
Total Depreciation Expense	$ 823,280

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 59,484	$ 622	$ 137	$ 59,969
Construction in Progress	190,777	111,000	52,116	249,661
Total Capital Assets not being Depreciated	250,261	111,622	52,253	309,630
Capital Assets being Depreciated:				
Buildings	3,455,173	130,671	2,633	3,583,211
Improvements Other Than Buildings	458,952	15,753	2,461	472,244
Equipment	876,062	89,628	35,029	930,661
Total Other Capital Assets at Historical Cost	4,790,187	236,052	40,123	4,986,116
Less: Accumulated Depreciation For:				
Buildings	1,064,778	114,540	1,907	1,177,411
Improvements Other Than Buildings	204,987	20,216	2,461	222,742
Equipment	507,850	70,279	30,138	547,991
Total Accumulated Depreciation	1,777,615	205,035	34,506	1,948,144
Other Capital Assets, Net	3,012,572	31,017	5,617	3,037,972
Business-Type Activities, Capital Assets, Net	$ 3,262,833	$ 142,639	$ 57,870	$ 3,347,602

Component Units

Capital assets of the component units consisted of the following as of June 30, 2008 (amounts in thousands):

Land	$ 29,930
Buildings	484,704
Improvements other than Buildings	3,288
Machinery and Equipment	259,963
Construction in Progress	1,261
Total Capital Assets	779,146
Accumulated Depreciation	(354,059)
Capital Assets, net	$ 425,087

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 and Funding Policy

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

	SERS 6/30/2008	TRS 6/30/2008	JRS 6/30/2008
Retirees and beneficiaries receiving benefits	38,093	28,787	225
Terminated plan members entitled to but not yet receiving benefits	1,592	1,394	1
Active plan members	53,196	51,738	220
Total	92,881	81,919	446

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. During the year, the State contributed an additional $2 billion to the plan to help reduce the unfunded actuarial liability of the plan. 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 and Net Pension Obligation

The State's annual pension cost and net pension obligation for each plan for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 716,944	$ 518,560	$ 13,434
Interest on net pension obligation	198,247	127,121	4
Adjustment to annual required contribution	(138,964)	(103,173)	(3)
Annual pension cost	776,227	542,508	13,435
Contributions made	711,555	2,518,560	13,434
Increase (decrease) in net pension obligation	64,672	(1,976,052)	1
Net pension obligation beginning of year	2,332,327	1,495,542	47
Net pension obligation/(asset) end of year	$ 2,396,999	$ (480,510)	$ 48

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(Asset)
SERS	2006	$ 685,473	90.9%	$ 2,271,249
	2007	$ 725,009	91.6%	$ 2,332,327
	2008	$ 776,227	91.7%	$ 2,396,999
TRS	2006	$ 434,670	91.2%	$ 1,465,841
	2007	$ 441,802	93.3%	$ 1,495,542
	2008	$ 542,508	464.2%	$ (480,510)
JRS	2006	$ 11,731	100%	$ 46
	2007	$ 12,376	100%	$ 47
	2008	$ 13,435	100%	$ 48

Funded Status and Funding Progress

The following is funded status information for each plan as of June 30, 2008 the most recent actuarial valuation date (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SERF	$ 9,990.2	$ 19,243.4	$ 9,253.2	51.9%	$ 3,497.4	264.6%
TRF	$ 15,271.0	$ 21,801.0	$ 6,530.0	70.0%	$ 3,399.3	192.1%
JRF	$ 191.7	$ 267.0	$ 75.3	71.8%	$ 34.0	221.5%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The following is information as of the most recent actuarial valuation:

	SERF	TRF	JRS
Valuation Date	6/30/2008	6/30/2008	6/30/08
Actuarial Cost Method	Projected unit credit cost method	Entry age actuarial cost method using level percent of payroll funding	Projected unit credit cost method
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	24 Years	29.2 years	23 Years
Asset Valuation Method	5-year smoothed market	4-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment Rate of Return	8.25%	8.5%	8.25%
Projected Salary Increases	4.0%-20.0%	4.0%-7.5%	5.25%
Includes inflation at	4.0%	4.0%	5.25%
Cost-of-Living Adjustments	2.7%-3.6%	2.0%-3.0%	2.75%-5.25%

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 $33.0 million and $17.6 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 7/1/2007	CPJERS 12/31/2007
Retirees and beneficiaries receiving benefits	5,263	277
Terminated plan members entitled to but not receiving benefits	495	28
Active plan members	8,695	409
Total	14,453	714
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 2.28 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 Fund 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.

Statement of Fiduciary Net Assets (000's)

	State Employees'	State Teachers'	Judicial	Connecticut Municipal Employees'	Probate Judges'	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ -	$ -	$ -	$ -	$ 204	$ 204
Receivables:							
Accounts, Net of Allowances	2,053	9,707	8	4,665	4	-	16,437
From Other Governments	-	4,521	-	-	-	-	4,521
From Other Funds	47	206	-	2	-	-	255
Interest	626	1,610	13	107	7	-	2,363
Investments	9,329,739	14,541,625	177,237	1,627,637	81,449	898	25,758,585
Securities Lending Collateral	1,083,988	1,676,926	23,908	219,645	10,889	120	3,015,476
Total Assets	10,416,453	16,234,595	201,166	1,852,056	92,349	1,222	28,797,841
Liabilities							
Accounts Payable and Accrued Liabilities	14	-	-	-	10	-	24
Securities Lending Obligation	1,083,988	1,676,926	23,908	219,645	10,889	120	3,015,476
Due to Other Funds	554	3,208	-	64	5	-	3,831
Total Liabilities	1,084,556	1,680,134	23,908	219,709	10,904	120	3,019,331
Net Assets							
Held in Trust For Employee Pension Benefits	9,331,897	14,554,461	177,258	1,632,347	81,445	1,102	25,778,510
Total Net Assets	$ 9,331,897	$ 14,554,461	$ 177,258	$ 1,632,347	$ 81,445	$ 1,102	$ 25,778,510

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	$ 67,390	$ 233,237	$ 1,626	$ 17,013	$ 307	$ 38	$ 319,611
State	711,555	2,518,560	13,434	-	-	-	3,243,549
Municipalities	-	418	-	38,834	-	-	39,252
Total Contributions	778,945	2,752,215	15,060	55,847	307	38	3,602,412
Investment Income	(398,292)	(590,915)	(6,394)	(57,163)	(2,981)	11	(1,055,734)
Less: Investment Expenses	(77,493)	(114,808)	(1,241)	(11,357)	(579)	-	(205,478)
Net Investment Income	(475,785)	(705,723)	(7,635)	(68,520)	(3,560)	11	(1,261,212)
Transfers In	-	-	-	-	2,789	-	2,789
Other	-	901	2	-	-	-	903
Total Additions	303,160	2,047,393	7,427	(12,673)	(464)	49	2,344,892
Deductions							
Administrative Expense	558	-	11	-	-	-	569
Benefit Payments and Refunds	1,014,096	1,283,742	17,524	84,953	2,982	5	2,403,302
Other	-	-	-	-	2,788	-	2,788
Total Deductions	1,014,654	1,283,742	17,535	84,953	5,770	5	2,406,659
Changes in Net Assets	(711,494)	763,651	(10,108)	(97,626)	(6,234)	44	(61,767)
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	10,043,391	13,790,810	187,366	1,729,973	87,679	1,058	25,840,277
End of Year	$ 9,331,897	$ 14,554,461	$ 177,258	$ 1,632,347	$ 81,445	$ 1,102	$ 25,778,510

Note 14 Other Postemployment Benefits (OPEB)

The State sponsors two defined benefit OPEB plans: the State Employee OPEB Plan (SEOPEBP) and the Retired Teacher Healthcare Plan (RTHP). SEOPEBP is administered by the State Comptroller (Retirement and Benefits Division), and RTHP is administered by the Teachers' Retirement Board. None of these plans issues stand-alone financial statements. However, financial statements for these plans are presented in Note No. 15.

State Employee OPEB Plan

Plan Description

SEOPEBP is a single-employer defined benefit OPEB plan that covers retired employees of the State who are receiving benefits from any State-sponsored retirement system, except the Teachers' Retirement System and the Municipal Employees' Retirement System. The plan provides healthcare and life insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan participants and the State, and other plan provisions are described in Sections 5-257 and 5-259 of the General Statutes.

Plan Funding

The contribution requirements of the plan members and the State are established and may be amended by the State legislature, or by agreement between the State and employees unions, upon approval by the State legislature. The cost of providing plan benefits is financed approximately 100 percent by the State on a pay-as-you-go basis through an annual appropriation in the General fund. In addition, the State contributed $10 million this year to finance the cost of providing plan benefits. Administrative costs of the plan are financed by the State.

As of June 30, 2008, an interim actuarial valuation of the plan disclosed that the plan had an estimated accrued liability of $23.7 billion. Because the valuation was limited in scope, required disclosures on funded status and funding progress of the plan were not made in this note.

Retired Teacher Healthcare Plan

Plan Description

RTHP is a single-employer defined benefit OPEB plan that covers retired teachers and administrators of public schools in the State who are receiving benefits from the Teachers' Retirement System. The plan provides healthcare insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan participants and the State, and other plan provisions are described in Section 10-183 of the General Statutes. As of June 30, 2008 (date of the latest actuarial valuation), the plan had 30,619 retirees and beneficiaries receiving benefits.

Plan Funding

The contribution requirements of plan members and the State are established and may be amended by the State legislature. The cost of providing plan benefits is financed on a pay-as-you-go basis as follows: active teachers pay for one third of plan costs through a contribution of 1.25% of their annual salaries, retired teachers pay for one third of plan costs through monthly premiums, and the State pays for one third of plan costs through an annual appropriation in the General Fund. Administrative costs of the plan are financed by the State.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost and the net OPEB obligation for each plan for the current fiscal year were as follows (amounts in thousands);

	SEOPEBP	RTHP
Annual Required Contribution	$ 1,602,739	$ 116,123
Interest on Net OPEB Obligation	-	-
Adjustment to Annual Required Contribution	-	-
Annual OPEB Cost	1,602,739	116,123
Contributions Made	463,697	20,770
Increase in net OPEB Obligation	1,139,042	95,353
Net OPEB Obligation - Beginning of Year	-	-
Net OPEB Obligation - End of Year	$ 1,139,042	$ 95,353

In addition, other related information for each plan for the current fiscal year was as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
SEOPEBP	$ 1,602,739	28.9%	$ 1,139,042
RTHP	$ 116,123	17.9%	$ 95,353

Funded Status and Funding Progress

The following is funded status information for the RTHP as of June 30, 2008, date of the latest actuarial valuation (amounts in million):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
RTHP	$ -	$ 2,318.8	$ 2,318.8	0.0%	$ 3,399.3	68.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding in progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the State and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the State and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	RTHP
Actuarial Valuation Date	6-30-08
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Asset Valuation Method	n/a
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Projected Salary Increases	4.0%-7.5%
Healthcare Inflation Rate	9% Initial, 4% Ultimate

Other OPEB Plan

The State acts solely as the administrator and custodian of the assets of the Policemen and Firemen Survivors' Benefit Fund (PFSBF). The State makes no contribution to and has only a fiduciary responsibility for this fund. The fund does not issue stand-alone financial statements. However, financial statements for this fund are presented in Note No. 15.

Plan Description

PFSBF is a cost-sharing multiple-employer defined benefit OPEB plan that covers policemen and firemen of participating municipalities in the State. As of 6/30/08 there were 8 municipalities participating in the plan with a total membership of 600 active members. The plan provides survivor benefits upon the death of an active or retired member of the fund to his spouse and dependent children. Plan benefits, contribution requirements of plan members and participant municipalities, and other plan provisions are described in Sections 7-323a to 7-323i of the General Statutes.

Contributions

Plan members are required to contribute one percent of their annual salary. Participating municipalities are required to contribute at an actuarially determined rate. Administrative costs of the plan are financed by participating municipalities.

Note 15 OPEB Trust Fund Financial Statements

The financial statements of the OPEB trust funds are prepared using the accrual basis of accounting. Plan member and municipality contributions are recognized in the period in which they are due. State contributions are recognized in the period they are appropriated. Benefits are recognized when due and payable in accordance with the terms of each plan. Investment income and related investment expense of the Combined Investment Funds are allocated ratably to the PFSBF trust fund based on the fund's equity in the Combined Investment Funds.

Statement of Fiduciary Net Assets (000's)

	State Employees'	Retired Teachers'	Policemen and Firemen	Total
Assets				
Cash and Cash Equivalents	$ 10,000	$ 59,206	$ 2	$ 69,208
Receivables:				
From Other Funds	50	1,650	-	1,700
Interest	-	-	2	2
Investments	-	-	20,601	20,601
Securities Lending Collateral	-	-	2,764	2,764
Total Assets	10,050	60,856	23,369	94,275
Liabilities				
Accounts Payable	-	1,239	-	1,239
Securities Lending Obligation	-	-	2,764	2,764
Total Liabilities	-	1,239	2,764	4,003
Net Assets				
Held in Trust For Other				
Postemployment Benefits	10,050	59,617	20,605	90,272
Total Net Assets	$ 10,050	$ 59,617	$ 20,605	$ 90,272

Statement of Changes in Fiduciary Net Assets (000's)

	State Employees'	Retired Teachers'	Policemen and Firemen	Total
Additions				
Contributions:				
Plan Members	$ -	$ 60,779	$ 391	$ 61,170
State	463,697	20,770	-	484,467
Municipalities	-	-	22	22
Total Contributions	463,697	81,549	413	545,659
Investment Income	50	1,485	(470)	1,065
Less: Investment Expenses	-	-	(91)	(91)
Net Investment Income	50	1,485	(561)	974
Other	-	4,162	-	4,162
Total Additions	463,747	87,196	(148)	550,795
Deductions				
Administrative Expense	-	1,717	-	1,717
Benefit Payments and Refunds	453,697	69,698	829	524,224
Total Deductions	453,697	71,415	829	525,941
Changes in Net Assets	10,050	15,781	(977)	24,854
Net Assets Held in Trust For				
Other Postemployment Benefits:				
Beginning of Year (as restated)	-	43,836	21,582	65,418
End of Year	$ 10,050	$ 59,617	$ 20,605	$ 90,272

Note 16 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):

2009	$ 37,578
2010	29,540
2011	28,987
2012	29,111
2013	29,033
Thereafter	13,486
Total	$ 167,735

Contingent revenues for the year ended June 30, 2008, were $1.0 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2008, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2009	$ 74,687	$ 7,724
2010	65,805	7,728
2011	48,612	7,650
2012	31,685	7,300
2013	29,218	7,168
2014-2018	7,960	15,887
2019-2023	1,543	9,500
2024-2028	387	6,118
2029-2033	-	3,650
Total minimum lease payments	$ 259,897	72,725
Less: Amount representing interest costs		20,977
Present value of minimum lease payments		$ 51,748

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, 2008, were $74.7 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 $309 million at June 30, 2008.

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 17 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, 2008, (amounts in thousands):

Governmental Activities	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Bonds:					
General Obligation	$ 10,596,581	$ 3,669,708	$ 1,173,719	$ 13,092,570	$ 885,204
Transportation	2,822,585	250,000	281,903	2,790,682	282,978
	13,419,166	3,919,708	1,455,622	15,883,252	1,168,182
Plus/(Less) premiums and deferred amounts	301,824	65,679	19,275	348,228	19,621
Total Bonds	13,720,990	3,985,387	1,474,897	16,231,480	1,187,803
Other Liabilities:					
Net Pension Obligation	3,827,916	1,332,171	3,243,550	1,916,537	-
Net OPEB Obligation	-	1,718,862	484,467	1,234,395	-
Compensated Absences	474,062	43,556	35,654	481,964	33,134
Workers' Compensation	382,128	115,558	85,067	412,619	81,846
Capital Leases	56,244	437	4,933	51,748	5,003
Claims and Judgments	7,580	6,567	512	13,635	8,094
Contracts Payable & Other	4,057	-	2,940	1,117	-
Total Other Liabilities	4,751,987	3,217,151	3,857,123	4,112,015	128,077
Governmental Activities Long-Term Liabilities	$ 18,472,977	$ 7,202,538	$ 5,332,020	$ 20,343,495	$ 1,315,880
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,577,723	$ 5,790	$ 225,429	$ 1,358,084	$ 90,288
Plus/(Less) premiums, discounts and deferred amounts	24,733	544	5,498	19,779	99
Total Revenue Bonds	1,602,456	6,334	230,927	1,377,863	90,387
Lottery Prizes	265,774	7,082	40,573	232,283	38,085
Compensated Absences	127,588	41,566	39,149	130,005	35,418
Other	171,153	6,353	14,537	162,969	12,306
Total Other Liabilities	564,515	55,001	94,259	525,257	85,809
Business-Type Long-Term Liabilities	$ 2,166,971	$ 61,335	$ 325,186	$ 1,903,120	$ 176,196

b) As of June 30, 2008, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2008	Amounts due within year
Bonds Payable	$ 3,820,318	$ 112,428
Escrow Deposits	182,808	67,677
Closure of Landfill:	60,818	12,216
Due to State	5,057	-
Deferred Revenue	3,745	1,020
Other	19,076	408
Total	$ 4,091,822	$ 193,749

Note 18 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, 2008, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2009-2027	2.25-7.513%	$ 2,000,090	$ 499,842
School Construction	2009-2028	2.2-6.777%	3,371,020	16,001
Municipal & Other Grants & Loans	2009-2022	2.2-7.513%	1,234,534	592,891
Elderly Housing	2009-2027	3.85-6.795%	63,888	91,613
Elimination of Water Pollution	2009-2023	3-7.312%	195,718	695,282
General Obligation Refunding	2009-2022	2.5-6.06%	3,512,542	-
Pension Obligation	2009-2032	4.2-6.27%	2,276,578	
Miscellaneous	2009-2036	2.25-6.75%	92,730	541,576
			12,747,100	$ 2,437,205
Accretion-Various Capital Appreciation Bonds			345,470	
		Total	$ 13,092,570	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2008, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2009	$ 885,204	$ 710,366	$ 1,595,570
2010	887,816	686,473	1,574,289
2011	873,593	587,780	1,461,373
2012	813,954	526,410	1,340,364
2013	740,866	470,215	1,211,081
2014-2018	3,233,592	1,752,034	4,985,626
2019-2023	2,418,783	1,174,847	3,593,630
2024-2028	1,668,612	762,357	2,430,969
2029-2033	1,220,155	189,950	1,410,105
2034-2038	4,525	466	4,991
Total	$ 12,747,100	$ 6,860,898	$ 19,607,998

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, 2008, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2009	4.80%	$ 532	$ 4,065
Infrastructure Improvements	2009-2027	2.5-7.125%	2,789,345	1,439,124
General Obligation Other	2009	7.513%	191	-
			2,790,068	$ 1,443,189
Accretion-Various Capital Appreciation Bonds			614	
		Total	$ 2,790,682	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2008, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2009	$ 282,978	$ 128,714	$ 411,692
2010	276,860	113,677	390,537
2011	247,070	99,432	346,502
2012	229,020	87,139	316,159
2013	261,555	74,713	336,268
2014-2018	808,000	240,991	1,048,991
2019-2023	499,095	101,587	600,682
2024-2028	185,490	17,102	202,592
	$ 2,790,068	$ 863,355	$ 3,653,423

Variable-Rate Demand Bonds

As of June 30, 2008, 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	$ 62,500	1990	2010
General Obligation	60,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	406,285	2003	2022
General Obligation	280,000	2005	2023
Total	$ 1,008,785		

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 .11 percent to .15 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 were 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 2017 and could be extended for another seven years,
2001 GO expires in the year 2015,
2003 STO expires in the year 2015 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.

In connection with the 2000 and 2003 STO bonds, $298,195,000 of bonds tendered and not remarketed plus accrued interest of $1,096,194 was purchased in accordance with the standby bond purchase agreement with banks as of June 30, 2008, the balance of which was subject to an interest rate equaling the banks prime rate (5.00% at June 30, 2008) per the terms of the agreement.

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, 2008, 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	$ 37,500	12/19/1990	5.746%	65% of LIBOR	$ (1,846)	12/1/2010	Aa3/AA-/AA-
1990 STO	25,000	12/19/1990	5.709%	65% of LIBOR	(1,246)	12/1/2010	Aa2/A+/A+
2001 GO	20,000	6/28/2001	4.330%	CPI plus 1.43%	318	6/15/2012	Aa3/AA-/nr
2003 STO	115,795	1/23/2003	3.293%	55% LIBOR plus 50 bp	(2,858)	2/1/2022	Aaa/AA+/AA
2003 STO	96,310	1/23/2003	3.288%	55% LIBOR plus 50 bp	(2,248)	2/1/2022	Aa1/AA/AA-
2003 STO	194,180	1/23/2003	3.284%	55% LIBOR plus 50 bp	(4,765)	2/1/2022	Aa1/AA-/AA-
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR plus 30bp	(2,055)	3/1/2023	Aaa/AAA/nr
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR plus 30bp	(2,080)	3/1/2023	Aaa/AA+/nr
2005 GO	15,620	4/27/2005	3.990%	CPI plus .65%	(47)	6/1/2016	Aa3/AA-/nr
2005 GO	20,000	4/27/2005	5.070%	CPI plus 1.73%	(153)	6/1/2017	Aa3/AA-/nr
2005 GO	20,000	4/27/2005	5.200%	CPI plus 1.79%	(373)	6/1/2020	Aaa/nr/nr
Total	$ 824,405				$ (17,353)		

Fair value

As of June 30, 2008, the swap dated in 2001 had positive fair value because interest rates have increased since the time when this swap was undertaken; all of the other 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, 2008, 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 agreement undertaken in 2001. The State had no credit risk exposure on any of the other swaps 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/nr, 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, 2008. The State is not required to post collateral for any of the swaps.

Approximately 24 percent of the notional amount of swaps outstanding is held with one counterparty, rated Aa1/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/AA-/nr, while another 3% is held by a separate counter party who is rated Aa2/A+/A+. All other swaps are held by separate counterparties who are rated Aa3/AA-/AA- or better.

Basis Risk

The State's variable-rate bond coupon payments are equivalent to the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) 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 SIFMA 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, 2008, the SIFMA rate was 1.55 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 1.60 and 1.78 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2008, 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, 2008, 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
2009	22,985	43,923	12,288	79,196
2010	24,410	43,311	11,401	79,122
2011	25,940	42,668	10,455	79,063
2012	29,125	41,995	9,988	81,108
2013	37,640	38,776	10,150	86,566
2014-2018	437,085	115,386	36,342	588,813
2019-2023	247,220	13,234	7,214	267,668
Total	$ 824,405	$ 339,293	$ 97,838	$ 1,261,536

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, 2008, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Uconn	2009-2033	3.5-6.5%	$ 183,204
State Universities	2009-2036	2-6.0%	314,530
Bradley International Airport	2009-2033	2.5-5.25%	208,535
Clean Water	2009-2028	2-5.%	463,481
Bradley Parking Garage	2009-2024	6.125-6.6%	46,205
Drinking Water	2009-2028	2-5.%	31,139
Rate Reduction Bonds	2009-2011	3-5%	110,990
Total Revenue Bonds			1,358,084
Plus/(Less) premiums, discounts and deferred amounts:			
Uconn			(4,566)
State Universities			1,806
Bradley International Airport			(41)
Clean Water			16,447
Other			6,133
Revenue Bonds, net			$ 1,377,863

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, 2008, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $15.6 million. These bonds were issued in July, 2004, to redeem the 1992 Airport Revenue Refunding Bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.

b) 2001 Bradley International Airport Revenue Bonds in the amount of $175.3 million and 2001 Bradley International Airport Refunding Bonds in the amount of $17.6 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, 2008, 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, 2008, 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, 2008, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2009	$ 91,743	$ 61,596	$ 153,339
2010	95,078	57,554	152,632
2011	110,856	58,284	169,140
2012	57,237	50,448	107,685
2013	63,298	47,376	110,674
2014-2018	315,157	190,682	505,839
2019-2023	316,060	110,989	427,049
2024-2028	196,875	48,170	245,045
2029-2033	101,020	11,272	112,292
2034-2038	10,760	303	11,063
Total	$ 1,358,084	$ 636,674	$ 1,994,758

c. Component Units

Component units' revenue bonds outstanding at June 30, 2008, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2009-2020	3.25-6%	$ 25,875
CT Housing Finance Authority	2009-2049	1.5-9.36%	3,526,926
CT Resources Recovery Authority	2009-2016	4-5.5%	23,346
CT Higher Education Supplemental Loan Authority	2009-2028	1.7-6%	153,880
Capital City Economic Development Authority	2009-2033	3.1-5%	84,265
UConn Foundation	2009-2029	3.875-5.%	7,165
Total Revenue Bonds			3,821,457
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			16
CRRA			(478)
CCEDA			139
CHESLA			(816)
Revenue Bonds, net			$ 3,820,318

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. As of June 30, 2008 no bonds were outstanding under the Umbrella Program. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had $25.9 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, 2007, bonds outstanding under the bond resolution and the indenture were $3,464.0 million and $62.9 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year ($262.3 million at 12/31/07) on all outstanding bonds. As of December 31, 2007, the Authority has entered into interest rate swap agreements for $903.3 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 $20.9 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, 2008, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2009	$ 111,791	$ 163,941	$ 275,732
2010	118,824	159,397	278,221
2011	123,127	154,447	277,574
2012	125,139	149,134	274,273
2013	122,885	164,428	287,313
2014-2018	652,472	656,189	1,308,661
2019-2023	715,384	502,659	1,218,043
2024-2028	734,285	338,355	1,072,640
2029-2033	674,000	180,305	854,305
2034-2038	416,950	48,321	465,271
2039-2043	23,250	3,472	26,722
2044-2048	3,350	272	3,622
Total	$ 3,821,457	$ 2,520,920	$ 6,342,377

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, 2008 were $337.1 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2008 were $105.2 million. Of this amount, $45.0 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, 2008, were $6,817.5 million, of which $312.1 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 $181.1 million of general obligation bonds with an average interest rate of 4.93% to advance refund $187.1 million of general obligation bonds with an average interest rate of 5.16%. 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 $4.1 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 $9.3 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $8.1 million. As of June 30, 2008, $2,899.5 million of outstanding general obligation, special tax obligation, and revenue bonds had been advanced refunded and are, accordingly, considered defeased.

In addition, $50 million of variable-rate general obligation bonds were advance refunded during the year.

Note 19 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 Statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

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

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

	Governmental Activities Workers' Compensation	Business-Type Activities Medical Malpractice
Balance 6-30-06	$ 344,274	$ 21,636
Incurred claims	121,044	3,012
Paid claims	(83,190)	(4,648)
Balance 6-30-07	382,128	20,000
Incurred claims	115,558	3,291
Paid claims	(85,067)	(2,001)
Balance 6-30-08	$ 412,619	$ 21,290

Note 20 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2008, were as follows (amounts in thousands):

	Balance due to fund(s)											
	General	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
Balance due from fund(s)												
General	$ -	$ -	$ 903	$ 919	$ 52,192	$ 22,617	$ 18,137	$ 691	$ 3,165	$ 5,100	$ -	$ 103,724
Debt Service	-	2,222	-	-	-	-	-	-	-	-	-	2,222
Restricted Grants & Accounts	2,861	-	-	-	-	-	-	-	-	-	137	2,998
Other Governmental	26,756	-	-	29,921	10,330	31,696	119,027	-	-	-	12,663	230,393
UConn	16,345	-	-	-	-	-	-	-	-	-	-	16,345
State Universities	2,930	-	-	-	-	-	-	-	-	-	-	2,930
Employment Security	9,048	-	-	264	-	-	-	-	-	-	-	9,312
Other Proprietary	422	-	3,003	-	-	-	-	-	-	-	-	3,425
Internal Services	4,650	-	-	65,925	-	-	-	-	-	-	-	70,575
Fiduciary	-	-	-	6,893	-	-	-	-	-	1,650	-	8,543
Component Units	5,057	-	-	-	-	-	-	-	-	-	-	5,057
Total	$ 68,069	$ 2,222	$ 3,906	$ 103,922	$ 62,522	$ 54,313	$ 137,164	$ 691	$ 3,165	$ 6,750	$ 12,800	$ 455,524

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

Note 21 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2008, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)									
	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Fiduciary	Total
Amount transferred from fund(s)										
General	$ -	$ -	$ 16,680	$ 130,924	$ 63,800	$ 518,919	$ 241,293	$ 235,399	$ -	$ 1,207,015
Debt Service	178	-	25,261	-	-	-	-	-	-	25,439
Transportation	-	417,172	-	20,800	9,500	-	-	-	-	447,472
Restricted Grants & Accounts	3,053	-	-	-	-	-	-	-	-	3,053
Other Governmental	119,120	-	-	52,616	50,669	8,955	24,839	51,522	2,789	310,510
Connecticut Lottery	283,000	-	-	-	-	-	-	-	-	283,000
Employment Security	-	-	-	-	18,671	-	-	-	-	18,671
Other Proprietary	-	-	-	-	-	-	-	9,448	-	9,448
Total	$ 405,351	$ 417,172	$ 41,941	$ 204,340	$ 142,640	$ 527,874	$ 266,132	$ 296,369	$ 2,789	$ 2,304,608

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 22 Restatement of Fund Balance/Net Assets and Restricted Assets

As of June 30, 2008, the beginning fund balance/net assets for the following funds and other funds were restated as follows (amounts in thousands):

	Balance 6-30-07 Previously Reported	Fund Reclassification	Correction of Reported Assets/Liabilities	Balance 6-30-07 as Restated
Governmental Funds				
Restricted Grants and Accounts	$ -	$ 353,645	$ -	$ 353,645
Other Funds	$ 1,006,459	$ (353,645)	$ -	$ 652,814
Fiduciary Funds				
RTHP	$ 49,047	$ -	$ (5,211)	$ 43,836
Net Assts of Pension & Other Employees Benefit Trust Funds	$ 25,910,906	$ -	$ (5,211)	$ 25,905,695

As of June 30, 2008, the Restricted Grants and Accounts' Fund, a Special Revenue fund, was reported as a major fund in the governmental fund financial statements. In prior years, this fund was reported as a nonmajor fund.

During the year, the beginning net asset balance of the Retired Teacher Healthcare Plan, a fiduciary fund, was adjusted to correct a net misstatement in the assets and liability of the fund as of 6-30-07.

As of June 30, 2008, the government-wide statement of net assets reported $3,380 million of restricted net assets, of which $251 million was restricted by enabling legislation.

Note 23 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 24 New Accounting Pronouncements

In fiscal year 2008, the State implemented the following Statements issued by the Governmental Accounting Standards Board: Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"; and Statement No. 50, "Pension Disclosures."

Statement No. 45 provides new guidance regarding the treatment of postemployment benefits other than pensions (OPEB). For example, healthcare and life insurance benefits. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 50 requires that the funded status of defined benefit pension plans as of the most recent actuarial valuation date be disclosed in the notes to the financial statements. It also requires that actuarial methods and significant assumptions used in the most recent actuarial valuation be disclosed in the notes to the financial statements instead of in notes to RSI.

Note 25 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, 2008, the Departments of Transportation and Public Works had contractual commitments of approximately $985 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program $3,091 million.
Clean and drinking water loan programs $185 million.
Various programs and services $1,736 million.
All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

Component Units

As of December 31, 2007, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately $122 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 18 – 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 26 Subsequent Events

In July 2008, the State issued $196 million of Clean Water Fund revenue bonds. The bonds will mature in years 2009 through 2018 and bear interest rates ranging from 3.0% to 5.0%

In September 2008, the State issued $98 million of Second Lien Special Tax Obligation Refunding Bonds. The bonds will mature in years 2009 through 2022 and bear interest rates ranging from 3.0% to 5.0%.

In October 2008, the State issued $500 million of general obligation bonds. The bonds will mature in years 2009 through 2028 and bear interest rates ranging from 3.5% to 5.75%.

In November 2008, the State issued $300 million of Special Tax Obligation Bonds. The bonds will mature in years 2009 through 2028 and bear interest rates ranging from 3.0% to 5.0%.

In January 2009, the State issued $415 million of Second Lien Special Tax Obligation Refunding Bonds. The bonds will mature in year 2010 through 2022 and bear interest rates ranging from 2.0% to 5.0%.

In February 2009, the State issued $400 million of General Obligation Bonds. The bonds will mature in years 2010 through 2029 and bear interest rates ranging from 2.0% to 5.0%.

Required PERS Supplementary Information

Pension and Other Postemployment Benefit Plans
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						
6/30/2003	$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	$9,585.1	$17,888.1	$8,303.0	53.6%	$3,310.4	250.8%
6/30/2008	$9,990.2	$19,243.4	$9,253.2	51.9%	$3,497.4	264.6%
TRS						
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 *	-	-	-	-	-	-
6/30/2008	15,271.00	21,801.00	$6,530.0	70.0%	3,399.30	192.1%
*No actuarial valuations were performed.						
JRS						
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%
6/30/2008	$191.7	$267.0	$75.3	71.8%	$34.0	221.5%
RTHP						
6/30/2008 *	$-	$2,318.8	$2,318.8	0.0%	$3,399.3	68.2%

* Only one actuarial valuation is presented because GASB Statement No. 45 was implemented in the current fiscal year.

Pension and Other Postemployment Benefit Plans
Required Supplementary Information
Schedules of Employer Contributions
(Expressed in Millions)

	SERS		TRS		JRS		RTHP	
Fiscal Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2003	$421.5	100.0%	$221.2	81.3%	$10.1	100.0%	-	0.0%
2004	$470.3	100.0%	$270.5	68.5%	$11.6	100.0%	-	0.0%
2005	$518.8	100.0%	$281.4	65.8%	$12.2	100.0%	-	0.0%
2006	$623.1	100.0%	$396.2	100.0%	$11.7	100.0%	-	0.0%
2007	$663.9	100.0%	$416.0	99.0%	$12.4	100.0%	-	0.0%
2008 *	$716.9	99.2%	$518.6	485.7%	$13.4	100.0%	$116.1	17.9%

* For RTHP required information was presented starting this fiscal year because it was the year in which GASB Statement No. 45 was implemented.

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

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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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, 2008, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 28, 2009. 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 audits of the Connecticut Development Authority, the Capital City Economic Development Authority, the Bradley International Airport Parking Facility, John Dempsey Hospital, Connecticut State University, Connecticut Community-Technical Colleges and the University of Connecticut Foundation were not conducted in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the State of Connecticut's internal control over financial reporting 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 a complete update of its State Accounting Manual and improvements in the governance of the Core-CT system to ensure that State departments and agencies can properly and effectively operate in the decentralized environment.
- II.A.2 The Core-CT accounting system did not provide its users with functionality that would report grant receipt, grant expenditure, grants receivable and deferred grant revenue activity in a more automated and efficient manner.
- II.A.3 The Core-CT accounting system did not provide the Office of State Treasurer with functionality that would facilitate an automated and efficient 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, 2008.

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

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 27, 2009
State Capitol
Hartford, Connecticut

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

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

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

Governor 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, 2008. 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 $89,874,197 in Federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2008. 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.22. and III.E.4. in the accompanying Schedule of Findings and Questioned Costs, the State of Connecticut did not comply with requirements regarding *Subrecipient Monitoring* and *Eligibility / Activities Allowed or Unallowed*, respectively, that are applicable to its *Social Services Block Grant* (CFDA #93.667) and *Adoption Assistance* (CFDA #93.659) programs, respectively. Compliance with such requirements is necessary, in our opinion, for the State of Connecticut to comply with 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, 2008. 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.7., III.A.11., III.A.12, III.A.15., III.A.16., III.A.17., III.A.19., III.A.22., III.A.23., III.A.28., III.A.31., III.D.1., III.E.2., III.E.3., III.F.1., III.G.4., III.H.1., III.I.1., III.J.2., III.K.1., III.K.2., and III.K.4..

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.A.30., III.A.31., III.C.1., III.D.1., III.D.2., III.D.4., III.D.5., III.D.6., III.D.7., III.E.1., III.E.2., III.E.3., III.E.4., III.F.1, III.F.2., III.F.3., III.F.4., III.G.1, III.G.2., III.G.3., III.G.5., III.G.6., III.G.7., III.G.8., III.H.1., III.H.2., III.H.3., III.H.4., III.H.5., III.H.6., III.H.7., III.H.8., III.H.9., III.H.10., III.H.11., III.I.1., III.I.2., III.J.1., III.J.2., III.J.3., III.K.1., III.K.2., III.K.3., and III.K.4. 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.7., III.A.22., III.D.4., III.D.5., III.E.4., III.F.1., III.G.2., III.G.8., and III.I.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, 2008, and have issued our report thereon dated February 27, 2009. 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 26, 2009
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, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
		$
Department of Agriculture		
Food Stamp Cluster:		
Food Stamps (See Note 3)	10.551	275,590,638
State Administrative Matching Grants for Food Stamp Program	10.561	27,476,714
Total Food Stamp Cluster		303,067,352
Child Nutrition Cluster:		
School Breakfast Program	10.553	14,703,727
National School Lunch Program	10.555	65,396,443
Special Milk Program for Children	10.556	370,722
Summer Food Service Program for Children	10.559	876,777
Total Child Nutrition Cluster		81,347,669
Miscellaneous Programs	10.000	18,531
Agricultural Research - Basic and Applied Research	10.001	1,036,134
Plant and Animal Disease, Pest Control, and Animal Care	10.025	695,376
Inspection Grading and Standadization	10.162	1,233
Market Protection and Promotion	10.163	12,615
Specialty Crop Block Grant Program	10.169	42,308
Grants for Agricultural Research, Special Research Grants	10.200	96,079
Cooperative Forestry Research	10.202	189,304
Payments to Agricultural Experiment Stations Under Hatch Act	10.203	936,537
Grants for Agricultural Research-Competitive Research Grants (See Note 13)	10.206	46
Integrated Programs (See Note 13)	10.303	15,476
Crop Insurance	10.450	234,967
Cooperative Extension Service (See Note 13)	10.500	2,831,045
Food Donation (See Note 3)	10.550	11,495,090
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	55,867,619
Child and Adult Care Food Program	10.558	12,189,107
State Administrative Expenses for Child Nutrition	10.560	1,198,661
Emergency Food Assistance Program (Administrative Costs)	10.568	466,808
WIC Farmers' Market Nutrition Program	10.572	67,713
Team Nutrition Grants	10.574	20,522
Fresh Fruit and Vegetable Program	10.582	259,083
Cooperative Forestry Assistance	10.664	851,848
Forest Legacy Program	10.676	5,700
Forest Stewardship Program	10.678	12,656
Forest Health Protection	10.680	4,238
Rural Business Enterprise Grants	10.769	17,479
Resource Conservation and Development	10.901	34,503
Wildlife Habitat Incentive Program	10.914	396,074
Cochran Fellowship Program-International Training-Foreign Participant	10.962	41,752
Total Department of Agriculture		473,453,525
Department of Commerce		
Miscellaneous Programs (See Note 13)	11.000	4,879
Economic Development -Technical Assistance	11.303	135,619
Economic Adjustment Assistance (See Note 8)	11.307	(27,244)
Anadromous Fish Conservation Act Program	11.405	35,827
Interjurisdictional Fisheries Act of 1986	11.407	10,378
Coastal Zone Management Administration Awards	11.419	1,963,410
Atlantic Coastal Fisheries Cooperative Management Act	11.474	275,094
Fisheries Disaster Relief	11.477	41,384
Total Department of Commerce		2,439,347
Department of Defense		
Miscellaneous Programs (See Note 13)	12.000	82,054
Procurement Technical Assistance For Business Firms (See Note 13)	12.002	74,003
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	32,360
Basic and Applied Scientific Research (See Note 13)	12.300	78,199
Military Construction, National Guard	12.400	289,050
National Guard Military Operations and Maintenance (O&M) Projects	12.401	11,673,580
National Guard Civilian Youth Opportunities	12.404	213,674
Military Medical Research and Development	12.420	(74)
Air Force Defense Research Sciences Program (See Note 13)	12.800	107,674
Total Department of Defense		12,550,520

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Housing and Urban Development		
Section 8 Project-Based Cluster: (See Note 1)		
Section 8 Housing Assistance Payments Program-Special Allocations	14.195	5,761,639
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	116,709
Total Section 8 Project-Based Cluster		5,878,348
Multifamily Housing Service Coordinators	14.191	282,719
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	15,532,758
Emergency Shelter Grants Program	14.231	1,119,318
Supportive Housing Program	14.235	1,203,827
Shelter Plus Care	14.238	7,170,103
Home Investment Partnerships Program	14.239	9,702,608
Housing Opportunities for Persons with AIDS	14.241	262,015
Empowerment Zones Program (See Note 13)	14.244	37,502
Fair Housing Assistance Program-State and Local	14.401	101,176
Demolition and Revitalization of Severely Distressed Public Housing (See Note 13)	14.866	7,360
Section 8 Housing Choice Vouchers (See Note 1)	14.871	56,723,405
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	3,066,652
Total Department of Housing and Urban Development		101,087,791
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration Program	15.605	3,631,818
Wildlife Restoration	15.611	2,068,901
Total Fish and Wildlife Cluster		5,700,719
Miscellaneous Programs (See Note 13)	15.000	54,240
Cultural Resource Management	15.224	3,035
Cooperative Endangered Species Conservation Fund	15.615	23,003
Clean Vessel Act	15.616	785,541
Landowner Incentive Program	15.633	256,934
State Wildlife Grants	15.634	832,058
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	85,917
National Cooperative Geologic Mapping Program (See Note 13)	15.810	33,232
Historic Preservation Fund Grants-In-Aid	15.904	491,040
Outdoor Recreation-Acquisition, Development and Planning	15.916	412,979
Rivers, Trails and Conservation Assistance	15.921	5,697
Total Department of the Interior		8,684,395
Department of Justice		
Miscellaneous Programs	16.000	585,486
Law Enforcement Assistance-Narcotics/Dangerous Drugs-State Legislation	16.002	134,902
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	348,577
State Domestic Preparedness Equipment Support Program	16.007	4,579,527
Law Enforcement Assistance-FBI Crime Laboratory Support	16.301	1,114,111
Services for Trafficking Victims	16.320	81,394
Juvenile Accountability Block Grants	16.523	202,145
Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	172,985
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	867,837
Part D-Research, Evaluation, Technical, Assistance and Training	16.542	116,316
Title V-Delinquency Prevention Program	16.548	108,196
State Justice Statistics Programs for Statistical Analysis Centers	16.550	9,310
National Criminal History Improvement Program	16.554	272,039
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	416,056
Crime Victim Assistance	16.575	5,120,010
Crime Victim Compensation	16.576	766,849
Edward ByrneMemorial Formula Grant Program	16.579	815,766
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	499,198
Violence Against Women Formula Grants	16.588	696,332
Rural Domestic Violence, Dating Violence, Sexual Assault and Stalking Assistance Program	16.589	300,743
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	313,830
Residential Substance Abuse Treatment for State Prisoners	16.593	259,363
Community Capacity Development Office (See Note 13)	16.595	9,644
State Criminal Alien Assistance Program	16.606	425,776
Community Prosecution and Project Safe Neighborhoods	16.609	7,755
Public Safety Partnership and Community Policing Grants	16.710	67,432
Enforcing Underage Drinking Laws Program	16.727	320,004

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Edward Byrne Memorial Justice Assistance Grant Program	16.738	362,746
Total Department of Justice		18,974,329
Department of Labor		
Employment Services Cluster:		
Employment Service/Wagner-Peyser Funded Activities (See Note 13)	17.207	8,657,520
Disabled Veterans' Outreach Program	17.801	788,751
Local Veterans' Employment Representative Program	17.804	787,166
Total Employment Services Cluster		10,233,437
WIA Cluster:		
WIA Adult Program	17.258	6,751,636
WIA Youth Activities (See Note 13)	17.259	7,852,624
WIA Dislocated Workers	17.260	12,360,478
Total WIA Cluster		26,964,738
Labor Force Statistics	17.002	1,659,467
Compensation and Working Conditions	17.005	147,733
Unemployment Insurance (See Note 9) (See Note 1)	17.225	721,654,959
Senior Community Service Employment Program	17.235	1,046,291
Trade Adjustment Assistance	17.245	4,271,415
Workforce Investment Act (See Note 13)	17.255	104,505
WIA Pilots, Demostrations, and Research Projects (See Note 13)	17.261	1,633,771
Work Incentive Grants	17.266	446,946
Incentive Grants -WIA Section 503	17.267	305,594
H-1B Job Training Grants (See Note 13)	17.268	174,884
Occupational Safety and Health-State Program	17.503	603,300
Consultation Agreements	17.504	1,043,475
Mine Health and Safety Grants	17.600	52,018
Total Department of Labor		770,342,533
Department of Transportation		
Federal Transit Cluster:		
Federal Transit-Capital Investment Grants	20.500	31,493,771
Federal Transit-Formula Grants	20.507	30,308,639
Total Federal Transit Cluster		61,802,410
Highway Safety Cluster:		
State and Community Highway Safety	20.600	2,317,648
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	893,688
Occupant Protection	20.602	1,170,925
Federal Highway Safety Data Improvements Incentive Grants	20.603	1,581
Safety Incentive Grants for Use of Seatbelts	20.604	4,966
Safety Belt Performance Grants	20.609	359,372
State Traffic Safety Information System Improvement Grants	20.610	190,000
Incentive Grant Program to Increase Motorcyclist Safety	20.612	51,435
Total Highway Safety Cluster		4,989,615
Transit Services Programs Cluster:		
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	138,525
Job Access-Reverse Commute	20.516	1,252,568
Total Highway Safety Cluster		1,391,093
Airport Improvement Program	20.106	5,262,780
Highway Planning and Construction	20.205	401,238,726
Highway Training and Education	20.215	195,489
National Motor Carrier Safety	20.218	1,631,185
Recreational Trails Program	20.219	630,218
Federal Transit-Metropolitan Planning Grants	20.505	148,159
Formula Grants for Other Than Urbanized Areas	20.509	1,498,292
Public Transportation Research	20.514	6,079
Alcohol Open Container Requirements	20.607	4,518,575
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	4,955
Pipeline Safety	20.700	392,320
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	46,670
Total Department of Transportation		483,756,566
Department of the Treasury		
Low-Income Taxpayer Clinics	21.008	103,536

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Office of Personnel Management		
Intergovernmental Mobility of Federal, State, and Local Employees	27.011	7,893
Equal Employment Opportunity Commission		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	28,578
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 3)	39.003	14,495
National Aeronautics and Space Administration		
Miscellaneous Programs (See Note 13)	43.000	5,573
Aerospace Education Services Program (See Note 13)	43.001	39,769
Total National Aeronautics and Space Administration		45,342
National Endowment for the Arts		
Promotion of the Arts-Partnership Agreements	45.025	943,917
National Endowment for the Humanities		
Promotion of the Humanities_Federal/State Partnership (See Note 13)	45.129	16,176
Grants to States	45.310	1,931,653
Total National Endowment for the Humanities		1,947,829
Institute of Museum and Library Services		
National Leadership Grants (See Note 13)	45.312	60,492
Total Institute of Museum and Library Services		60,492
National Science Foundation		
Miscellaneous Programs	47.000	156,703
Mathematical and Physical Sciences (See Note 13)	47.049	500,935
Biological Sciences (See Note 13)	47.074	443,289
Social, Behavioral, and Economic Sciences	47.075	5,910
Education and Human Resources (See Note 13)	47.076	1,360,686
Total National Science Foundation		2,467,523
Small Business Administration		
Miscellaneous Programs	59.000	208,834
Small Business Development Center	59.037	796,861
Total Small Business Administration		1,005,695
Department Of Veterans Affairs		
Miscellaneous Programs	64.000	92,302
Grants to States for Construction of State Home Facilities	64.005	9,543,348
Veterans State Domiciliary Care	64.014	3,743,042
Veterans State Hospital Care	64.016	2,791,975
Burial Expenses Allowance for Veterans	64.101	45,000
All-Volunteer Force Educational Assistance	64.124	269,813
Total Department Of Veterans Affairs		16,485,480
Environmental Protection Agency		
Miscellaneous Programs (See Note 13)	66.000	139,237
State Indoor Radon Grants	66.032	162,223
Ozone Transport Commission (See Note 13)	66.033	22,765
Surveys Studies, Investigations Demonstrations and Special Purpose Activities-Clean Air Act	66.034	231,516
Congresionally Mandated Projects	66.202	967,641
State Public Water System Supervision	66.432	1,420,078
Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	66.436	6,950
Long Island Sound Program	66.437	2,201,548
Water Quality Management Planning	66.454	131,936
Nonpoint Source Implementation Grants	66.460	1,218,067
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	2,330
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	323,463
Beach Monitoring and Notification Program Implementation Grants	66.472	239,785
Water Protection Grants to the States	66.474	83,186

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Office of Research and Development Consolidated Research/Training	66.511	36,948
Science To Achieve Results (STAR) Fellowship Program	66.514	28
Performance Partnership Grants	66.605	8,892,075
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	92,173
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	208,521
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	226,824
Pollution Prevention Grants Program	66.708	75,306
Pesticide Environmental Stewardship Regional Grants	66.714	30,957
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	332,909
State and Tribal Underground Storage Tanks Program	66.804	58,473
Leaking Underground Storage Tank Trust Fund Program	66.805	586,719
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	17,028
State and Tribal Response Program Grants	66.817	1,504,152
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	9,434
Total Environmental Protection Agency		19,222,272
Nuclear Regulatory Commission		
Miscellaneous Programs	77.000	3,309
Department of Energy		
National Energy Information Center	81.039	11,273
State Energy Program	81.041	589,708
Weatherization Assistance for Low-Income Persons	81.042	2,524,081
Energy Efficiency and Renewable Energy Info. Dissem., Outreach, Training and Tech. Analysis/Assistance	81.117	9,000
State Energy Program Special Projects	81.119	164,226
Total Department of Energy		3,298,288
Department of Education		
Special Education Cluster:		
Special Education-Grants to States	84.027	129,390,047
Special Education-Preschool Grants	84.173	5,347,750
Total Special Education Cluster		134,737,797
TRIO Cluster:		
TRIO-Student Support Services	84.042	625,809
TRIO-Talent Search	84.044	295,688
TRIO-Upward Bound	84.047	517,296
Total TRIO Cluster		1,438,793
Miscellaneous Programs (See Note 13)	84.000	963,332
Adult Education-State Grant Program (See Note 13)	84.002	5,254,690
Title 1 Grants to Local Educational Agencies	84.010	103,558,561
Migrant Education-State Grant Program	84.011	78,243
Title 1 Program for Neglected and Delinquent Children	84.013	1,171,315
Higher Education-Institutional Aid	84.031	652,168
Career and Technical Education -- Basic Grants to States (See Note 13)	84.048	10,413,512
Leveraging Educational Assistance Partnership	84.069	907,878
Fund for Improvement of Postsecondary Education (See Note 13)	84.116	107,343
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	23,707,864
Rehabilitation Services_Client Assistance Program	84.161	101,673
Independent Living-State Grants	84.169	46,435
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	275,292
Special Education-Grants for Infants and Families with Disabilities	84.181	4,578,542
Safe and Drug-Free Schools and Communities -National Programs (See Note 13)	84.184	36,017
Byrd Honors Scholarships	84.185	467,850
Safe and Drug-Free Schools and Communities-State Grants	84.186	3,133,831
Supported Employment Services for Individuals with Severe Disabilities	84.187	348,253
Education for Homeless Children and Youth	84.196	472,703
Graduate Assistance in Areas of National Need	84.200	122,604
Javits Gifted and Talented Students Education Grant Program	84.206	(24)
Even Start-State Educational Agencies	84.213	656,164
Fund for the Improvement of Education	84.215	209,144
Assistive Technology	84.224	411,475
Program of Protection and Advocacy of Individual Rights	84.240	208,628
Tech-Prep Education	84.243	764,720
Literacy Programs for Prisoners	84.255	(495)
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	82,719
Charter Schools	84.282	321,873

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Twenty-First Century Community Learning Centers (See Note 13)	84.287	6,913,998
Foreign Language Assistance	84.293	151,610
State Grants for Innovative Programs	84.298	1,091,311
Education Research, Development and Dissemination	84.305	46,568
Education Technology State Grants (See Note 13)	84.318	1,766,906
Special Education-State Personnel Development	84.323	992,370
Special Education-Personnel Development	84.325	54,490
Special Education-Technical Assistance	84.326	66,452
Advanced Placement Program	84.330	1,274,634
Grants to States for Incarcerated Youth Offenders	84.331	395,007
Comprehensive School Reform Demonstration	84.332	182,536
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3,342,107
Teacher Quality Enhancement Grants (See Note 13)	84.336	3,764
Assistive Technology_State Grants for Protection and Advocacy	84.343	52,229
Early Childhood Educator Professional Development (See Note 13)	84.349	(8,473)
Reading First State Grants	84.357	6,855,794
English Language Acquisition Grants	84.365	5,218,170
Mathematics and Science Partnerships	84.366	1,047,298
Improving Teacher Quality State Grants	84.367	26,776,164
Grants for State Assessments and Related Activities	84.369	6,077,663
Statewide Data Systems	84.372	804,804
School Improvement Grants	84.377	275,822
Hurricane Education Recovery	84.938	(2,025)
Total Department of Education (See Also Student Financial Assistance Cluster)		358,608,099
Elections Assistance Commision		
Help America Vote Act Requirements Payments	90.401	6,515,741
Department of Health and Human Services		
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	817,221
State Survey and Certification of Health Care Providers and Suppliers	93.777	4,769,059
Medical Assistance Program (See Note 12)	93.778	2,314,930,616
Total Medicaid Cluster		2,320,516,896
Child Care Cluster:		
Child Care and Development Block Grant	93.575	14,105,876
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	37,251,007
Total Child Care Cluster		51,356,883
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	5,073,222
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	7,966,073
Nutrition Services Incentive Program	93.053	1,246,912
Total Aging Cluster		14,286,207
Miscellaneous Programs	93.000	118,123
Public Health and Social Services Emergency Fund	93.003	135,125
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	63,098
Special Programs for the Aging-Title III Part D-Disease Prevention and Health Promotion Services	93.043	276,136
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	93.048	653,739
Alzheimer's Disease Demonstration Grants to States	93.051	229,197
National Family Caregiver Support, Title III, Part E	93.052	2,137,049
Laboratory Training, Evaluation, and Quality Assurance Programs	93.064	348,173
Chronic Diseases: Research, Control, and Prevention	93.068	174,757
Public Health Emergency Preparedness	93.069	6,214,476
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	886,033
Comprehensive Community Mental Health Services for Children with Serious Emotional Dist.	93.104	2,513,936
Maternal and Child Health Federal Consolidated Programs	93.110	296,886
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (See Note 3)	93.116	876,707
Nurse Anesthetist Traineeships	93.124	5,770
Emergency Medical Services for Children	93.127	123,621
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	74,453
Injury Prevention and Control Research and State and Community Based Programs	93.136	569,569
Protection and Advocacy for Individuals with Mental Illness	93.138	532,514
Projects for Assistance in Transition from Homelessness (PATH)	93.150	723,771
Grants to States for Loan Repayment Program	93.165	103,002
Research Related to Deafness and Communication Disorders (See Note 13)	93.173	131,688
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	896,932
Consolidated Knowledge Development and Application (KD&A) Program	93.230	4,972

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Abstinence Education Program	93.235	(4,402)
State Capacity Building	93.240	395,980
Mental Health Research Grants (See Note 13)	93.242	634,097
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	7,710,487
Universal Newborn Hearing Screening	93.251	127,609
Occupational Safety and Health Program	93.262	92,546
State Grants for Protection and Advocacy Services	93.267	80,602
Immunization Grants (See Note 3)	93.268	34,249,060
Substance Abuse and Mental Health Services-Access to Recovery	93.275	1,093,653
Drug Abuse and Addiction Research Programs	93.279	442,202
Mental Health National Research Service Awards for Research Training	93.282	4,589
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3)	93.283	13,811,950
State Partnership Grant Program to Improve Minority Health	93.296	1,602
Cancer Biology Research	93.396	9,923
Advanced Education Nursing Traineeships	93.358	56,508
Nurse Education, Practice and Retention Grants	93.359	79,235
Food Safety and Security Monitoring Project	93.448	226,294
Promoting Safe and Stable Families	93.556	2,505,312
Temporary Assistance for Needy Families	93.558	236,387,601
Child Support Enforcement (See Note 10)	93.563	47,137,663
Refugee and Entrant Assistance-State Administered Programs	93.566	1,081,568
Low-Income Home Energy Assistance	93.568	65,712,830
Community Services Block Grant	93.569	7,630,449
Refugee and Entrant Assistance-Discretionary Grants	93.576	432,927
State Court Improvement Program	93.586	347,975
Community-Based Child Abuse Prevention Grants	93.590	647,044
Grants to States for Access and Visitation Programs	93.597	119,851
Chafee Education and Training Vouchers Program (ETV)	93.599	1,306,253
Head Start	93.600	262,522
Adoption Incentive Payments	93.603	293,288
Voting Access for Individuals with Disabilities-Grants for Protect and Advocacy Systems	93.618	43,101
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,144,316
Children's Justice Grants to States	93.643	209,276
Child Welfare Services-State Grants	93.645	2,410,581
Adoption Opportunities	93.652	347,800
Foster Care-Title IV-E	93.658	70,433,760
Adoption Assistance	93.659	28,459,462
Social Services Block Grant	93.667	46,102,235
Child Abuse and Neglect State Grants (See Note 13)	93.669	359,628
Family Violence Prevention and Services/Grants for Battered Woman's Shelters Grants States, Ind. Tribes	93.671	900,486
Chafee Foster Care Independence Program	93.674	1,731,728
State Children's Insurance Program (See Note 13)	93.767	22,131,757
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	3,246,702
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	949,540
Allergy, Immunology and Transplantation Research	93.855	(413)
Microbiology and Infections Diseases Research	93.856	16,161
National Bioterrorism Hospital Preparedness Program	93.889	5,438,174
Alcohol Research Center Grants	93.891	39,730
Rural Health Care Services Outreach and Rural Health Network Dev. Program	93.912	15,038
HIV Care Formula Grants (See Note 11)	93.917	18,476,340
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	307,318
HIV Prevention Activities-Health Department Based	93.940	4,336,324
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	293,084
Epidemiologic Research Studies of (AIDS) and (HIV) Infection in Selected Population Groups	93.943	1,796,441
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	1,342,747
Assistance Programs for Chronic Disease Prevention and Control	93.945	144,891
Block Grants for Community Mental Health Services	93.958	5,145,013
Block Grants for Prevention and Treatment of Substance Abuse	93.959	16,601,578
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	1,293,983
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	327,424
Preventive Health and Health Services Block Grant	93.991	1,687,248
Maternal and Child Health Services Block Grant to the States	93.994	4,582,619
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		3,067,441,003
Corporation for National and Community Service		
State Commissions	94.003	206,376
Learn and Serve America-School and Community Based Programs	94.004	192,119
AmeriCorps (See Note 13)	94.006	1,170,011
Planning and Program Development Grants	94.007	32,487

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Training and Technical Assistance	94.009	77,945
Total Corporation for National and Community Service		1,678,938
Social Security Administration		
Miscellaneous Programs	96.000	275,451
Social Security-Disability Insurance	96.001	17,627,293
Social Security-Work Incentives Planning and Assistance Program	96.008	282,354
Total Social Security Administration		18,185,098
Department of Homeland Security		
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	7,367,334
Homeland Security Grant Program	97.067	9,478,499
		16,845,833
Urban Areas Security Initiative	97.008	2,019,482
Boating Safety Financial Assistance	97.012	1,336,921
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	278,724
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023	240,130
Flood Mitigation Assistance	97.029	4,489
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	3,365,017
National Dam Safety Program	97.041	85,572
Emergency Management Performance Grants	97.042	2,344,639
Assistance to Firefighters Grant	97.044	21,123
Pre-Disaster Mitigation	97.047	6,449
Competitive Training Grants	97.068	13,612
State Homeland Security Program	97.073	15,995
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	3,671
Buffer Zone Protection Plan (BZPP)	97.078	376,767
Disaster Housing Assistance Grant	97.109	23,331
Total Department of Homeland Security		26,981,755
United States Agency For International Development		
Miscellaneous Programs (See Note 13)	98.000	67,701
USAID Development Partnership for University Cooperation and Development (See Note 13)	98.012	16,881
Total United States Agency For International Development		84,582
Miscellaneous Programs		
Other Federal Assistance	99.125	210,255
Oil Company Overcharge Recoveries	99.136	153,246
		363,501
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants (See Note 13)	84.007	2,402,642
Federal Family Education Loans (See Note 6)	84.032	201,120,560
Federal Work-Study Program	84.033	3,060,657
Federal Perkins Loan Program_Federal Capital Contributions (See Note 4)	84.038	26,430,114
Federal Pell Grant Program	84.063	54,535,445
Federal Direct Student Loans	84.268	30,834,780
Academic Competitiveness Grants	84.375	1,203,349
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	536,891
Total Department of Education		320,124,438
Department of Health and Human Services		
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (See Note 5)	93.342	1,226,759
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		321,351,197
TOTAL NON RESEARCH AND DEVELOPMENT GRANTS		**5,718,133,569**

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
RESEARCH AND DEVELOPMENT CLUSTER:		
UNIVERSITY OF CONNECTICUT RESEARCH GRANTS (SEE NOTE 2 AND NOTE 13)		
Department of Agriculture		
Agricultural Research Service	10.RD	1,722,742
Animal and Plant Health Inspection Service	10.RD	7,747
Cooperative State Research, Education and Extension Service	10.RD	3,305,249
Food and Nutrition Service	10.RD	28,027
Foreign Agriculture Service	10.RD	103
Forest Service	10.RD	50,509
Natural Resource Conversation Service	10.RD	124,909
Miscellaneous Programs	10.RD	3,399
Total Department of Agriculture		5,242,685
Department of Commerce		
National Oceanic and Atmospheric Administration	11.RD	3,111,987
Miscellaneous Programs	11.RD	5,365
Total Department of Commerce		3,117,352
Department of Defense		
Department of the Navy, Office of the Chief of Naval Research	12.RD	1,664,884
U.S. Army Medical Command	12.RD	133,259
U.S. Army Materiel Command	12.RD	576,747
Department of the Air Force, Materiel Command	12.RD	429,758
National Security Agency	12.RD	40,385
Advanced Research Projects Agency	12.RD	23,429
Miscellaneous Programs	12.RD	2,775,013
Total Department of Defense		5,643,475
Department of Housing and Urban Development		
Office of Community Planning and Development	14.RD	(16,162)
Total Department of Housing and Urban Development		(16,162)
Department of the Interior		
Geological Survey	15.RD	201,564
Miscellaneous Programs	15.RD	149,189
Total Department of Interior		350,753
Department of Justice		
National Institute of Justice	16.RD	117,339
Bureau of Justice Assistance	16.RD	32,798
Miscellaneous Programs	16.RD	186,401
Total Department of Justice		336,538
Department of Labor		
Employment and Training Administration	17.RD	209,156
Department of Transportation		
Federal Highway Administration	20.RD	107,720
Federal Railroad Administration	20.RD	39,727
Research and Special Programs Adminsitration	20.RD	208,393
Miscellaneous Programs	20.RD	50,249
Total Department of Transportation		406,089
Office of Personnel Management	27.RD	80,648
Library of Congress	42.RD	139,366
National Aeronautics and Space Administration	43.RD	1,892,830
National Endowment for the Humanities	45.RD	103,060
Institute of Museum and Library Services	45.RD	(2,868)
National Science Foundation	47.RD	12,587,264
Department of Veterans Affairs	64.RD	9,247

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Environmental Protection Agency		
Office of Water	66.RD	365,941
Office of Research and Development	66.RD	405,332
Office of Administration	66.RD	31,916
Office of Solid Waste and Emergency Response	66.RD	9,373
Office of Prevention, Pesticides and Toxic Substances	66.RD	3,817
Miscellaneous Programs	66.RD	470,371
Total Environmental Protection Agency		1,286,750
Department of Energy	81.RD	2,223,587
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	1,091,145
Office of Elementary and Secondary Education	84.RD	196,295
Office of Educational Research and Improvement	84.RD	3,300,751
Office of Postsecondary Education	84.RD	366,577
Miscellaneous Programs	84.RD	73,053
Total Department of Education		5,027,821
Election Assistance Commission	90.RD	149,145
Department of Health and Human Services		
Office of the Secretary	93.RD	1,634,819
Administration for Children and Families	93.RD	34,120
Centers for Disease Control	93.RD	1,267,711
Health Resources and Services Administration	93.RD	22,543
Substance Abuse and Mental Health Services Administration	93.RD	423,462
National Institutes of Health	93.RD	16,474,756
Miscellaneous Programs	93.RD	249,064
Total Department of Health and Human Services		20,106,475
Department of Homeland Security	97.RD	47,748
United States Agency for International Development	98.RD	74,701
TOTAL RESEARCH GRANTS - UNIVERSITY OF CONNECTICUT		**59,015,660**
UNIV. OF CONNECTICUT HEALTH CENTER RESEARCH GRANTS (SEE NOTE 2 AND NOTE 13)		
Department of Agriculture		
Cooperative State Research, Education, and Extension Service	10.RD	819
Total Department of Agriculture		819
Department of Defense		
U.S. Army Medical Command	12.RD	2,584,783
U.S. Army Materiel Command	12.RD	134,847
Total Department of Defense		2,719,630
Department of Justice		
National Institute of Justice	16.RD	242,616
Office of Juvenile Justice and Delinquency Prevention	16.RD	407,097
Total Department of Justice		649,713
National Aeronautics and Space Administration		
Aerospace Educational Services Program	43.RD	8,724
Miscellaneous Programs	43.RD	(6,879)
Total National Aeronautics and Space Adminstration		1,845
National Science Foundation		
Miscellaneous Programs	47.RD	299,139
Environmental Protection Agency	66.RD	(5,948)
Department of Energy	81.RD	121,622
Department of Education		
Office of Special Education and Rehabilitative Services	84.RD	1,090,238

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Health and Human Services		
Substance Abuse and Mental Health Services Administration	93.RD	332,503
National Institutes of Health	93.RD	58,298,437
Health Resources and Services Administration	93.RD	1,120,750
Office of Population Affairs	93.RD	(882)
Centers for Disease Control	93.RD	1,098,442
Administration for Children and Families	93.RD	525,242
Centers for Medicare and Medicaid Services	93.RD	1,238
Miscellaneous Programs	93.RD	745,581
Total Department of Health and Human Services		62,121,311
TOTAL HEALTH CENTER RESEARCH GRANTS		**66,998,369**
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		**126,014,029**
TOTAL FEDERAL ASSISTANCE		**$ 5,844,147,598**

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Note 1 – Summary of Significant Accounting Policies

Reporting Entity:
The accompanying Schedule of Expenditures of Federal Awards includes all Federal programs administered by the State of Connecticut except for the four Federal programs that are subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those four programs, which are included in the State of Connecticut's basic financial statements, are: the United States Department of Housing and Urban Development's (HUD) *Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation* (CFDA #14.856); HUD's *Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families* (CFDA #14.103); and the United States Environmental Protection Agency's *Capitalization Grants for Clean Water State Revolving Funds* (CFDA #66.458) and *Capitalization Grants for Drinking Water State Revolving Funds* (CFDA #66.468) programs. During the fiscal year ended December 31, 2007, the Connecticut Housing Finance Authority expended $65,613,827 and $1,060,858 in Federal awards under CFDA #14.856 and CFDA #14.103, respectively. The State of Connecticut expended $10,737,073 and $12,462,439 in Federal awards under CFDA #66.458 and CFDA #66.468, respectively, during the fiscal year ended June 30, 2008.

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)	$275,590,638
Food Donation (10.550)	11,300,202
Department of Health and Human Services:	
Immunization Grants (93.268)	$30,187,794
Preventive Health Services - Sexually Transmitted Diseases Control Grants (93.977)	$184,085
Cooperative Agreement for State Based Diabetes Control Program (93.988)	$269,184
Centers for Disease Control and Prevention Assistance (93.283)	$16,937
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)	$102,603

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

General Services Administration:	
Donation of Federal Surplus Personal Property (39.003) *	$14,495

* 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_Federal Capital Contributions* (84.038) represents the Federal contributions to the loan pool, administrative cost allowances and loans outstanding. Total loans outstanding at June 30, 2008, were $26,430,114.

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, 2008, were $1,226,759.

Note 6 – Federal Family Education Loans

New loans made to students at the State Colleges and Universities under the U.S. Department of Education's *Federal Family Education Loans* program (84.032) during the fiscal year ended June 30, 2008, totaled $201,120,560.

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 $11,776,156 on the sales of formula and cereal to participants in the U.S. Department of Agriculture's *Special Supplemental Nutrition Program for Women, Infants, and Children* (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 $27,134 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 $241,110 cash and investment balance in the RLF at the end of the fiscal year in the amount of $835,003 and administrative expenses paid out were $705,777. The total expenditures after prior year adjustment were $-27,244.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Fund amounted to $632,992,852. Total expenditures from the Federal portion of the Unemployment Trust Fund equaled $14,838,769. The $73,823,338 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, 2008, the Department of Social Services expended a total of $47,137,663 (Federal share) to accomplish the goals of the *Child Support Enforcement* program (93.563). However, the State received $18,778,094 of the $47,137,663 through withholding of a portion of various collections received by the State through the process of implementing the Child Support Enforcement Program. The other $28,359,569 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, 2008, the State expended a total of $18,476,340 for the *HIV Care Formula Grants* (93.917). This included $4,058,507 in immunization rebates provided by private pharmaceutical companies. The rebates are authorized by the AIDS Drug Assistance Program (ADAP) manual Section 340B rebate option as a cost savings measure.

Note 12- Medical Assistance Program

The total amount reported under the *Medical Assistance Program* (93.778) includes expenditures for which the State had appropriately drawn down Federal funds totaling $4,842,222 under the *State Children's Insurance Program* (SCHIP) (93.767). When children receiving medical services are eligible under both the Medicaid and SCHIP programs, States are allowed to claim for reimbursement Federal medical assistance provided under Medicaid at the SCHIP enhanced Federal medical assistance percentage matching rate, as provided by the State's "Medicaid SCHIP expansion" program. The $4,842,222 represents the funds that were drawn down at the SCHIP enhanced Federal medical assistance percentage matching rate.

Note 13- 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, 2008

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	15,789
10.500	UOC	University of Vermont	AG021232	4,173
10.500	UOC	Cornell University	2002-41520-01498	5,064
10.500	UOC	Cornell University	54187-8605	637
10.500	UOC	University of Kentucky	UKRF 3046968700-08-0	4,656
11.500	UOC	Cornell University	54647-8569	2,175
10.500	UOC	University of Vermont	PDP07-001	5,902
		Total Department of Agriculture		38,396
Department of Commerce				
National Oceanic and Atmospheric Administration				
11.000	UOC	University of Rhode Island	10974	4,830
11.419	UOC	University of New Hampshire	Subaward No. 08-041	25,027
		Total Department of Commerce		29,857
Department of Defense				
Defense Logistics Agency				
12.002	CCSU	South Eastern CT Enterprise Region	SP4800-03-2-0334	74,003
Department of the Air force, Materiel Command				
12.800	CCSU	CT Center for Advanced Technology, Inc	05-N006	107,674
Department of the Navy, Office of the Chief of Naval Research				
12.300	UOC	University of Rhode Island	L236586	3,300
12.000	UOC	Woods Hole Oceanographic Institution	PO # M210985	52,500
12.000	UOC	Woods Hole Oceanographic Institution	M211272	15,000
				70,800
Miscellaneous Programs				
12.000	UOC	South Dakota School of Mines and Technology	AG070860	14,554
		Total Department of Defense		267,031
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.244	CCC	Empower New Haven, Inc.	AGR 12-9-02	36,438
14.244	CCC	Empower New Haven, Inc.	AGR 1-1-03	1,064
Total Office of Community Planning and Development				37,502
Office of Public and Indian Housing				
14.866	UOC	City of Stamford , Housing Authority	AG060476	7,360
		Total Department of Housing and Urban Development		44,862

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Department of the Interior				
Bureau Of Land Management				
15.224	ECSU	Montana State University	G108-08-W0094	3,035
Geological Survey				
15.810	ECSU	US Geological Survey	07HQAG0055	18,100
National Park Service				
15.921	CCSU	Farmington River Watershed Association	H4507070013	5,697
Miscellaneous Programs				
15.000	UOC	Environmental Concern Inc.	AG080466	3,832
		Total Department of the Interior		30,664
Department of Justice				
Executive Office for Weed and Seed				
16.595	CCSU	City of New Britain Police Department	N/A	9,644
		Total Department of Justice		9,644
Department of Labor				
Employment and Traning Administration				
17.207	CCSU	WorkPlace, Inc.	AH-14513-05-60	60,900
17.255	CCC	Greater Waterbury Workforce Inv. Board	2006-ISY-002	2,814
17.255	CCC	Northwest Regional Investment Board	ISY-08-001	2,632
17.255	CCC	Northwest Regional Investment Board	LTR 6-15-07	99,059
17.259	CCC	Greater Waterbury Workforce Inv. Board	2006-OSY-001	3,716
17.259	CCC	Northwest Regional Investment Board	LTR 6-15-07	109,936
17.259	CCC	Northwest Regional Investment Board	OSY-07-001	156,522
17.261	CCSU	CT Business and Industry Association	N/A	27,901
17.261	CCC	The Workplace Inc.	AGR 3-19-07	612,727
17.268	CCC	CT Business & Industry Association	AGR 6-6-07	53,263
17.268	CCC	CT Business & Industry Association	AGR 8-30-07	11,773
17.268	CCC	CT Business & Industry Association	AGR 3-25-08	24,987
17.268	CCC	CT Business & Industry Association	AGR 4-28-08	12,826
17.268	CCC	CT Institute of Prof. Builders and Remodelers	LTR 10-27-06	72,035
		Total Employment Training Administration		1,251,091
National Aeronautics and Space Administration				
43.000	UOC	Institute for the Application of Geospatial	AG070218	5,000
43.001	CCC	University of Hartford	AGR 1-15-08	22,000
43.001	SCSU	University of Hartford	NGT5-40093	1,713
43.001	SCSU	University of Hartford	NGT5-40093	6,453
43.001	SCSU	University of Hartford	NGT5-40093	5,121
		Total National Aeronautics and Space Administration		40,287
National Endowment for the Humanities				
45.129	UOC	CT Humanities Council	P-0207 G-0207	16,176

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Institute of Museum and Library Services				
45.312	UOC	University of Maryland at College Park	Z908502	44,188
National Science Foundation				
47.049	SCSU	Yale University	N/A	235,178
47.074	UOC	New York State Museum Institute	AG050672	42,233
47.074	CCSU	Woods Hole Oceanographic Institution	A100179	124
47.076	CCSU	University of Hartford	N/A	20,243
47.076	UOC	University of Massachusetts	UM# 05-003146 B 00	94,622
47.076	UOC	University of Massachusetts	06-003554-A 00	29,929
47.076	UOC	University of Massachusetts	06-003554 A 00	16,512
Total National Science Foundation				438,841
Department of Environmental Protection				
Office of Air and Radiation				
66.033	CCC	West Virginia University	02-637-GCC	22,765
Miscellaneous Programs				
66.000	UOC	John Hopkins University	2000010078	31,191
Total Department of Envirnomental Protection				53,956
Department of Education				
Office of Vocational and Adult Education				
84.002	CCC	Education Connection	LTR 8-20-07	20,159
84.048	CCSU	Consolidated School District of New Britain, CT	N/A	52,000
Total Office of Vocational and Adult Education				72,159
Office of Special Education and Rehabilitative Services				
84.326	UOC	University of S. Florida	5830-1242-00-A	66,452
Office of Elementary & Secondary Education				
84.184	UOC	Hartford Public Schools	AG060617	20,344
84.184	CCSU	Norwalk Public Schools	Q184B050079	15,673
84.215	CCSU	Newington Public Schools	U215X050260	204,722
84.215	UOC	Capitol Region Education Council	AG070583	4,422
Total Office of Elementary & Secondary Education				245,161
Office of Post Secondary Education				
84.116	CCC	CT Distance Learning Consortium	N/A	21,378
84.116	CCSU	Bridgewater State College	P116M060008	33,119
84.336	UOC	State of Idaho	AG060245	3,764
Total Office of Post Secondary Education				58,261
Miscellaneous Programs				
84.000	CCSU	National Writing Project Corporation	U928A050001	38,729
84.000	UOC	National Writing Project Corporation	92-CT01	39,677
Total Miscellaneous Programs				78,406
Total Department of Education				520,439

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Department of Health and Human Services				
Substance Abuse And Mental Health Services Administration				
93.243	ECSU	CT Youth Suicide Prevention	N/A	3,724
National Institutes of Health				
93.242	UOC	Yale University	A05779	21,058
93.173	SCSU	Yale University	N/A	17,285
93.242	SCSU	Yale University	N/A	38,920
93.396	CCSU	Wesleyan University	NA	9,923
				87,186
		Total Department of Health and Human Services		90,910
Corporation for National and Community Service				
94.006	UOC	Jump Start	830200	38,569
United States Agency for International Development				
98.012	UOC	American Council On Education	AG060076	16,881
98.000	UOC	American Council On Education	AEG-A-00-05-00007-00	59,913
98.000	UOC	University of California at Davis	841458-CRSP04	7,788
				84,582
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				**2,999,493**
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	2,975
10.RD	UOC	Cornell University	54039-8584	17,102
10.RD	UOC	Csrees-Freunds Farm, Inc.	AG070604	8,617
10.RD	UOC	Marine Biological Laboratory	26047	4,102
10.RD	UOC	N.Eastern Regional Aquaculture Ctr	Q239901	66,624
10.RD	UOC	Rutgers, State University of New Jeresy	#1750	6,845
10.RD	UOC	University of Maine	UM-S569	23,071
10.RD	UOC	University of Maryland at College Park	Z507208	21,605
10.RD	UOC	University of Massachusetts	04-002655-A00	9,341
10.RD	UOC	University of Minnesota	Q6706392202	802
10.RD	UOC	University of New Hampshire	PZ07020	62,937
10.RD	UOC	University of Rhode Island	1006055/0000516-A	126,022
10.RD	UOC	University of Vermont	2005-47001-03146	16,887
10.RD	UOC	University of Vermont	2006-47001-033367	78,138
10.RD	UOC	University of Vermont	AG050707	2,718
10.RD	UOC	Yale University	M00081(M06M00477)	16,223
10.RD	UOC	Geremia Greenhouse	AG050015-01	5,077
Total Cooperative State Research, Education, and Extension Service				469,086

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Food and Nutrition Service				
10.RD	UOC	University of Rhode Island	011106/0001293	28,027
Forest Service				
10.RD	UOC	Yale University	Y-07-0002	20,852
Miscellaneous Programs				
10.RD	UOC	American Egg Board	OSP05/026	3,414
Total Department of Agriculture				521,379
Department of Commerce				
National Oceanic and Atmospheric Administration				
11.RD	UOC	NOAA Sea Grant	NA16RG2253	426
11.RD	UOC	NOAA Sea Grant	NA16RG2253	2,887
11.RD	UOC	National Oceanic and Atmospheric Admin	1959	7,890
11.RD	UOC	Nature Conservancy	DD-01122007-01	15,328
11.RD	UOC	Oregon State University	NA108H-B	42,919
11.RD	UOC	Pacific Shellfish Institute	OSP 05/093	364
11.RD	UOC	Pacific Shellfish Institute	AG060855	11,116
11.RD	UOC	Rutgers - State University of New Jersey	S952046	376
11.RD	UOC	University of Mississippi	05-07-004	1,757
11.RD	UOC	University of New Hampshire	08-048	53,999
11.RD	UOC	University of Rhode Island	011807/0001224	61,717
11.RD	UOC	University of Rhode Island	012606/0000848	70,990
11.RD	UOC	Woods Hole Ocean Graphic Institution	A100473	39,930
11.RD	UOC	Woods Hole Ocean Graphic Institution	A100555	3,342
11.RD	UOC	Woods Hole Ocean Graphic Institution	A100567	21,264
Total National Oceanic and Atmospheric Administration				334,305
Miscellaneous Programs				
11.RD	UOC	Nature Conservancy	CTFO-042006D	741
11.RD	UOC	University of Massachusetts	05-003280 A 00	1,445
11.RD	UOC	Bridgewater Education Consulting, LLC	AG080273	3,179
Total Miscellaneous Programs				5,365
Total Department of Commerce				339,670
Department of Defense				
Department of the Air Force, Materiel Command				
12.RD	UOC	Advanced Virtual Engine Test Cell, Inc	AV07-U-003	67,803
12.RD	UOC	Connecticut Center for Advanced Technology Inc	Preaward	6,284
12.RD	UOC	Dartmouth College	221	109,426
12.RD	UOC	University of Pennsylvania	3344-UC-USA-0051	51,532
12.RD	UOC	Purdue University	531-0737-01	50,910
Total Department of the Air Force, Materiel Command				285,955
Miscellaneous Programs				
12.RD	UOC	Agiltron, Inc	AG070810	31,050
12.RD	UOC	Agiltron, Inc	AG080169	39,600
12.RD	UOC	Air Force/GDIT	USAF-A581-30-SC-0001	43,694

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
12.RD	UOC	Alcatel-Lucent	LGS071021G	71,148
12.RD	UOC	Colorado State University	PO P322795	18,994
12.RD	UOC	Connecticut Center for Advanced Technology, Inc.	06-N001	41,282
12.RD	UOC	Connecticut Center for Advanced Technology, Inc.	07-N06	136,778
12.RD	UOC	Connecticut Center for Advanced Technology, Inc.	07-N07	2,422
12.RD	UOC	Ensign-Bickford Aerospace and Defense Co	AG070085	98,065
12.RD	UOC	Ensign-Bickford Industries Inc.	AG070085-01	52,448
12.RD	UOC	Milsys Technologies, LLC	MILSYS-07-0116	35,858
12.RD	UOC	Milsys Technologies, LLC	MILSYS-07-0024	6,666
12.RD	UOC	Missile Defense Agency/Vectraxx, Inc.	A-009	28,653
12.RD	UOC	Navy-Mesoscopic Devices	2006-04	8,109
12.RD	UOC	OPEL, Inc.	OSP 06/005	17,488
12.RD	UOC	Qualtech Systems, Inc	QSI-DSC-07-011	15,000
12.RD	UOC	Qualtech Systems, Inc	QSI-DSC-07-010	30,408
12.RD	UOC	Ratheon Company	4400234029	648,327
12.RD	UOC	Sky Research Inc	SKY-ESTCP 03	422
12.RD	UOC	Sonalysts Inc.	05MAB0471	10,933
12.RD	UOC	Spectral Energies, LLC	SB07-012	24,746
12.RD	UOC	Structured Materials Industries, Inc.	SMI 41705-071607-01	28,545
12.RD	UOC	Technology Service Corporation	36066	29,060
12.RD	UOC	Triton Systems, Inc	TSI-2271-06-74687	46,188
12.RD	UOC	Universal Technology Corporation	08-S568-0011-C2	2,010
12.RD	UOC	University of New Mexico	PO# P0027495	80,943
12.RD	UOC	United Technologies - Pratt & Whitney	21153 TASK #29	778
12.RD	UOC	Vectraxx, Inc	A-003	(1,911)
12.RD	UOC	VeroModo Inc.	AG-050876	8,477
Total Miscellaneous Programs				1,556,181
		Total Department of Defense		1,842,136
Department of Housing and Urban Development				
Office of Community Planning and Development				
14.RD	UOC	Town of Vernon	OSP 05/055	(16,162)
		Total Department of Housing and Urban Development		(16,162)
Department of the Interior				
Geological Survey				
15.RD	UOC	Calfed	06WRAG0005	14,309
15.RD	UOC	The Polistes Foundation	AG080455	60,309
				74,618
Miscellaneous Programs				
15.RD	UOC	Heritage Corridor, Inc	AGR. 1-11-01	145,938
		Total Department of the Interior		220,556
Department of Justice				
National Institute of Justice				
16.RD	UOC	Pennsylvania Coalition Against Domestic Violence	AG070633	114,516

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Bureau of Justice Assistance				
16.RD	UOC	Center For Court Innovation	AG070603	32,798
Total Department of Justice				147,314
Department of Labor				
Employment and Training Administration				
17.RD	UOC	WA - State Workforce Train & Ed	020 PXG (033)	89,206
17.RD	UOC	WA - State Workforce Train & Ed	IAA-724-07	121,092
17.RD	UOC	Hill Coop	LOA-2/4/03	(431)
Total Employment and Training Administration				209,867
Total Department of Labor				209,867
Department of Transportation				
Federal Highway Administration				
20.RD	UOC	New England Transportation Consortium	N0401P2-0-2007-3	1,538
20.RD	UOC	New England Transportation Consortium	N0507P2-0-2007-4	7,006
20.RD	UOC	New England Transportation Consortium	12.16-10(05)	50,515
20.RD	UOC	New England Transportation Consortium	6.08-01(05)NETC 04-1	21,569
Total Federal Highway Administration				80,628
Research and Special Program Administration				
20.RD	*UOC*	Massachusetts Institute of Technology	5710001977	17,004
20.RD	*UOC*	N. E. University Transportation Center	Advance	31,042
Total Research and Special Program Administration				48,046
Miscellaneous Programs				
20.RD	UOC	Texas A & M Research Foundation	S040060	26
20.RD	UOC	University of Vermont	PreAward	1,264
Total Miscellaneous Programs				1,290
Total Department of Transportation				129,964
Office of Personnel Management				
27.RD	UOC	Massachusetts Institute of Tech	5710001978	16,764
27.RD	UOC	Massachusetts Institute of Tech	5710002122	29,884
27.RD	UOC	Massachusetts Institute of Tech	5710002139	2,000
27.RD	UOC	Massachusetts Institute of Tech	Preaward	32,000
Total Office of Personnel Management				80,648
Library of Congress				
Miscellaneous Programs				
42.RD	UOC	University of Michigan	F012178	139,366
Total Library of Congress				139,366
National Aeronautics and Space Administration				
43.RD	UOC	Georgia Institute of Technology	NNG04GB89G	12,157
43.RD	UOC	Institute For the Apllication of Geospatial T	AG070703	17,878

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
43.RD	UOC	Wet Labs, Inc.	AG070872	15,764
43.RD	UOC	Tennessee Technological University	C 16924	10,423
43.RD	UOC	Qualtech Systems, Inc.	Advance	17,154
43.RD	UOC	University of Hartford	OSP 05/132	20,054
43.RD	UOC	University of Hartford	314806	850
43.RD	UOC	UT-Hamilton Sundstrand	2322388 07	(191)
Total National Aeronautics and Space Administration				94,089
National Endowment for the Humanities				
45.RD	UOC	American Antiquarian Society	AG070224	40,000
Institute of Museum and Library Services				
45.RD	UOC	Newberry Library	AG070902	40,179
Total National Endowment for the Humanities				80,179
National Science Foundation				
47.RD	UOC	Boston College	Subaward No. 930-3	21,223
47.RD	UOC	Boston College	Subaward No. 930-3	12,028
47.RD	UOC	Thoughtventions Unlimited, LLC	AG080012	19,335
47.RD	UOC	Florida State University	R00283	394
47.RD	UOC	Innovative Technology Inc.	P.O.#2650-C	13,986
47.RD	UOC	Joint Oceanographic Institutions	JSA-29	3,386
47.RD	UOC	Marquette University	3/3	882
47.RD	UOC	Massachusetts Institute of Technology	5710002196	12,399
47.RD	UOC	New England Board of Higher Ed	LTR 9/24/03	9,604
47.RD	UOC	Smithsonian Institution	06SUBC440-0000083232	20,877
47.RD	UOC	Southwest Sciences	AG071060	20,195
47.RD	UOC	Northeastern University	532460P520107	49,942
47.RD	UOC	Purdue University	501-0825-1	2,885
47.RD	UOC	University of California at Davis	RA 012679 UCT	8,316
47.RD	UOC	University of California at Riverside	S-00000154	44,378
47.RD	UOC	University of Delaware	Subgrant No. 11698	37,303
47.RD	UOC	University of Maryland	Z479501	59,748
47.RD	UOC	University of Massachusetts	07-004407 A00	13,280
47.RD	UOC	University of Massachusetts	04-002653 A 02	37,125
47.RD	UOC	University of Massachusetts	04-002354 A 00	6,835
47.RD	UOC	University of Miami	P111396-CO.01	29,206
47.RD	UOC	University of Michigan	F011773	28,040
47.RD	UOC	University of Puerto Rico	534042	43,467
47.RD	UOC	University of Puerto Rico	AG060221	137,380
47.RD	UOC	Washington University, St. Louis	PO#29510P	30,072
47.RD	UOC	Williams College	2005-01-ECON	2,299
47.RD	UOC	Woods Hole Oceanographic Institute	A100424	53,896
Total National Science Foundation				718,481
Department of Environmental Protection				
Office of Water				
66.RD	UOC	N.E. Interstate Water Pollution Control Com	LI-97130601	13,468

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Office of Research and Development				
66.RD	UOC	John Hopkins University	8112-48274	20,881
66.RD	UOC	John Hopkins University	8201-48276	(2,424)
66.RD	UOC	University of Nevada	UNR-08-29(PO 18GC000	7,334
Total Office of Research and Development				25,791
Office of Administration				
66.RD	UOC	University of Massachusetts	06-003268 E 04	71,176
Office of Solid Waste and Emergency Response				
66.RD	UOC	Town of Sprague, CT	AG070891	9,373
Total Department of Environmental Protection				119,808
Department of Energy				
81.RD	UOC	Consortium for Plant Biotechnology Research, Inc.	GO12026-221	19,194
81.RD	UOC	Fuelcell Energy Inc	PO 31827-000	3,037
81.RD	UOC	Rohn and Hass Company & BASF Catalyst LLC	AG060583-01	51,100
81.RD	UOC	University of Utah	2212032	8,927
81.RD	UOC	Cyberconnect EZ, LLC	AG060079	3,464
81.RD	UOC	Radiation Monitoring Devices	AG060291	2,767
81.RD	UOC	Rohm and Haas Company	AG060583	273
81.RD	UOC	Sandia Corporation	241227	47,314
81.RD	UOC	Yardney Technical Products, Inc.	AG071021	37,600
Total Department of Energy				173,676
Department of Education				
Office of Special Education and Rehabilitation Services				
84.RD	UOC	Marquette University	H133E020729	114,366
84.RD	UOC	Mashentucket Pequot Tribal Nation	OSP 04/76	59,605
84.RD	UOC	Texas A&M Research Foundation	S060054	131,111
84.RD	UOC	University of Oregon	222841J	204,363
Total Special Education and Rehabilitation Services				509,445
Office of Elementary and Secondary Education				
84.RD	UOC	Area Cooperative Educational Services	AG070924	8,795
84.RD	UOC	Eastconn	OSP 05/063	(227)
84.RD	UOC	Hartford Public Schools	552472	56,272
84.RD	UOC	Hartford Public Schools	AG050754	25,193
Total Elementary and Secondary Education				90,033
Office of Educational Research and Improvement				
84.RD	UOC	Center for Implied Linguistics	AG070063	94,600
Miscellaneous Programs				
84.RD	UOC	Advanced Fuel Research Inc.	ED-07CO-0037	73,053
Total Department of Education				767,131

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Department of Health and Human Services				
Administration For Children and Families				
93.RD	UOC	State of Louisiana	646442	34,120
Center For Disease Control				
93.RD	UOC	Sekos, Inc.	OSP 05-141	757
93.RD	UOC	Association for Prevention, Teaching and ResearchTS-1402	TS-1402	20,552
93.RD	UOC	University of Massachusetts	S11108020000008	68,377
Total Center For Disease Control				89,686
Health Resources and Service Administration				
93.RD	UOC	Health Resources Inc.	2124-01	826
93.RD	UOC	Health Resources Inc.	0002124-02	26,662
Total Health Resources and Service Administration				27,488
National Institutes of Health				
93.RD	UOC	Beth Israel Medical Center	AG031124	68,315
93.RD	UOC	Beth Israel Medical Center	AG031122	91,260
93.RD	UOC	Beth Israel Deaconess Medical Center	AG031126	40,929
93.RD	UOC	Brandeis University	4-01217	3,721
93.RD	UOC	Children's National Medical Center	AG060026	(24,086)
93.RD	UOC	Ciencia, Inc	723205	11,750
93.RD	UOC	Ciencia, Inc	783101	25,383
93.RD	UOC	Ciencia, Inc	783102	31,026
93.RD	UOC	Ciencia, Inc	733102	11,384
93.RD	UOC	Children's National Medical Center	5-34143	59,906
93.RD	UOC	Diagnostics, LLC	OSP 05/078	64,546
93.RD	UOC	Evergen Biotechnologies, Inc	AG070447	34,094
93.RD	UOC	Evergen Biotechnologies, Inc	AG060071	1,852
93.RD	UOC	Fordham University	AG080334	60,199
93.RD	UOC	Franklin University of Medicine & Science	R01 DC007905	2,502
93.RD	UOC	Hartford Hospital	123249	36,334
93.RD	UOC	Iowa State University	430-24-29	26,646
93.RD	UOC	Iowa State University	430-78-15-C	4,682
93.RD	UOC	MGS	12/1/03	3,734
93.RD	UOC	Mashantucket Pequot Tribal Nation	AG070286	20,554
93.RD	UOC	Massachusetts General Hospital	OSP 05/083	66,281
93.RD	UOC	National Institute of Arthritis and Muscul	A06534 (M-07-233)	47,112
93.RD	UOC	Northeastern University	549503P523984	7,363
93.RD	UOC	Northeastern University	542650P823700	44,668
93.RD	UOC	Promiliad Biopharma, Inc	AG060409	87,325
93.RD	UOC	Promiliad Biopharma, Inc	AG060772	103,013
93.RD	UOC	University of California	0845 G DC664	2,170
93.RD	UOC	University of Chicago	30180	31,447
93.RD	UOC	University of Colorado	1544069 SPO#00064218	10,909
93.RD	UOC	University of Florida	UF05104	3,039
93.RD	UOC	University of Minnesota	Q6437295102	15,917
93.RD	UOC	University of North Carolina	UNC-CH 5-50114	34,771
93.RD	UOC	University of South Carolina	PO# 52408	32,418
93.RD	UOC	Wadsworth Center	3269-01	26,411
93.RD	UOC	Washington University	HT-08-05	108,781

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.RD	UOC	Yale University	A06261 (M-09-169)	7,924
93.RD	UOC	Yale University	A06724 (M-07-335)	9,985
93.RD	UOC	Yale University	A06516	43,955
Total National Institutes of Health				1,258,220
Miscellaneous Programs				
93.RD	UOC	John Snow, Inc.	28012	294
93.RD	UOC	Medcases, Inc.	HHS-N278-2004-44090C	17,013
93.RD	UOC	Makscientific, LLC	1R43DA023737-01	3,476
93.RD	UOC	Physical Sciences, Inc	SC41559-2986	5,081
93.RD	UOC	Psychological Applications, LLC	AG040886	47,113
93.RD	UOC	Ciencia Inc.	752202	771
Total Miscellaneous Programs				73,748
Total Department of Health and Human Services				1,483,262
Department of Homeland Security				
Miscellaneous Programs				
97.RD	UOC	Sonalysts, Inc.	06OEM0693	1,361
97.RD	UOC	Sonalysts, Inc.	07OEM0375	46,387
Total Department of Homeland Security				47,748
United States Agency for International Development				
98.RD	UOC	Oregon State University	RD011G-E	36,919
98.RD	UOC	University of Georgia	Preaward	1,799
98.RD	UOC	University of Georgia	RC710-013/4092044	15,727
98.RD	UOC	University of Missouri	C00014171-1	8,150
98.RD	UOC	University of Missouri	C00018393-1	12,106
Total United States Agency for International Development				74,701
TOTAL UNIVERSITY OF CONNECTICUT PASS-THROUGH RESEARCH GRANTS				**7,173,813**
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	UNIV OF DE NO. 1428	819
Department of Defense				
U.S. Army Medical Command				
12.RD	UHC	Brigham & Women's Hospital	890171	(851)
National Aeronautics and Space Administration				
43.RD	UHC	University of Hartford Board of Higher Ed.	314806	8,724
Department of Education				
Office of Special Education and Rehabilitative Services				
84.RD	UHC	SRI International	51-000498	23,142

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Department of Health and Human Services				
Office of Population Affairs				
93.RD	UHC	Hill Health Corp	N/A	(882)
Administration for Children and Families				
93.RD	UHC	California Tech	102-1083874	72,343
Centers for Medicare and Medicaid Devices				
93.RD	UHC	UMASS	RFS700115	1,238
Centers for Disease Control				
93.RD	UHC	Assoc For Prevention Teaching & Research	APTR	10,730
93.RD	UHC	Mass General Hospital	MIBH 383	41,386
93.RD	UHC	UMASS	S1110802000008	332,098
93.RD	UHC	University of California-Berkeley	SA5731-10941	34,562
93.RD	UHC	Worcester Memorial Hospital	RFS700070	9,978
93.RD	UHC	Worcester Memorial Hospital	6068698/RFS700070	34,626
Total Centers for Disease Control				463,380
Health Resources and Services Administration				
93.RD	UHC	City of Hartford	3769K	(11)
93.RD	UHC	City of Hartford	3769K	44,032
93.RD	UHC	City of Hartford	3769H	11,384
93.RD	UHC	City of Hartford	3769H	122,357
93.RD	UHC	City of Hartford	HHS8020Q	10,245
93.RD	UHC	City of Hartford	HHS8020R	27,199
93.RD	UHC	CT Primary Care Assoc	CPCA RWIV FY06-07	46,753
93.RD	UHC	CT Primary Care Assoc	CPCA Part D FY07-08	118,293
93.RD	UHC	Hospital for Special Care	HOSP SPEC CARE 1000	41,981
93.RD	UHC	UMASS	6065448 OCP13	(64)
93.RD	UHC	UMASS	6083441/ETC 13	52,643
93.RD	UHC	Worcester Memorial Hospital	RFS700060	(2,318)
93.RD	UHC	Worcester Memorial Hospital	RF800060	1,467
93.RD	UHC	Worcester Memorial Hospital	RFS800009	36,457
Total Health Resources and Services Administration				510,418
National Institutes of Health				
93.RD	UHC	Brigham & Women's Hospital	101499	119,935
93.RD	UHC	Brookside R&D	1 R43AG21882-01	(241)
93.RD	UHC	Case Western	RES502603	9,773
93.RD	UHC	Children's Hospital Medical Center	37103-24M1	14
93.RD	UHC	CT Children's Medical Center	CCMC 07-179576-08	151,323
93.RD	UHC	CT Children's Medical Center	CCMC 05-179551-06	14,028
93.RD	UHC	CT Children's Medical Center	06-179101-01	18,339
93.RD	UHC	CT Children's Medical Center	06-179136-01	26,551
93.RD	UHC	Duke University	128358-1	19,356
93.RD	UHC	Harvard University	148239.1606	179,539
93.RD	UHC	Jackson Lab	R01AR45433-08	46,651
93.RD	UHC	Jackson Lab	5 R01 AR053853-02	51,758
93.RD	UHC	John Hopkins University	8502-91909-X	(3,110)
93.RD	UHC	John Hopkins University	8506-03013	13,085

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.RD	UHC	LAVAX	1-R43AI068528-01	2,922
93.RD	UHC	Medical University of South Carolina	R01 DA19708	339,644
93.RD	UHC	Nanoprobes Inc.	4 R44CA124190	29,177
93.RD	UHC	Nanoprobes Inc.	4 R44 HL076046-02	6,583
93.RD	UHC	Nanoprobes Inc.	51-000498	125,346
93.RD	UHC	Onconova	1 R43 NS45418-02	(10,802)
93.RD	UHC	Oregon Health & Science University	GBIMO0069A	79,759
93.RD	UHC	Penn State University	3142	8,414
93.RD	UHC	Penn State University	5-46643	(23)
93.RD	UHC	SUNY-Brooklyn	1009189/40691	128,550
93.RD	UHC	SUNY-Brooklyn	1009189/44241	543,907
93.RD	UHC	SUNY-Buffalo	R263976	159,666
93.RD	UHC	SUNY-Syracuse	1031799-28053	129,932
93.RD	UHC	Temple University	HL45700	1,272
93.RD	UHC	Tufts University	595-010-010	3,082
93.RD	UHC	UMASS	RFS500079	32,106
93.RD	UHC	UMASS	6067664/RFS700042	286,902
93.RD	UHC	UMASS	525079-UCHC	15,666
93.RD	UHC	UMASS	RFS700095	19,996
93.RD	UHC	Univ Med/Dent of New Jersey	1 R01CA116399	7,354
93.RD	UHC	University of California-Berkeley	6823740	171,112
93.RD	UHC	University of Florida	UF06034	15,277
93.RD	UHC	University of Illinois	MH68455	26,292
93.RD	UHC	University of Michigan	3000595879	4,085
93.RD	UHC	University of New Mexico	048826-87B6	27,888
93.RD	UHC	University of Rochester	413332-G	26,073
93.RD	UHC	University of Rochester	5 R37 DE008921-16	(19)
93.RD	UHC	University of Southern California	H37982	21,679
93.RD	UHC	University of Utah	2302132	135,971
93.RD	UHC	University of Wisconsin	644F770	63,168
93.RD	UHC	Vanderbuilt University	VUMC30617-R	2,547
93.RD	UHC	Vanderbuilt University	VUMC30617-R	(3,922)
93.RD	UHC	Vanderbuilt University	VUMC30617-R	131,873
93.RD	UHC	Vanderbuilt University	VUMC30617-R	20,432
93.RD	UHC	Yale University	A06106	243,284
93.RD	UHC	Yale University	A06123	1,897
93.RD	UHC	Yale University	A06212	7,912
93.RD	UHC	Yale University	A06365/M-08-053	530,575
93.RD	UHC	Yale University	A06385	3,436
93.RD	UHC	Yale University	A06534	212,529
93.RD	UHC	Yale University	AO6601-M08A0800	22,463
93.RD	UHC	Yale University	A06916	14,282
93.RD	UHC	Yale University	DKP1072055	(3,982)
93.RD	UHC	Yale University	DKP1074147	72,787
93.RD	UHC	Yale University	DKP1082233	28,702
Total National Institutes of Health				4,332,795
Miscellaneous Programs				
93.RD	UHC	Onconova	HL085034-01	(85)
93.RD	UHC	The Forsyth Institute	1R21DE018310	32,996
93.RD	UHC	Population Council	B02.110N	42

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.RD	UHC	UMASS	N01-DK-2326	29,078
93.RD	UHC	University of Michigan	DE014261	54,597
93.RD	UHC	University of Virginia	GC11451.126459	61,464
93.RD	UHC	University of Virginia	GC11572.128511	204,313
Total Miscellaneous Programs				382,405
Total Department of Health and Human Services				5,761,697
TOTAL HEALTH CENTER PASS-THROUGH RESEARCH GRANTS				**5,793,531**
TOTAL PASS-THROUGH GRANTS				**15,966,837**

Schedule of Findings and Questioned Costs

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2008
INDEX OF SCHEDULE OF FINDINGS AND QUESTIONED COSTS

		Status	Page
4.	Matching Requirements	B,D	F-160
5.	Reporting - Misstatements in the State's Accounting System (Core-CT) Nonmajor Programs	B,I	F-161

STATUS

A. Material instances of non-compliance with Federal requirements
B. Significant deficiency of the internal control process
C. Material weaknesses of the internal control process
D. Known or likely questioned costs which are greater than $10,000 for a type of compliance requirement for a major program
E. Known questioned costs which are greater than $10,000 for a Federal program which is not audited as a major program
F. Circumstances resulting in other than an unqualified opinion unless such circumstances are otherwise reported as an audit finding under code A. above
G. Known fraud affecting a Federal award
H. Repeat of a prior year finding
I. Instances resulting from audit follow-up procedures that disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.
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, 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Qualified
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 Adoption Assistance (CFDA 93.659), which are qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
20.500 and 20.507	Federal Transit Cluster
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 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	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Cluster
93.658	Foster Care-Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.778, 93.775 and 93.777	Medicaid Cluster
93.917	HIV Care Formula Grants
96.001	Social Security-Disability Insurance
N/A	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $17,532,443

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. Office of the State Comptroller - Administration of Statewide Accounting and Financial Reporting Functions:

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

The *State Accounting Manual*, issued by the 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, 2006 and 2007 have each disclosed certain deficiencies in the Core-CT system. We have noted that the Office of State Comptroller has not provided user agencies with an updated version of its *State Accounting Manual.* We note that other than an online presentation of Core-CT chartfields, job aids and training materials little progress has been made. We still find that, although it has been over five years since the Core-CT system went on-line, a unified document providing a complete set of standards and instructions for State agency users to follow, replacing the original *State Accounting Manual*, has not been prepared.

Past audits have also noted that the Office of State Comptroller had relinquished a significant amount of the control it previously maintained over the accounting of the State's financial transactions. With and since the implementation of the decentralized Core-CT system in 2003 the Office of State Comptroller lost the exclusive control it maintained over this function; a responsibility assigned by Statute. Our prior audit, covering the 2006-2007 fiscal year, cited the findings of the Gartner Group, a private information technology consultant that issued a study of the Core-CT implementation in February 2007. Among other items, that report concluded that, to address the issues of effective governance and better serving user agencies the consultants recommended that the State: "Define a formal and distinct Core-

CT Enterprise Resource Planning Competency Center within the State agency structure, complete with its own employees, service catalog, reporting structure, and efficient processes.

- Eliminate the Director group and establish a clear Director in charge of the Competency Center.
- Create a clear Competency Center service catalog as the foundation for service level agreements that will evolve.
- Create a Project Management Office within the Competency Center to support governance, administrative, and communications activities
- Develop and continuously improve governance processes in support of the Competency Center"

The Gartner report also contained a recommendation that the State:
"Expand the Core-CT steering committee and improve the Core-CT governance processes through expanded line agency involvement.

- The purpose and goals of the steering committee must evolve as the Core-CT services shift from milestone driven implementation to enhanced service delivery to all agencies.
- The steering committee should be expanded to include additional major stakeholders of the Core-CT application. Line agencies have a vested interest in the evolution of Core-CT and should be formally incorporated into Core-CT governance processes.
- Line agencies should play a central role in the following decisions:
    - Functionality enhancement demand and prioritization; release management
    - Funding for desired services
    - Business process standardization
    - Training delivery"

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; however, it was not enacted by the General Assembly. A similar proposal has been made in the Governor's biennial budget proposal for the 2009-2011 fiscal years to be considered by the 2009 General Assembly.

Effect: The failure to provide an updated State Accounting Manual 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.

Cause: Our previous audits, as well as the consultant report, concluded that 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 addresses the evolution from a system implementation project to a more stable support and enhancement function.

As described in our previous audits and at the time of our review (March 2009) the Core-CT project consists of eight project teams staffed by persons from the Office of State Comptroller, the Department of Information Technology, the Department of Administrative Services and independent consultants. The project teams operate under the direction of the Core-CT Project Management Team which consists 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, nor is it as responsive to the needs of user agencies.

We have also noted in previous reports that the Core-CT system is based on PeopleSoft computer software that is an adaptation from the commercial accounting environment. That adaptation to the specialized accounting needs of State government resulted in certain deficiencies encountered by 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 user departments and agencies can more efficiently operate in the decentralized Core-CT environment.

Agency Response: "The State Accounting Manual (SAM) contains both accounting policy and procedural information. With the implementation of Core-CT, little or no change occurred with respect to State accounting policy and the guidance contained within the manual. However, significant change occurred with respect to procedural application of accounting policy.

Utilizing the functionality of Core-CT, procedural changes have been communicated to agencies in the form of on-line job aids within each accounting application categorized by the specific module (e.g. purchasing, accounts payable, billing, accounts receivable etc.). In addition, daily mailings update users with respect to any significant changes. Agencies also have access to a help desk as well as to on-site training.

Combining the accounting policy information contained within the existing SAM with the procedural application tools described above give State agencies exceptional guidance with respect to accounting policy and specific business operating procedures.

The last step in the process will be to cross reference the Core-CT tools within the SAM. The resource requirements of this final step are significant. At present the cost to benefit ratio has kept this from rising to a high priority item.

With respect to administration of Core-CT, the Gartner Group produced a report in February 2007 that, among its many findings, recommended elimination of the multiple 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 the Fiscal 2008-2009. 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 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 was not enacted and has been repeated within the Governor's Fiscal 2010-2011 biennial budget.

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 central accounting and reporting functions.

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."

II.A.2. Office of the State Comptroller - Inability to Provide Automated Grant Reporting Functionality:

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."

Financial reporting for Federal grant activity requires award recipients to be able to identify and report awards received and expended, with the ability to identify such activity by specific program and year.

Condition: Our current review found that the Core-CT system still has certain deficiencies in functionality that were cited in our previous reports, but never fully addressed. Previous audits 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. Our previous audit also noted a similar deficiency in the associated revenues ledger used to account for grant receivables.

Independent Public Accountant reports for the Special Transportation Fund for the fiscal years ended June 30, 2005, 2006, 2007 and 2008, 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." At the time of our review (March 2009) this condition had not been corrected.

Related to Federal grant accounting, our current audit noted that there were Federal grant award programs that were not assigned proper and distinct special identification codes that reflected the different Catalog of Federal Domestic Assistance (CFDA) numbers.

Effect: The Independent Public Accountant report stated "The effect of the condition is that grant and contract revenues for the fiscal year end June 30, 2008 and related grants and contracts receivable and deferred revenue as of June 30, 2008 had to be manually calculated."

Combining different Federal programs within a single accounting string made accounting and reporting of certain Federal grant expenditures more difficult.

Cause: The commitment control functionality of Core-CT did not contain sub-ledgers to accumulate prior year receipts and disbursements; therefore, users must obtain prior year grant balances by manually querying and accumulating the activity for each year.

User agencies did not communicate changes in CFDA numbers to the Office of State Comptroller, which assigns the special identification codes.

Recommendation: The Office of State Comptroller should provide an automated functionality for financial reporting of grant receivables, revenues, expenditures and transfers in the Core-CT system. It should also insure that all Federal grant award programs are assigned distinct special identification codes.

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."

II.A.3. Office of the State Comptroller - 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.

he Core-CT system sends to the bank a daily listing detailing checks issued. The bank is to verify checks presented for payment to the listing. In addition, the Accounts Payable Division of the Office of State Comptroller sends to the bank a daily report of the number of checks written and the total amount. The bank is required to reconcile the two reports.

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. Our current audit observed that the implementation of an automated process discussed in our prior report remains to be accomplished.

During the audited period the Office of State Treasurer has been working with the Core-CT project team to download a file of monthly bank information onto the Core-CT system. At the time of our review (March 2009) problems were still being encountered in implementing this improvement and no fully automated method has been implemented. Instead the State Treasurer is relying upon a manual alternative that uses on line access of the banks computer records. This method is more labor-intensive, and information on cleared and outstanding items is not readily available to users on the Core-CT system.

Related to this matter, our audit found that in August 2008, the Cash Management Division within the Office of State Treasurer entered a $10,343,462 net adjustment between its vendor and payroll accounts. The overall cash balance was not affected; however, the adjustment was not properly documented or explained. This was an attempt to clear out long standing differences that were never reconciled between the bank records and the Core-CT system.

Our current review also noted other matters occurring during the past year that indicated the need for further improvements in internal controls over cash activity. In November 2008, it was discovered that a Core-CT employee was able to override security procedures and change the amount of a deposit that was downloaded onto Core-CT directly from the bank. This was an identified weakness in internal controls that was subsequently corrected when it was brought to the attention of the Core-CT systems management.

In February 2009, it was found that a list of escheated checks that had previously been removed from the active file of outstanding checks was added back into the January 6, 2009 active payment information in error. We found the bank did not notice or investigate the $1,509,286 difference between the Core-CT and Comptroller's listing for the checks issued on January 6, 2009. It also came to our attention that one of the escheated checks, over four years old and listed as escheated to the State over 18 months prior, was cashed by the bank on January 6, 2009.

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.

Deficiencies in the Core-CT system have resulted in weakened internal controls over cash activity.

An escheated check was cashed in violation of established internal controls that require checks presented for payment to be matched with the file of issued and escheated checks.

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

The bank failed to investigate the difference between the issued check information provided by Core-CT and the issued check information provided by the State Comptroller.

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: "A 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. While obtaining a consistent file format from Bank of America has been a continual challenge. The files are available and accessed in the reconciliation process.

Other processing issues you sight were detected and corrected. No automated financial system will be error free. The challenge is to detect errors in a timely fashion and to ensure that they will not be repeated. We have been extremely successful in meeting this goal."

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 2006-2007 and 2007-2008
Federal Award Numbers: 05-07505CT5028 and 05-0805CT5028

Background: There are four main Automatic Data Processing (ADP) installations used to administer Health and Human Service (HHS) programs at the Department of Social Services. The Eligibility Management System (EMS) provides automated eligibility determinations for the Medicaid program, issues benefit and service payments to clients and providers, and provides management support for program administration. The Medicaid Management Information System (MMIS) is used to process payments for medical services and provides other critical administrative functions in the operation of the Medicaid program. Advanced Information System (AIM/Client Server) is used to process payments for primarily pharmaceutical claims in the operation of the Medicaid program. The Connecticut Child Support Enforcement System (CCSES) is used in the child support enforcement process where child support orders are maintained, billings are established, and collections are recorded.

Criteria: Title 45 Code of Federal Regulations Part 95 Section 621 specifies that State agencies shall review the ADP system security of installations involved in the administration of Health and Human Service (HHS) programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures and personnel practices. The State agencies shall maintain reports of their biennial ADP system security reviews.

Condition: The Department has not performed ADP system security reviews for all installations that are involved in the administration of HHS programs.

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

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

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

Agency Response: "The Department agrees with this finding. Implementation of the new MMIS "Interchange" is not yet complete. Once the Department receives certification of the system from CMS [Centers of Medicare and Medicaid Services], it will initiate development of an RFP [Request for Proposal] to procure the services of a contractor with the expertise to perform the required system review."

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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

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 Certification of MEQC System Payment Error Rate was submitted in December 2007 for the six-month review period April

2006 – September 2006. This report should have been submitted in June 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 Department is working on the overdue quality control reviews with the goal of completing the reviews and issuing the six-month report by the established deadline."

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.

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).

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.

Section 2500.2 of the State Medicaid Manual provides that the amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed. The supporting documentation should include as a minimum: date of service, name of recipient, Medicaid identification number, name of provider agency and person providing the service, nature, extent, or units of service, and the place of service. No estimated amounts should be reported.

Condition:

1. The Department could not provide to us a detailed listing of benefit payments made that agrees with the amounts on the financial reports that are used to prepare the CMS-64 report. The Department does have a data warehouse that maintains all the payments made during the fiscal year. However, we were not able to reconcile this data to the amount claimed. In February 2008, the Department implemented a new Medicaid Management Information System (MMIS). The new system was used to prepare the Form CMS-64 for the quarters ended March 31, 2008 and June 30, 2008. During those quarters the Department claimed $1,796,892,938 for fee-for-service payments. Our population for the same period, which was obtained using the Department's data warehouse, was $1,796,373,584. The data warehouse amount includes expenditures for services provided to clients who were not eligible for Medicaid. This includes expenditures for non citizens and other services paid with State funds. Based on coding information provided by the Department, the population amount was adjusted by removing payments not claimed under Medicaid. As a result, the adjusted population amount is

$1,789,415,740. We could not determine the reason for $7,477,198 difference between the amount claimed and the detailed records of payments made.

2. We reviewed the Form CMS-64 for the quarter ended March 31, 2008, and noted the following.

    a. The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet was $1,011,845,684. The correct amount is $1,013,177,909. This resulted in an understatement of $1,332,225 ($666,113 at the applicable Federal financial participation rates).

    b. The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet included an estimate of amounts paid on behalf of non-citizens. The Department reduced net expenditures by $1,150,246 for the estimated amount paid to non-citizens during the quarter.

Effect: For condition 1 and 2b, the amount claimed for Federal reimbursement was not supported by detailed records as required per Section 5200.2 of the State Medicaid Manual. For condition 2a, the Department understated the amount reported as *Medical Assistance Payments* by $1,332,225. Based on applying the applicable Federal financial participation rate, the Department understated its Federal share of Medicaid by $666,113. 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: For condition 1, the difference was caused by the Department's implementation of a new Medicaid Management Information System (MMIS) in February 2008. Due to the implementation accurate information was not able to be obtained in a timely manner. For condition 2a, the errors appear to be clerical errors that went unnoticed during the supervisory review process. For condition 2b, the actual amount of payments made to non-citizens was not available at the time the Form was submitted. The delay in obtaining actual amounts was caused by the Department's implementation of its new Medicaid Management Information System.

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) compute the correct Medicaid grant award and should ensure that details supporting the amounts reported on the Form CMS-64 are readily available.

Agency Response: "The Department agrees with this finding. For condition 1: We are reviewing this finding and researching the availability of information now that the new MMIS system is in place. Any applicable/necessary adjustments will be made to the CMS-64.

For condition 2a: An adjustment of the understated $1,332,225 ($666,113 based on 50 percent FFP [Federal financial participation]) will be made on Form CMS-64 for quarter ending March 31, 2009.

For condition 2b: We are reviewing this finding and researching the availability of information now that the new MMIS system is in place. Any applicable/necessary adjustments will be made to the CMS-64."

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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

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, 2008. 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, 2008, the Department claimed for Federal reimbursement of $38,369,800 ($19,184,900 at the 50 percent Federal reimbursement rate) 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 <u>Medicaid and School Health: A Technical Assistance Guide</u>, 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 <u>Medicaid School-Based Administrative Claiming Guide</u> 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. We did not determine total questioned costs because of the amount of time and effort that would be needed to review the documentation that would be necessary to calculate an appropriate amount of questioned costs.

Cause: The Department 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 December 2008, the Department did not complete its review of the rate information provided by the consultant.

Recommendation: The Department of Social Services should develop new rates for claiming school-based health costs under the Medicaid program. 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 disagrees with this finding. The Department is reviewing SBCH cost and statistical data on file with the Department as well as data and analyses developed by a contract consultant. It is expected that interim rate replacements will be completed by April 30, 2009. Upon final computation and issuance of rates for these periods, documentation will be available to demonstrate that indirect cost allocations are consistent with OMB Circular A-87 and guidance from the Federal Centers for Medicare and Medicaid Services."

Auditors' Concluding Comment: The Department has agreed with this finding over the past three years. As the agency response states, documentation <u>will be available in the future</u>, but it has not been made available to us yet. Also, the new rates have not been completed.

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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

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 April 30, 2008. 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 3,505 out of 167,102 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 3,505 clients during the pay cycle, was $2,270,012. We selected ten clients to determine whether the social security numbers were included in MMIS as a verification of the file obtained from the data warehouse. The total payment made on behalf of these ten clients was $770.

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 (IEVS) to verify eligibility using wage information available from such sources as the agencies administering State unemployment compensation laws, Social Security Administration, and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits.

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

Condition: Our review disclosed that the SSN was not entered into EMS in all ten cases tested. However, three of the clients were newborns so the Department was not yet required to have obtained a SSN.

Effect: Without entering the SSN into EMS, the Department is not able to use the IEVS 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. The Department has developed and distributed a report to the regional offices of Medicaid recipients without a SSN and asked that the numbers be extracted from the paper files and updated to the Eligibility Management System (EMS). In many cases, the client has reported the SSNs to the Department on their redetermination form but the Department has not updated the automated system with this information. We have also submitted information technology work requests to modify EMS to include an edit that will require the updating of missing SSNs in order to complete a redetermination, as well as a request for a special notice to be mailed to clients that have family members without a SSN requesting that they provide the numbers. Competing priorities in our ITS [Information Technology Services] division have delayed the implementation of these changes.

When reviewing the missing SSN reports, it was also discovered that several of missing SSNs were for children in the care of the Department of Children and Families (DCF). The Department is working with DCF and the Social

Security Administration to secure the capacity to extract the SSNs for these children from SSA's enumeration database, since the parents of these children are oftentimes not willing to cooperate with DCF in providing the information.

The Department will again issue a reminder to regional office eligibility staff to update the SSN at time of redetermination, especially for newborns at the end of their one year period of deemed eligibility. We will also continue to generate missing SSN reports with the hope of significantly reducing or eliminating missing numbers in the future."

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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

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 performed procedures using audit software to review the validity of the data included in the file. This file had 384,270 unique client identification numbers. The Department assigns each client an identification number at time of eligibility. We extracted from the file payments for each service month 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 93 such clients. Each of these 93 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 three of these clients were listed on the file more than once. As a result, our review disclosed that the monthly payments made to the MCOs during the fiscal year ended June 30, 2008, included duplicate payments totaling $274. Some of the payments tested consisted of monthly capitated rates paid for medical services and administrative costs, and some of the payments tested were monthly capitated rates paid only for administrative costs.

The Department was aware of two of the duplicate clients for which $202 of duplicate payments were made. However, the Department did not credit the Federal government for these overpayments.

Effect: Based on the 50 percent Federal financial participation rate, the Department improperly claimed $137 for Federal reimbursement under the Medicaid program. We consider these payments to be unallowed under the Medicaid program.

Cause: The duplicate client identification numbers appear to be oversights by the Department's eligibility workers. In addition, the Department has 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. The Department continues to generate the Duplicate SSN [Social Security Number] Recipient Report to the regional offices on a monthly basis. This report was developed in response to this finding last year and is being used to quickly identify and correct the errors when a duplicate Client ID is assigned to the same client. It is also used to correct the SSNs of individuals whose number has been recorded incorrectly. We have seen a significant reduction in the size of this report but continue to have duplicate records due to errors made by workers in the Name Clearance process when assigning client identification numbers in EMS [Eligibility Management System]. We will again remind staff of the need to be very careful not to assign a duplicate ID when performing that function and we will continue to monitor the existing reports to assure that action is being taken to correct duplicate participation records.

Instructions have been issued to the regional offices to notify HUSKY managed care staff when they encounter a client with duplicate participation so that adjustments can be made to the managed care provider reimbursement."

III.A.7. 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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

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.

The Department of Developmental Services had master contracts with the private agencies to provide residential services to the waiver clients. Payments to the providers were made monthly based on the contracted amount. Medicaid claims were submitted by the Department of Administrative Services when the providers submitted the client's monthly attendance report. During the review, we noted that two clients did not receive services on the dates that Medicaid services were billed.

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 $26,700. This sample was randomly chosen from all DDS waiver expenditures claimed for Federal reimbursement totaling $478,490,267. Our review disclosed the following two exceptions:

1. The Medicaid program was billed for $45 for waiver services which the client did not receive. The Medicaid program was billed for services for a period of 30 days but the correct number of days of service is 29 days.

2. The Medicaid program was billed for $5,700 for residential services for the period November 1, 2007 to November 30, 2007, which the client did not receive. The performing provider's attendance report showed that the client was not at its facility during this time period. A review of the client's individual plan and services file showed that the client was discharged from the Home and Community Based Waiver on May 8, 2007, to move into a nursing facility due to a health problem. A review of the client service claims showed that the nursing facility also received payment for the client's stay at the facility in November 2007.

Effect: Unallowable expenditures totaling $5,745 ($2,872 at the 50 percent Federal reimbursement rate) were claimed for Federal reimbursement under the Medicaid program.

Cause:

1. 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.

2. Billing for waiver residential services while the client had been discharged from the waiver was likely due to the delay in processing waiver discharge paperwork.

Recommendation: The Department of Developmental Services should ensure that the information entered into the Medicaid Management Information System (MMIS) is correct.

Agency Response: Response provided by the Department of Developmental Services (DDS):

"The billing was recouped and is shown in the RA [Remittance Advice] dated February 10, 2009. The new web-based billing system will prevent errors such as this."

Response provided by the Department of Social Services:

"As reported by DDS, DDS agrees with this finding. DDS implemented automated billing systems for both the public and private sectors. These new systems should greatly reduce billing errors."

III.A.8. Special Tests and Provisions – Managed Care

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Background: The Department requires its Managed Care Organizations (MCOs) to maintain a provider network capable of delivering or arranging for the delivery of all covered health goods and services to all members. In order to monitor MCOs access to care for all enrollees, the Department prepares a monthly Enrollment Cap and quarterly Primary Care Provider (PCP) Ceiling reports.

Enrollment Cap: The Department obtains statistical data related to the MCOs' providers and enrollees. The information is sorted by provider category and by county. The Department uses certain ratios and data to calculate enrollment cap for each provider category. If the enrollment is at or above 90 percent, the Department would notify the MCOs that the number of providers for that county need to be increased within 30 days. If the enrollment is at or above 90 percent, the Department freezes the particular county until the MCO provides sufficient number of providers.

PCP Ceilings: The MCOs report quarterly on the number of clients enrolled in each PCP. The Department aggregates the reports and prepares a PCP Ceiling Report quarterly. The Department has placed a limit of 1,200 Medicaid managed care enrollees for each PCP. If the PCP is over the limit, the Department requests the applicable MCOs to resolve the issue.

Criteria: Section 1915(b) (1) of the Social Security Act (Managed Care Waiver) allows the State to implement a primary care case-management system or a specialty physician services arrangement which restricts the provider from whom an individual eligible for medical assistance under this title can obtain medical care services (other than in emergency circumstances), if such restriction does not substantially impair access to such services of adequate quality where medically necessary.

Condition: The Department prepares a monthly Enrollment Cap report and quarterly

PCP Ceiling report to monitor MCOs in order to ensure clients access to care. The Department had stopped issuing Enrollment Cap reports in December 2007.

The Department prepared only two of the four quarterly PCP Ceiling Reports. Our review of these two reports disclosed that for one report the Department did not have documentation to support the Department notifying the applicable MCOs that they exceeded the enrollment limit of 1,200 beneficiaries per provider. For the second report, we noted that the report did not provide the appropriate information to determine which PCPs are over the 1,200 limit.

Effect: The Department did not have procedures in place to provide reasonable assurance that clients have proper access to care.

Cause: We were informed that staffing availability was limited for ensuring clients have access to care due to addressing issues related to the new Medicaid Managed Information System (MMIS). The new system was initiated in February 2008.

Recommendation: The Department of Social Services should implement procedures to ensure clients of the managed care program have proper access to care.

Agency Response: "The Department agrees with this finding. This finding was the result of multiple competing priorities related to the temporary restructuring of the program (MCO to PIHP [Prepaid Inpatient Health Plan]), followed by the re-procurement of the MCO contracts and transition back to MCO, as well as other tasks. Additionally, some of the information needed for the reports was not readily available for the portion of HUSKY A managed care clients that were placed in traditional Medicaid.

The Department resumed doing the Enrollment Cap reports in July 2008 with the start of the new MCO contracts. Now that the transition of HUSKY A members into the new MCOs has been completed, the Department has also resumed the quarterly PCP Ceiling reports."

III.A.9. Special Tests and Provisions – Provider Eligibility

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Background The Department of Social Services contracts with three access agencies to coordinate services available under the Home and Community-Based Services Waiver. Access agencies are organizations which assist individuals in receiving home and community based service by conducting assessments and developing plans of care tailored to the needs of the individuals, and making arrangements with service providers. If needed by the individuals the access agency shall also coordinate services and monitor the quality of the services over an extended period, but the access agency shall not be a provider of services, other than care management, to individuals for whom the agency has conducted the assessment. The access agencies enroll providers of home and community-based services to participate in the program. The Department claimed $108,869,885 ($54,434,942 at the 50 percent Federal reimbursement rate) under the Home and Community-Based Services Waiver during the fiscal year ended June 30, 2008.

Criteria: Title 42 Code of Federal Regulations (CFR) Section 455 Subpart B provides that a Medicaid agency must require each Medicaid provider (other than an individual practitioner or group of practitioners) or a fiscal agent to disclose the following information before entering into a contract or agreement to participate in the program:

- The name and address of each person with an ownership or control interest in the disclosing entity or in any subcontractor in which the disclosing entity has direct or indirect ownership of 5 percent or more;
- Whether any of the persons named above is related to another as spouse, parent, child, or sibling;
- The name of any other disclosing entity in which a person with an ownership or control interest in the disclosing entity also has an ownership or control interest; and
- The identity of any person who has ownership or control interest in the provider, or is an agent or managing employee of the provider and has been convicted of a criminal offense related to that person's involvement in any program under Medicare, Medicaid, or the title XX services program since the inception of those programs.

Condition: The access agencies do not request that all home and community-based providers disclose all information that is required under Title 42 CFR Section 455 Subpart B prior to enrolling them to participate in the Medicaid Program.

Effect: The Department is not in compliance with Title 42 CFR Section 455 Subpart B.

Cause: The access agencies, which enroll home and community-based providers to participate in the Medicaid Program, were not aware of the information that they were required to collect prior to entering into a contract or agreement with the providers.

Recommendation: The Department of Social Services should ensure that all required disclosures are obtained from providers enrolled with the access agencies prior to entering into an agreement with them to participate in the Medicaid Program's Home and Community-Based Services Waiver.

Agency Response: "The Department agrees with this finding. The Department submitted a change request to EDS [Electronic Data Systems]. It is requested that CHCPE [Connecticut Home Care Program for Elders] performing provider enrollment procedures be changed to match the requirements for other provider types and specialties, which includes filling out the entire application and capturing the appropriate disclosures described in Title 42 CFR Section 455 Subpart B."

III.A.10. Special Tests and Provisions – Hospitals and Long-Term Facilities Audits

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Criteria: Title 42 Code of Federal Regulations Part 447 Section 253 requires that the State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements should be established by the State Plan.

The audit requirements of Long-Term Care Facilities (LTCFs) are contained on Page 23 in Attachment 4.19-D of the State Plan. The State Plan provides that the per diem rate of payment established for LTCFs shall be determined by desk review of the submitted annual report which shall subsequently be verified and authenticated by field audit procedures which are approved by the United States Department of Health and Human Services. Facilities shall generally be audited on a biennial basis. This audit cycle may be changed based upon audit experience.

Condition: The Department did not obtain audited cost reports for the State's inpatient hospitals during the audited period. The last audited report received was for the 2004-2005 fiscal year. In addition, the State Plan does not include the Department's procedures related to periodic audits of financial and statistical records of hospital providers.

We noted that the Department does not perform field audits of all LTCFs. The Department, however, performs field audits of LTCFs based on risk.

Effect: For inpatient hospitals, the Department has lessened its assurance that rates used to pay for inpatient hospital services are based on cost information that is complete, accurate and reasonable.

For LTCFs, the Department is not complying with the State Plan.

Cause: The Department did not amend the State plan to establish audit procedures for inpatient hospital providers. In addition, the Department did not consider the need to obtain audited cost reports.

We were informed that there are not enough audited hours for an outside consultant to conduct field audits of all LTCFs. Further, the Department did not consider the need to amend the State Plan to include its current audit procedures.

Recommendation: The Department of Social Services should amend the Medicaid State Plan to establish and implement audit procedures for inpatient hospitals, and also should obtain audited cost reports from inpatient hospital providers. In addition, the Department should comply with, or amend, the Long-Term Care Facility auditing procedures in the Medicaid State Plan.

Agency Response: "The Department both agrees and disagrees with this finding. The Medicaid State Plan relating to rate setting for inpatient hospital services does not address cost report audits. In reviewing State Plan Amendments submitted by the Department, CMS [Centers of Medicare and Medicaid Services] has not required that audit policies be included in the Plan, however, State regulations, Sec. 17-312-105(g), includes field audit provisions. Based on this, the Department will add audit provisions with its next proposed State Plan amendment.

With regard to the Long-Term care auditing procedures in the Medicaid State Plan, the Department does not believe that a change to the audit section is necessary. Attachment 4.19 of the State Plan states: "This audit cycle may be changed based upon audit experience." The audit selection process that the Department employs for long term care facilities is consistent with the plan."

Auditors' Concluding Comment: Our audit disclosed instances in which field audits of some facilities have not been done for over ten years.

III.A.11. Allowable Costs/Cost Principles - Overpayment

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

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

Condition: We randomly sampled 80 fee-for-service payments totaling $22,822 made to providers. This amount was selected from an audit population totaling $2,626,187,877. Our review disclosed that one payment in which documentation did not support the service that was paid. The provider billed the Department $98 for family psychotherapy. However, it appears that the client actually received individual psychotherapy for which the fee is $82. This resulted in an overpayment of $16.

Effect: Based on the 50 percent Federal financial participation rate, this error resulted in questioned costs totaling $8.

Cause: It appears to be a clerical error made by the provider.

Recommendation: The Department of Social Services should recoup the improper payment made to the Medicaid provider.

Agency Response: "The Department agrees with this finding. The $8 questioned cost will be recouped. The Department believes that it has adequate payment review procedures to identify overpayments."

III.A.12. Eligibility – Inadequate Documentation

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Background: Individuals are required to submit a written application for medical assistance as a condition of receiving Medicaid benefits. Eligible recipients are also required to complete a redetermination form annually, which is used by the State to redetermine the eligibility of Medicaid recipients. The State maintains case files for each client. The application and redetermination forms are to be maintained in the recipient's case record along with any documentation in support of the Medicaid agency's decision on the eligibility determination.

Criteria: Title 42 Code of Federal Regulations (CFR) Part 440 Section 916 specifies that the State must require a written application from the applicant, an authorized representative, or, if the applicant is incompetent or incapacitated, someone acting responsibly for the applicant.

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

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

Condition: The Department claimed for Federal reimbursement payments made to fee for services providers and payments made to managed care organizations totaling $3,416,222,510 and $396,235,887, respectively. We randomly selected 20 payments totaling $8,574 made to fee for services providers and 40 payments totaling $4,333 made to managed care organizations. Our review disclosed the following:

1. In two cases, the Department was not able to locate the clients' case files. As a result, we were not able to test the Medicaid eligibility of these clients, including whether the client submitted a written application.

2. In two cases, there was an indication in the Department's Eligibility Management System (EMS) that a redetermination document had been completed. However, the documents were not in the clients' case files for our review.

3. In one case, the eligibility redetermination was not performed in a timely manner to cover the date of service that was selected for testing. There was no indication in EMS that a redetermination was done and there was no redetermination form in the client's case file.

Effect:

1. Benefit payments in the amounts of $18 and $110 that were claimed for

Federal reimbursement were not properly documented. Based on the 50 percent Federal financial participation rate, these two payments resulted in questioned costs totaling $64. These payments were selected from the population of payments made to managed care organizations.

2. The Department was not in compliance with the Federal regulation that requires the State to maintain documentation in the client's case file to support its decision related to Medicaid eligibility. In addition, without the redetermination form, we were not able to substantiate whether there were any changes to the eligibility information that would have affected the clients' eligibility status.

3. The Department was not in compliance with the Federal regulation concerning the performance of annual eligibility redeterminations of Medicaid clients. In addition, without performing annual eligibility redeterminations, changes in client eligibility status might go unnoticed.

Cause:

1. The Department was unable to locate the files.

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

3. The Department could not explain why this redetermination was not completed.

Recommendation: The Department of Social Services should maintain all Medicaid case files and original documentation in a readily reviewable form and ensure that annual redeterminations are performed in a timely manner.

Agency Response: "The Department agrees with this finding. However, there is evidence in the Department's Eligibility Management System narrative that redeterminations were completed in two of three cases. The Department is in the process of planning and developing a document management system which will eliminate the administrative burden of paper files. When implemented, this will eliminate the problem of mis-filed paper records and all records will be readily available electronically.

The Department does not dispute the finding of the one case where the redetermination was not completed. Regional office management is following up to determine why this was not done and appropriate corrective action will be taken."

III.A.13. Eligibility – Inadequate Documentation

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

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." These criteria are described in official policies and regulations.

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: We randomly selected 40 benefit payments totaling $18,423 made on behalf of TANF recipients from a total of 254,686 claims totaling $90,679,192. These payments consisted of Federal Only and Commingled Federal/State funds. Of this $90,679,192, $16,166,616 (or 18 percent) was claimed as direct Federal expenditures and $74,512,576 (or 82 percent) was made with Commingled funds. The Department does not identify which clients are being claimed under TANF and which clients are being paid with Commingled funds.

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 two recipients. In addition, the Department's eligibility workers did not sign the completed eligibility documentation in five 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.

Effect: If eligibility determinations and redeterminations are not adequately performed, the Department cannot ensure that applicants are eligible and/or continue to be eligible for TANF assistance. As a result, overpayments may be made.

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 agrees with the findings. We will advise regional office management of the findings and ask that they assure that controls are acted on to insure that TFA [Temporary Family Assistance] redeterminations are completed as required by our State regulations."

III.A.14. 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 2006-2007
Federal Award Number: G0701CTTANF

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. This section further provides that the State must provide information about the State's programs for which the State claims MOE expenditures.

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

Attachment B provides that Line 6, *Total State Expenditures for the Program for the Fiscal Year*, of the Annual Report on State Maintenance-of-Effort Programs should include the total dollar amount of non-Federal funds spent to pay for the benefits or services provided through the particular State program during the Federal fiscal year, regardless of whether such expenditures were claimed as MOE.

Condition: We reviewed the Department's Annual Report on TANF Programs for Federal fiscal year 2006-2007 and noted the following:

- The Safety Net Services Program was reported in Section 8a, *Programs and Activities Directed at Preventing and Reducing Out-of-Wedlock Pregnancies* (TANF Purpose 3); however, the Program is designed to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage (TANF Purpose 2).

- The Department of Education's Priority School Districts Grant was included in Section 8a but was not included in Section 8b, *Programs and Activities Directed at Formation and Maintenance of Two-Parent Families* (TANF Purpose 4); however, expenditures are partially claimed under this TANF Purpose.

We reviewed the Department's Annual Report on State Maintenance-of-Effort Programs for Federal fiscal year 2006-2007 and noted the following:

- Our review disclosed that Line 6 of Section 7 *Jobs First Employment Services*, Section 11 *Child Care Assistance Program – Employed Individuals*, and Section 12 *Child Care Assistance Program – Unemployed Individuals* did not include all State expenditures incurred for these programs as required per Program Instruction TANF-ACF-PI-01-06. The State expenditures that were not included consisted of the State's 50 percent share of the Federal Child Care Matching Fund program's expenditures. As a result, the expenditure amounts reported on Line 6 in Section 7, Section 11, and Section 12 were understated by \$3,681,185, \$13,191,695 and \$625,235, respectively.

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 adequate procedures to obtain or maintain adequate documentation to support the information being reported.

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

Agency Response: "The Department disagrees with this finding. The Safety Net Services Program and Department of Education Priority School District Grants were identified by reference as meeting more than the one TANF Purpose shown in the annual report in the language preceding the individual sections referenced, which reads.

"(8) Summary of State Programs and Activities Directed at 3rd and 4th Statutory Purposes of TANF (Federal fiscal year 2007)"
"Note: some of the programs and activities described below also meet the first and/or second statutory purposes of TANF. Also, some programs are simultaneously directed at statutory purposes 3 and 4."

The Safety Net Services program activities help to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage. Some of these same program activities help prevent the incidence of out-of-wedlock births.

The Department of Education Priority School District Grant identifies in Section 8 of the Annual Report that the program meets both purposes 3 and 4 – "The services provided help prevent the incidence of out-of-wedlock births and to promote the formation and maintenance of two-parent families." The language immediately following the section title identified that some the programs shown in Section 8 "are simultaneously directed at statutory purpose 3 and 4." The intent was to eliminate the redundancy in language as allowed by reference per CFR 265.9(d).

The Department does agree that Line 6 of the Maintenance of Effort Report for the Total State Expenditures relating to Section 7, 11, and 12 did not include additional State (non-Federal) dollars spent through CCDF Mandatory, CCDF Matching and CCDF Discretionary Funds. These expenditures are, however, accurately reported and included in the CCDF fiscal reports(s) submitted to DHHS[Department of Health and Human Services]. This reporting error is the result of interpretation of the language in an audit finding from Federal fiscal year 2003-2004 that conflicts with the 2007 finding. The Federal fiscal year 2007 audit finding indicated that the (6) Total State Expenditures for the program and (7) Total State Expenditures claimed as MOE were to be equal for each child care program. The recalculation of expenditures did not include the Total State Expenditures and any additional CCDF funding amounts beyond what was dually claimed for TANF and CCDF. The Department's procedures and documentation are adequate to provide the required information. The interpretation for what is required to be shown in the TANF MOE Report of total expenditures excluded the additional non-TANF, non-dually claimed CCDF dollars."

Auditors' Concluding Comment: Subsection (d) of 45 CFR 265 allows those states that submitted the information required in subsection (b) and (c) of 45 CFR 265 in the State Plan or if the information in the annual report has not changed since the previous annual report, the states may meet the annual reporting requirements by reference in lieu of re-submission. However, the Report does not reference the State Plan or the previous Annual Report as indicated per Subsection (d). Further, the use of an all inclusive statement that indicates that some of the 18 programs listed in Section 8a of the Report meet more than one TANF purpose does not provide sufficient information that specifically identifies the TANF purpose that is being met.

III.A.15. Allowable Costs/Cost Principles - Overpayments

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

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." These criteria are described in official policies and regulations.

Uniform Policy Manual (UPM) Section 8520.35 states that, "when eligibility has been determined to no longer exist, the ending date of eligibility is the last day of the last month during which eligibility existed. Benefits paid to the assistance unit after the ending date of eligibility result in an overpayment and are subject to recoupment."

Condition: We randomly selected 40 benefit payments totaling $18,423 made on behalf of TANF recipients from a total of 254,686 claims totaling $90,679,192. These payments consisted of Federal Only and Commingled Federal/State funds. Of this $90,679,192, $16,166,616 (or 18 percent) was claimed as direct Federal expenditures and $74,512,576 (or 82 percent) was made with

Commingled funds. The Department does not identify which clients are being claimed under TANF and which clients are being paid with Commingled funds. Our review disclosed the following:

In two instances, the Department did not attempt to recover benefits that were improperly paid to recipients who were not eligible for TANF assistance because of exceeding applicable income limits, as follows:

- In the first case, a benefit payment of $659 was made for the month of September 2007 even though benefits should not have been paid beyond the month of August 2007. In addition, the Department closed the assistance unit during October 2007; however, benefits of $659 per month for October and November 2007 were paid with a receivable established to recover the benefit paid for the month of October 2007 only. The Department did not create receivables for the overpayments made in either September or November 2007. The benefit payments for the months of October and November 2007 were not in our original audit sample.

- In the second case, a benefit payment of $457 was made for the month of January 2008 even though benefits should not have been paid beyond the month of December 2007. In addition, the Department did not close the assistance unit until April 2008 and benefits of $457 per month for February and March 2008 were paid. The Department did not create receivables for the overpayments made in January, February and March 2008. The benefit payments for the months of February and March 2008 were not in our original audit sample.

Effect: Receivables were not established for overpayments totaling $1,116 related to the sample payments tested and $1,573 not related to the sample payments tested. If such payments were recouped they could have otherwise been respent to provide assistance payments.

Cause: The Department did not follow its procedures for establishing overpayments for payments made after the ending date of eligibility.

Recommendation: The Department of Social Services should follow established procedures to ensure that benefit payments made under the Temporary Assistance for Needy Families program are discontinued when the period of eligibility expires and recoupments or overpayments are pursued.

Agency Response: "The Department agrees with this finding. The Department will advise regional management of the finding and advise them to assure that receivables are established for all months of benefit overpayments."

III.A.16. Allowable Costs/Cost Principles – Department of Correction

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award 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 help 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 March 31, 2008, the Department of Social Services claimed under TANF $1,757,534 and $561,187 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. The Addiction Services Unit compiles population statistics from monthly facility reports which are also used to document child dependent status for TANF purposes. A review of these records for the quarter ended March 31, 2008, disclosed the following:
   a. There were numerous posting and recording errors including omissions and double posting of entries.

b. There were inconsistencies in the way some facilities accounted for dependent status on a monthly report which was designed to indicate dependent status as either yes or no as follows:
   i. Some facilities reported only on a positive basis when there were dependents.
   ii. Some facilities used a classification of N/A (not available) which in some cases did not clearly document if a dependency status inquiry was made.
   iii. Several reports included no notations what so ever concerning dependency status as if questions on dependent status had not been asked.

2. One educational cost center reported for TANF reimbursement included the salary charges of a facility administration secretary which were inappropriately included in this cost center.

3. The Department of Correction receives telephone commissions of $87,500 quarterly or $350,000 annually from the Department of Information Technology for prison phone calls made by inmates. These commission payments are authorized under Section 18-81x of the General Statutes and these funds have been used to expand inmate education services by applying these receipts as a reduction of educational expenditures.

   Our review disclosed that for the quarter ending March 31, 2008, the Department did not properly adjust the education services costs claimed for Federal reimbursement for telephone commissions that the Department received. The quarterly telephone commission received was deducted twice from the education services costs that were reported. Our review of the remaining three quarters disclosed errors in two quarters. In these two quarters, the telephone commissions that were received were deducted from costs incurred for administering the education services program. Telephone commissions received consist of State funds and are used by the State to budget for a portion of the costs incurred for administering the education services program. Thus, these costs should be included with the costs claimed for Federal reimbursement.

Effect:

1. Without accurate records and supporting documentation of population reporting records, addiction services cost allocations for TANF reimbursements cannot be relied on.

2. Unallowable costs for the facility administration secretary salary of $40,404 were reported for TANF reimbursement for the fiscal year ended June 30, 2008.

3. Total educational services costs reported for fiscal year ended June 30, 2008, were understated by $350,000.

Cause:

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

2. The facility administration secretary had been coded to the wrong cost center.

3. The Department's procedures did not properly account for telephone commissions.

Recommendation: The Department of Correction should improve its operations to ensure that accurate statistics and costs are used to calculate Federal Temporary Assistance for Needy Family program reimbursements.

Agency Response: Response provided by the Department of Correction:

"Condition 1: Reporting errors in the quarter ending March 31, 2008.
We agree with this finding.
In a format designed to gather responses as "yes" or "no" as to whether an inmate has dependent children under the age of 18, inconsistent reporting resulted when the inmate refused to answer. The recordkeeping element of this finding was corrected with the implementation of a new reporting system that was implemented for reporting TANF eligible inmates for the quarter ending June 30, 2008. Corrected data has been provided to Department of Social Services.

Condition 2: Reporting of the facility administration secretary as an education expense.
We agree with this finding.
Account coding for this position has been corrected, and adjustments made for the period covered.

Condition 3: Improper accounting for telephone commissions used to expand educational services.
We agree with this finding.
Correct entries for commissions will be added to cost reports used for TANF reporting."

Response provided by the Department of Social Services:

"As reported by the Department of Correction, the Department of Correction agrees with this finding. The Department of Social Services agrees with the Corrective Action Plan(s) outlined by the Department of Correction to resolve the issues. The Department adjusted the September 30, 2008, TANF quarterly filing (filed November 21, 2008) to address the three conditions identified."

III.A.17. Allowable Costs/Cost Principles – Judicial Department

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

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: Office of Management and Budget Circular A-87 provides that indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved. Our review of two Alternative to Detention Program (ADP) providers disclosed the indirect cost rate was applied to all personnel and other administrative direct costs. Other administrative costs include medical costs, which are not allowable for reimbursement under the TANF program.

Additionally, insufficient information was provided to us to allow us to determine if the personnel costs included costs associated with 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 considered by the Department. Thus, the costs associated with residential services should be excluded from the TANF claim.

Effect: The ADP providers applied the indirect cost rates to all personnel and other administrative direct costs. However, the other administrative costs were not applicable to the ADP program that applies to TANF Purpose 3. Applying the indirect cost rate to all other administrative direct costs resulted in costs totaling $71,830, which we question because those costs were not applicable to the ADP program that applies to TANF Purpose 3. However, despite the fact that the Department did not claim the direct other administrative costs incurred under the ADP program, the Department did claim the related indirect costs for Federal reimbursement.

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 unallowable costs.

Agency Response: Response provided by the Judicial Department:

"We do not agree with this finding. The Branch did follow the Inter-Agency TANF Claiming Procedure Manual developed by the Department of Social Services. As was required by this policy the submittal by the Branch to DSS did not include unallowable medical costs and costs associated with residential services of the Alternative to Detention Program. CSSD [Court Support Services Division] also complied with these procedures from the standpoint of July 2008 Administrative and General costs.

The unique nature of the ADP programs and how they should be treated from the standpoint of TANF was specifically referenced in early correspondence between CSSD staff and MAXIMUS. Please see the attached email exchange between CSSD staff and MAXIMUS dated December 2003 wherein clarification of this particular claiming procedure is sought and provided. At that time it was agreed that, "For the ADP contracts that have only residential clients, the following budget line expenditures will be totally backed out: supplies, equipment, contractual, facilities, and other. Reason for that being that each of those lines contains costs associated to residential services and/or medical. Personnel, travel, and the indirect line expenditure *totals* will be reported."

It was also previously established that staff responsibilities rather than shift assignment determined whether or not a position could be claimed to TANF. Therefore, given the nature of their job duties regardless of shift assignment the program positions were not considered medical or residential in nature and therefore could be included in the TANF claim.

Also and by definition under the Cost Standards issued by the Office of Policy and Management September 1, 2006, Administrative and General Costs [formally termed Indirect Costs], "..are those that have been incurred for common or joint objectives and cannot readily be identified with a particular final cost objective….A&G [Administrative and General] is defined as those costs that have been incurred for the overall executive and administrative offices of the organization or other expenses of a general nature that do not relate solely to any major cost objective of the organization. They are costs that by their nature are administrative in support of the overall organization." This A & G cost definition was in effect for the July 2008 fiscal year in all contracted programs. The concept of "Indirect Costs" as a general percentage of the overall budget was no longer applicable. Within the initial guidelines we were instructed to follow as well as the nature of this expense during the fiscal year under discussion these costs were eligible for inclusion in their entirety.

Lastly, please let it be noted that ADP and CDC contracts were audited in prior fiscal years by multiple auditors and the condition that is a part of this finding was never an issue."

Response provided by the Department of Social Services:

"As reported by the Judicial Department Corrective Action Plan, the Judicial Department did not agree with this finding. Judicial did follow the Inter-Agency TANF Claiming Procedure Manual developed by the Department. As required, the submittal by Judicial to the Department did not include unallowable medical costs and costs associated with residential services of the Alternative to Detention Program. Judicial also complied with these procedures from a standpoint of the July 2008 Cost Standards for Administrative and General costs.

The Department is reviewing the Judicial Department response further at this time to ensure that there is a common understanding of the claiming procedures as they relate to indirect costs for the ADP claims."

Auditors' Concluding Comment: The response from the Judicial Department references a memo which suggests that certain costs of a program designed for residential clients only may be charged to the ADP program that applies to TANF. The Inter-Agency TANF Claiming Procedure Manual states that "CSSD will need to exclude all costs associated with residential services for the providers that have only residential clients." Some of the salary costs apply to personnel who work night and overnight shifts. Such salaries, along with other administrative costs that are not contractual medical costs, appear to constitute residential services which cannot be charged under TANF Purpose 3. Likewise, the indirect costs associated with such unallowable direct salary and other administrative costs cannot be charged under TANF Purpose 3. As stated above, such costs may be charged to TANF Purpose 1, but other conditions must be met in order to do so.

III.A.18. Allowable Costs/Cost Principles – Judicial Department Monitoring of Vendors

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

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, costs incurred for the Alternative Incarceration (AIC), Multi-Systemic Therapy (MST), and Court Based Juvenile Assessment Services (CBJAS) programs were determined to be eligible for Federal TANF reimbursement.

The providers of AIC, MST, and CBJAS programs are responsible for compiling the TANF eligibility information of clients recommended to them by the Judicial Department. The providers are not contracted to determine the TANF eligibility rate upon intake but are doing so at the request of the Judicial Department. The providers submit quarterly TANF Eligibility Summary Reports to the Judicial Department, which show the number of eligible, ineligible, unknown, and total clients, as well as a calculated TANF eligibility rate. The Judicial Department's current procedure is to recalculate the TANF eligibility rate on the form and submit the information to DSS for reimbursement purposes.

Criteria: Subsection (f) of Section 210 of the Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-profit Organizations provides that the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance.

Condition: Four of five providers tested are not monitored by the Judicial Department for TANF eligibility determination. The Department only verifies that the calculated rates submitted to them by the providers are correct.

Effect: Inaccuracies in TANF eligibility determination can result in over or under claims of reimbursement reported to DSS.

Cause: The Judicial Department does not review the providers' records of TANF eligibility to verify whether the eligibility for the clients was determined accurately.

Recommendation: The Judicial Department should establish procedures to monitor the providers' determinations of Temporary Assistance for Needy Families eligibility of clients.

Agency Response: Response provided by the Judicial Department:

"We do not agree with this finding to the extent that we did follow the Inter-

Agency TANF claiming Procedure Manual, however, we do agree that it would be a sound business practice to implement. Therefore, the Branch will establish procedures to assist in monitoring the providers' determinations of TANF Eligibility of clients by incorporating said procedure into the current tasks of the Compliance Specialists who already monitor Judicial funded programs. The procedure will be two-fold. The Compliance Specialist will perform, as part of their periodic review of program files, an additional step to check that the TANF Eligibility Forms and Summary Reports are completed and on file. Then he/she will confirm with the Program Director that all required staff are familiar with and fully understand how to complete the forms and summary reports and that any questions involving these forms can be referred to the CSSD [Court Support Services Division] Grants and Contracts Unit."

Response provided by the Department of Social Services:

"As reported by the Judicial Department Corrective Action Plan, the Judicial Department did not agree with this finding. Judicial did follow the inter-Agency claiming Procedure Manual, however, Judicial agrees with the recommendation that it should establish procedures to monitor the providers' determinations of TANF eligibility for clients.

The Department agrees with the Judicial Department's response."

III.A.19. Allowable Costs/Cost Principles – Department of Children and Families

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2007-2008
Federal Award Number: G0801CTTANF

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

As part of the operations of the State's Department of Children and Families (DCF), certain services provided to clients were claimed for Federal reimbursement under TANF purpose number one, which is to provide assistance to needy families so that children may be cared for in their homes or in the homes of relatives.

DCF requires its providers to complete a TANF Eligibility Determination/Re-Determination Form for each client. These forms are used to compile statistical data to support the amount that is claimed for reimbursement.

Criteria: 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: We reviewed five provider payments totaling $478,889. Of this amount $341,249 was claimed for Federal reimbursement under the TANF program for the quarter ended March 31, 2008, based on eligibility statistics compiled by the providers. Our review disclosed the following:

- For one transaction in the amount of $127,273, no documentation to support the eligibility rate was on hand.

- For three transactions in the amounts of $14,685, $20,343 and $146,983, respectively, no detailed listings of clients to support the eligibility rates were on hand. In addition, the supporting eligibility determination forms did not match the eligibility rates reported. In two instances, the number of eligibility determination forms was greater than the number of clients reported as served and we could not determine which clients received services during the period under review. In the final instance, the eligibility rate was calculated based on 37 clients, of which 32 were eligible for TANF. The supporting documentation provided included 33 eligibility determination forms, of which 28 clients were determined TANF eligible. We could not determine whether the eligibility rate was miscalculated or whether eligibility determination forms were missing.

Effect: Without accurate records and supporting documentation of TANF eligibility determination forms for all clients served, there is a lack of assurance that costs of DCF that were claimed under TANF are allowable. We are considering $309,284 to be questioned costs.

Cause: The Department of Children and Families did not properly monitor its providers to ensure that the eligibility statistics were properly calculated and supported by TANF Eligibility Determination Forms. The Department relied on summary figures electronically submitted by the vendors.

Recommendation: The Department of Children and Families should strengthen its internal controls to ensure that accurate statistics are used to calculate costs eligible for Federal TANF program reimbursement. In addition, the Department of Social Services should adjust its claim for the quarter ended March 31, 2008 for questioned costs totaling $323,445.

Agency Response: Response provided by the Department of Children and Families
"We agree with this finding.

The Department will work with [the] DSS [Department of Social Services] to determine record retention requirements for TANF eligibility data and will amend its contracts to ensure compliance with those requirements."

Response provided by the Department of Social Services:
"The Department agrees with this finding. The Department will work with [the] DCF [Department of Children and Families] to determine record retention requirements for TANF eligibility data and will assist in amending DCF contracts to ensure compliance with those requirements."

III.A.20. 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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

Food Stamps (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
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 December 4, 2008, 8,997 alerts for the Medicaid, TANF and Food Stamps programs that were generated during the quarter ended March 31, 2008, have not been dispositioned (investigated, resolved and removed as appropriate). The dates that these alerts were due to be dispositioned ranged from January 18, 2008 to May 12, 2008. Each alert is assigned a specific due date generated by the system. It should be noted that the report dated April 4, 2008, that was provided to us only includes those alerts that were originally generated during the quarter ended March 31, 2008, 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 April 4, 2008, that was provided to us, the total number of alerts generated during the quarter ended March 31, 2008, was at least 34,341.

Our review of 25 alerts generated during the quarter ended March 31, 2008, that have not been dispositioned as of December 4, 2008, 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 has made significant progress during the year to refine its IEVS matching procedures to screen for valid matches of unreported income. In July 2008, the IRS matching tolerance levels were adjusted to automatically screen out matches that were not likely to have an impact on eligibility. In August 2008, a new Department of Labor wage match alert was implemented to give priority to those matches that were likely to effect program eligibility and reveal wage levels that would meet the TANF work participation rate. In November, the Department changed the frequency of its update of the DOL wage file from quarterly to bi-weekly to assure that it had more current and accurate wage data available for new applications. In December 2008, the SDX match was enhanced to make it more likely that clients with minor name variations were not excluded from match updates. In January 2009, the SDX match was modified to no longer update invalid inkind income segments.

All of these changes were done to improve the efficiency and efficacy of the Income Eligibility Verification matching processes. Despite these advances, the Department continues to struggle with the tremendous volume (tens of thousands) of match results. The Department hired six staff to be dedicated to following up on IEVS matches but was only able to dedicate a couple of these staff to this process because of major increases in application activity and case loads resulting from the recent economic downturn. The Department is committed to assuring that it complies with the requirements for reviewing these match results, to assure the accuracy of its eligibility determination and to improve its TANF work participation rate, and will strive to commit staff resources to this purpose.

The Department will again advise staff of the need to review the IEVS match alerts and to assure, at a minimum, that all such alerts are reviewed and cleared at time of application and redetermination of eligibility."

III.A.21. 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 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

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. During the past State fiscal year, The Department worked with a consultant to meet with all State agencies, including the State Department of Education, that access TANF funds. As a result, the Department reviewed the program definition being claimed, State agency reporting expectations and the need to follow OMB Circular A-133."

III.A.22. 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 2006-2007 and 2007-2008
Federal Award Numbers: G-0701CTTANF and G-0801CTTANF

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 Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTCCDF and G0801CTCCDF

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G-070CTCOSR and G-0801CTSOSR

Low-Income Home Energy Assistance (LIHEAP) (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G07B1CTLIEA and G08B1CTLIEA

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 and SSBG 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 four out of the five TANF subrecipients and two out of the five SSBG subrecipients tested were not provided with this required Federal information.

For the TANF program, desk reviews of the financial audit reports were not performed in all five cases.

For the Child Care programs, our test of five subrecipients disclosed that desk reviews were not performed for three 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 two out of five subrecipients tested. Our review disclosed that the Department did not have financial audit reports for one of the five 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 2 cases.

For the LIHEAP program, desk reviews of the financial audit reports received were not performed for the four 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 one of the four 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 CAAs, 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. The Department will respond to concerns regarding compliance with the requirements of OMB Circular A-133 requirements as follows:

1. Identify Federal Awards
   The current contracts for SSBG have been revised and contain all the additional information required in Part I, Section F, subsection 5 entitled "Federal block grant funding has been provided by this contract as follows:". Steps will be taken to add the same wording to sub recipients of TANF/SSBG funding.

2. Advise Subrecipients of Federal requirements
   SSBG/TANF contracts will be reviewed and if needed, will be revised to include specific eligibility requirements. Efforts will be increased to ensure that subrecipients provide all programmatic and financial reports in a timely fashion. Reports will receive a timely review by Department staff.

3. Monitor
   The Department will increase efforts to schedule monitoring visits accordingly and reschedule when necessary.

4. Ensure Federal audit requirements
   The Department will include a review of this requirement as part of the monitoring review for subrecipients receiving $500,000 or greater.

5. Issue a management decision on audit findings within six months
   The Department has improved the timeliness of the reviews of the audited financial statements, but staffing remains inadequate to complete all reviews in a timely manner.

   LIHEAP: The Department added two additional staff persons which allowed monitoring of the program to be completed while services were being provided."

III.A.23. Eligibility – Ineligible Client and Improper Family Fees

Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA #93.596)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTCCDF and G0801CTCCDF

Background: The Department of Social Services has been designated the Lead Agency to administer the Child Care and Development Fund in accordance with Title 45 Code of Federal Regulations Part 98, Section 10. The Department of Social Services entered into a contract with a vendor to determine eligibility and calculate the amount of benefit payments for the Department's Care 4 Kids

Program which is claimed under CCDF.

During the fiscal year ended June 30, 2008, child care payments totaled $98,315,275. These payments consisted of commingled Federal CCDF funds and State funds. The Department does not identify which clients are being claimed under CCDF and which clients are being paid from State funds. Of the $98,315,275, $34,315,275 (or 38.4 percent) was claimed as direct Federal expenditures and $64,000,000 (or 61.6 percent) was provided with State expenditures. The $34,315,275 provided in Federal Expenditures is based on the total child care payments claimed as Federal expenditures on the quarterly Federal Financial Reports submitted during the State fiscal year.

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

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

The CCDF Plan provides that eligibility will be based on the State Median Income (SMI) published by the Federal Register. Families with income less than 50 percent of the State Median Income are eligible to receive child care benefits from the Department.

Condition: We randomly sampled 40 child care payments totaling $11,578 made to child care providers from the total population. The fees contributed by the 40 families represented by our sample totaled $4,085. The population of fees contributed during the State fiscal year ended June 30, 2008, by the families provided child care services was approximately $16,467,360.

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

- In one case, the family fee was not calculated correctly because the families' income information was not properly entered into the Department's Child Care Management Information System (CCMIS). As a result, the client overpaid her share of the family fee by $34 ($12 based on the 34.8 percent of the total Federal expenditures).

- In two cases, the family fee was not calculated correctly because the family had unearned income or income from a second job that was not taken into account during the income calculations. As a result, the two clients underpaid their share of the family fees by $177 ($62 based on the 34.8 percent of the total Federal expenditures).

Our review disclosed that one of the 40 clients tested was not eligible to receive benefits from the Child Care Program:

- During the application process, three weekly pay stubs were submitted. Only two pay stubs were used to calculate the family's monthly/annual income. If the third pay stub had ben properly used in the income calculation, the family would have exceeded 50 percent of the State Median Income and would not have been eligible to receive benefits. The family received child care benefits in the amount of $439 for the month reviewed ($153 based on the 34.8 percent of the total Federal expenditures).

Our review also disclosed improper child care payments that were not part of our original sample. The family received child care benefits while the head of household was not actively employed for two three month periods. During these time periods, the family improperly received $5,870 in Child Care benefits.

Effect: Three clients in the audit sample did not pay the correct family fees based on their income levels. These three exceptions resulted in questioned costs in the amount of $143 (or $50 based on the 34.8 percent of Federal expenditures).

The Department expended funds for child care services on behalf of a client that was not eligible to be enrolled in the program based on her income level exceeding the programs income threshold. This exception resulted in questioned costs totaling $439 ($153 based on the 34.8 percent of the total Federal expenditures).

The Department expended funds for child care services on behalf of a client that was not eligible to be enrolled in the program because she was not actively employed during the time period that benefits were received. This exception resulted in questioned costs totaling $5,870 ($2,254 based on the 34.8 percent of total Federal expenditures).

Cause: The noted errors were the result of eligibility workers failing to enter accurate information into the CCMIS system.

Recommendation: The Department of Social Services should ensure that the families who are receiving child care services under the Child Care programs are paying their share of the costs as required by Federal regulations and that all the income information received at the application date or re-determination date is accurately entered in the Child Care Management Information System.

Agency Response: "The Department agrees with this finding. The Department will advise our Care 4 Kids contractor of the finding and advise them to insure that families are paying their share of the cost required by State/Federal regulations."

III.A.24. 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 2006-2007 and 2007-2008
Federal Award Numbers: G-070CTCOSR and G-0801CTSOSR

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. Subrecipients are required to submit programmatic reports that include the amount of funds that are expended on children and their families. These reports are not kept in the contract files, but in a separate file to be used for SSBG reporting. Efforts will be increased to review all reports for compliance and to make sure that funds are expended in the appropriate manner and for the appropriate population. Contracts will be reviewed and adjusted where necessary to include the appropriate eligibility requirements. Monitoring visits will include review of eligibility requirements."

III.A.25. 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 2006-2007 and 2007-2008
Federal Award Numbers: G-070CTCOSR and G-0801CTSOSR

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G07B1CTLIEA and G08B1CTLIEA

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 four 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 two of five SSBG subrecipients and two of four 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. For SSBG, efforts will be made to ensure that funds are not submitted in excess of the need established for the time period involved, based on the reporting received and the direct correspondence from the subrecipients. For LIHEAP, the Department will continue to make payments on a weekly basis within a six month period to avoid leaving large cash balances at the agencies. Subgrantees do not have the capacity to drawdown funds from the grantee on an as needed basis. The Department will continue to inform agencies of the importance of disbursing their funds within 72 hours after receiving them."

III.A.26. 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. PHAs 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, 2007, to November 30, 2008. Our review disclosed that 49 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 up to an overstatement of $4.

Effect: Management has less assurance that the correct utility allowances are credited 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 the determining the utility allowance payment.

Agency Response: "The Department agrees with this finding. Calculation errors resulted in utility allowance overstatements ranging from $1 to $4. All calculations used in the development of the future utility allowance schedules will be reviewed for accuracy."

III.A.27. 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: We reviewed 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 October 22, 2007. A letter was sent to the landlord on October 23, 2007, stating the deficiencies that were noted during the inspection and that the deficiencies were to be corrected by November 22, 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 passed a re-inspection that was conducted on December 10, 2007. As a result the housing assistance payment paid on December 1, 2007, should not have made because deficiencies were not corrected by November 21, 2007, which was the stop date required by Federal regulations. The delay in correcting the deficiencies resulted in a housing assistance payment of $990 made on December 1, 2007 that should have been stopped.

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 $990 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.

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 rent payment should have been abated effective December 1, 2007; however, the correct monthly housing assistance payment is $990, not $727. The apartment passed inspection on December 10, 2007. In accordance with HUD requirements, once the apartment passes inspection, the landlord is entitled to the prorated rent for the remainder of the month, in this case $671. The contractor did not make an adjustment to the landlord's January rent to recoup the $319 overpayment. The Department has recovered $319 from the contractor."

III.A.28. Eligibility – Ineligible Client and Inadequate Documentation

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5021 and 05-0805CT5021

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: The Department claimed $24,440,224 ($15,586,145 reimbursed at the 65 percent Federal financial participation rate) in insurance premium payments under the State Children's Insurance Program during State fiscal year 2008. We randomly selected 30 insurance premium payments totaling $5,071 ($3,296 at the 65 percent Federal financial participation rate) made on behalf of SCHIP recipients. Our review disclosed the following conditions:

1. In two cases, it could not be determined if the child was eligible to be enrolled in the SCHIP program. In one case, it was noted that a family member was having insurance deductions from their paycheck. The eligibility worker did not follow up with the family to determine whether the child was enrolled in the insurance program. If the child was receiving insurance benefits the child would not have been eligible for the SCHIP program. In the second case, the eligibility worker did not check the Eligibility Management System (EMS) prior to eligibility being granted to the family. Certain factors may have led to the client not being eligible for the SCHIP program.

2. In one case there was not sufficient documentation to support self employment income. An annual income tax return was originally obtained. Using the income information from the tax return, the client was eligible for the SCHIP program under Band 3. The eligibility broker performed an interim change, based on income figures that were not adequately supported, resulting in a band change from Band 3 to Band 1. Under Band 3, the client would have been required to pay the full insurance premium. Because the client was enrolled in Band 1, the client was not obligated to pay a portion of the insurance premium.

3. In two cases, the clients' income information supplied at the application/redetermination date was not supported by the income information maintained in the Department of Social Services' Eligibility Management System. In both instances, the client's Band assignment was not consistent with the income that they were actually earning. In one instance, the client was enrolled in Band 2 when the client should

have been in Band 3. In the second instance, the client was enrolled in Band 1 when the client should have been enrolled in Band 2.

Effect:

1. It can not be determined whether the two children were eligible for the SCHIP program.
2. The Department overpaid premium benefits by $156 ($101 at the 65 percent Federal financial participation rate).
3. The Department overpaid premium benefits by $182 ($118 at the 65 percent Federal financial participation rate).

Cause:

1. The Eligibility worker did not go through the entire process incorporated by the vendor to determine the eligibility of the client.
2. The eligibility of the client was determined based on income information that was not adequately supported.
3. The eligibility worker did not perform the needed mathematical calculations to determine whether the income reported on the application or redetermination was consistent with the income information maintained by the Department of Labor.

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. A memo will be sent to ACS [Affiliated Computer Services] to remind them that staff must adhere to the procedures approved by the Department. Additionally, to ensure compliance, the Department will reinstate monthly case reviews."

III.A.29. Eligibility – Inadequate Documentation

HIV Care Formula Grant (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: 2 X07H00022-17-00 AND 2 X07H00022-18-00

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 $14,384 to determine whether the clients met the eligibility requirements of the Federal program. This sample was selected from a universe of 65,845 transactions totaling $15,974,572. This amount consisted of $15,357,658 in Federal funds and $616,913 in State funds. Of these amounts, the net expenditures were $13,879,635 and $616,463, 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 ($15,357,658) represent 96.03 percent of the total combined gross Federal and State funds ($15,974,572).

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 Fiscal Year 2008 AIDS Drug Assistance Program (ADAP) Application submitted to the Department of Health and Human Services 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.

Fiscal Year 2008 AIDS Drug Assistance Program (ADAP) Application also states that the maximum length of certification after the initial authorization period is six months. At the end of the certification period, benefits will not continue unless a new application (recertification) has been filled and approved.

Condition: Our review disclosed the following:

1) The Department did not have documentation on file to support medical diagnosis of HIV disease for 20 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.

2) Income for applicants of the Connecticut AIDS Drug Assistance Program is self-declared. The Department has no procedures in place to ensure that applicants meet the program's income requirements.

3) The Department conducts recertifications annually rather than every six months as required in the Fiscal Year 2008 AIDS Drug Assistance Program (ADAP) Application submitted to the Department of Health and Human Services. Our review of the Department's procedures for

obtaining annual recertifications of the 40 clients tested disclosed that the annual recertification applications were not on file in 11 cases. Recertification application contains income information that is necessary to determine client's eligibility.

Effect: The Department's procedures do not provide reasonable assurance that all clients are eligible for the program. Without the necessary medical information and required supporting records, we could not specifically substantiate whether clients were eligible to receive benefits.

Cause: The Department has not established adequate procedures to ensure client eligibility.

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. The Department should also perform recertification every six months as stated in the Fiscal Year 2008 AIDS Drug Assistance Program (ADAP) Application submitted to the Department of Health and Human Services.

Agency Response: "The Department agrees with this finding. At this time, CADAP applicants self-declare income, however, the Department continues to seek approved methods for the reporting of actual income. Regarding the documentation of HIV diagnosis, the Department now retains the initial application which contains the physician's diagnosis and the Department will pursue adding this information to the redetermination process. Additionally, a customer service request has been submitted to EDS [Electronic Date Systems] to change the redetermination requirement from annually to every six months."

III.A.30. 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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

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 Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTCCDF and G0801CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 0704CT4004 and 0804CT4004

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5021 and 05-0805CT5021

State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Number: 4CT400400

Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: H126A070007 and H126A080007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Award Agency: Social Security Administration
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 04-0704CTDI00 and 04-0804CTDI00

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
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 2006-2007 and 2007-2008
Federal Award Numbers: G07B1CTLIEA and G08B1CTLIEA

HIV Care Formula Grant (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: 2 X07H00022-16-00 AND 2 X08H00022-17-00

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, 2007, 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 some of the 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 receive 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 March 31, 2008. This report consisted of 3,252 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 ten 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 one observation in which the program code did not appear to be reasonable because the program code did not coincide with the services received by the client. The comments stated that the employee was working on multiple programs; however, the employee selected the program code that applied to only one of the programs.

4. The Department did not provide evidence that it adequately monitored the reasonableness of the random moment sampling results during the fiscal year ended June 30, 2008. The Department's Cost Allocation plan effective July 1, 2007, provides that as part of its Random Moment Time Study, the Department will be reviewing worker-selected program and

activity combinations along with the comment provided by the employee being sampled.

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 employee made a clerical error 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: "For condition 1. Regional Office overhead was not allocated to all benefiting Federal and State Programs.

Response: The Division of Financial Management and Analysis conducts a Quarterly Employee Coding Verification to insure that DSS employees are accurately coded in CORE-CT. Currently, there are sixteen employees coded to Ombudsman activities. Eleven are coded to Central Office, five in administrative functions and six as Ombudsman. Five Ombudsmen are coded to the Regional Offices and serve clients in the New Britain, New Haven and Waterbury areas. The Department is in the process of re-coding the six Ombudsmen in Central Office to their respective location in the Regional Office.

For condition 2. The hierarchy used in the Department's CAP did not provide an equitable basis for allocating costs to benefiting programs.

Response: The Department does not agree with this finding. The order of Central Service Departments in MAXCARS [CAP automated system] is based on the Chart of Accounts and organizational structure of the Department. This hierarchy appears to be the most equitable manner for establishing the structure of the step down allocation and for managing the financial and statistical data in MAXCARS.

For condition 3. One RMS observation did not appear to be reasonable because the program code did not coincide with the services received by the client.

Response: While the Department does agree that the response for the program code is not consistent with the services received by the client, the Department does not believe the item would materially impact the results of the RMS time study. It should be noted that the Department uses a larger sample size than needed to provide assurance that the RMS results are statistically valid when taken as a whole.

For condition 4. The Department did not provide evidence that it adequately monitored the reasonableness of RMS results.

Response: As of February 2009, the Department has submitted additional documentation on this finding for review."

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.

III.A.31. 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 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5028 and 05-0805CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTTANF and G0801CTTANF

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 Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: G0701CTCCDF and G0801CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 0704CT4004 and 0804CT4004

State Children's Insurance Program (SCHIP) (CFDA #93.767)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 05-0705CT5021 and 05-0805CT5021

State Administering Matching Grants for Food Stamp Program (CFDA # 10.561)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Number: 4CT400400

Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: H126A070007 and H126A080007

Social Security-Disability Insurance (CFDA # 96.001)
Federal Award Agency: Social Security Administration
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 04-0704CTDI00 and 04-0804CTDI00

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
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 2006-2007 and 2007-2008
Federal Award Numbers: G07B1CTLIEA and G08B1CTLIEA

HIV Care Formula Grant (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: 2 X07H00022-16-00 AND 2 X08H00022-17-00

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 eight 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 $863,595. This sample was randomly selected from expenditure transactions totaling $111,041,355 made during the fiscal year ended June 30, 2008. 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) Two 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 $328 was for interpreting services for a client in the ABI Waiver 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 ABI Waiver Program. Based on processing this exception through the Department's Cost Allocation Plan, we determined questioned costs were charged to major Federal programs as follows:

Program	Net Improper Allocation	Questioned Costs
Child Support Enforcement	$ 39	$ 26
Food Stamps	72	36
Medicaid	116	58
TANF	30	22
Miscellaneous State and Federal Grants	71	NA
ABI Waiver Program	(328)	NA
Net Total	$ 0	$ 142

- One expenditure for $2,058 was for phone services. Phone services are administered by the State Department of Information and Technology (DOIT). DOIT charges applicable State agencies' appropriations the costs of the phone services. These phone services were not used by the Department of Social Services and should not have been charged to the Department of Social Services' appropriations. Based on processing the above exceptions through the Department's Cost Allocation Plan, we determined questioned costs were charged to major Federal programs as follows:

Program	Net Improper Allocation	Questioned Costs
CCDF	$ 9	$ 1
Child Support Enforcement	206	136
Disability Insurance	104	104
Food Stamps	358	179
HIV Formula Care Grant	1	1
LIHEAP	7	7
Medicaid	666	333
SCHIP	4	3
Section 8	4	4
TANF	132	98
Vocational Rehabilitation Services	147	147
Miscellaneous State and Federal Grants	420	NA
Net Total	$ 2,058	$ 1,013

The questioned costs in both schedules are based on the Federal programs' financial participation rates except for the TANF and CCDF programs, which are based on the Department claiming for Federal reimbursement only 74 and 12 percent, respectively, of the administrative expenditures.

2) In addition, there were six expenditures totaling $51,096 for office supplies and janitorial services accumulated by some of the Department's Regional Offices that were not 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. We cannot determine the amount of questioned costs because the Department has not identified an allocation basis that should be used (see Condition 1 of Recommendation III.A.31. for additional information).

We sampled 40 payroll transactions totaling $91,082. This sample was randomly selected from payroll transactions totaling $126,680,288 that were made during the fiscal year ended June 30, 2008. Our test of these payments did not disclose any errors.

However, during our review, we noted employees were placed on paid administrative leave under Section 5-240-5a of the Connecticut State Regulations and remained on leave for a period in excess of the days allowed under the aforementioned State Regulation. This State Regulation provides that employees can be placed on paid administrative leave up to 15 days or 30 days depending on the severity of the allegations. During the fiscal year ended June 30, 2008, there were three employees who were placed on administrative leave beyond the maximum allowed per State regulations. Personnel costs that the Department incurred for these three employees beyond the days allowed by State regulations totaled $57,161. Of this amount, $53,294 was allocated to major Federal programs and the remaining $3,867 was allocated to State funds.

Based on processing these costs through the Department's Cost Allocation Plan, we determined questioned costs related to the $57,161 were charged to Federal programs as follows:

Program	Net Improper Allocation	Questioned Costs
CCDF	$ 3	$ 0
Food Stamps	5,864	2,932
Medicaid	14,193	7,096
SCHIP	23	15
TANF	1,390	1,027
Vocational Rehabilitation Services	31,821	31,821
Miscellaneous State Grants	3,867	NA
Net Total	$ 57,161	$ 42,891

The questioned costs are based on the Federal programs' financial participation rates except for the TANF and CCDF programs, which are based on the Department claiming for Federal reimbursement only 74 and 12 percent, respectively, of the administrative expenditures.

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 charged to Federal programs as follows:

Program	Net Questioned Costs
CCDF	$ 1
Child Support Enforcement	162
Disability Insurance	104
Food Stamps	3,147
HIV Formula Care Grant	1
LIHEAP	7
Medicaid	7,487
SCHIP	18
Section 8	4
TANF	1,147
Vocational Rehabilitation Services	31,968
Net Total	$ 44,046

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: "For condition 1. Two expenditures were not assigned proper expenditure codes.
One expenditure was allocated to all programs excluding Vocational Rehabilitation, but should have been allocated to the ABI Waiver Program. One other expenditure for telephone services was charged to the Department of Social Services but the services were not used by the Department.

Response: The Department agrees with this finding. Although the Department conducts a quarterly Employee Coding Verification and strives for a zero percent error rate for other expenses, the direct responsibility for the coding of expenditure transaction resides with the staff processing payment requests. The Department will make the necessary adjustments for these two findings.

For condition 2. Not all costs for office supplies and janitorial services were allocated to all benefiting Federal and State Programs.

Response: The Department is in the process of re-coding the remaining six Ombudsman in Central Office to their respective location in the Regional Office. The re-coding of the Ombudsman staff will produce an equitable allocation to all benefiting Federal and State Programs.

For condition 3. Four employees remained on paid administrative leave beyond the maximum allowed per State regulations.

Response: We concur with this finding. The Division of Human Resources should review State regulations regarding duration of paid administrative leave for individual infractions. Human Resources will review all current employees on administrative leave."

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

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

Substance Abuse Prevention and Treatment Block Grants (CFDA #93.959)
Federal Award Agency: Department of Health and Human Services
Award Years: 2003, 2004, 2005, 2006, 2007 and 2008
Federal Award Numbers: 03B1CTSAPT, 04B1CTSAPT, 05B1CTSAPT, 6B1CTSAPT, B1CTSAPT-07-1, TI010007-08

Criteria: Maintenance of Effort requirements for the Substance Abuse Prevention Treatment Block Grant (SAPT), under the 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."

Condition: 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, 2008 could not be properly supported. Our review disclosed 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 has 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.

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

Cause: Agency personnel are continuing to develop procedures in calculating the MOE that include utilizing the new Core-CT State accounting system. The Agency is currently utilizing an outside consultant in the development of these procedures. In addition, MOE reporting weaknesses in prior years results in the inability to document that current years MOE requirements are being met.

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: "In August, 2008, the Department received Technical Assistance from the Center for Substance Abuse Treatment (CSAT) of the Substance Abuse and Mental Health Services Administration (SAMHSA), in making the necessary improvements to the maintenance of effort calculations. We recently received the final report from that technical assistance visit and will take the necessary steps to submit revised maintenance of effort calculations based on the Consultant's recommendations. We anticipate submitting revised MOE calculations to CSAT by June 30, 2009."

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 2007-2008
Federal Award Number: UI167370855

Background: An Employment and Training Administration (ETA) 227 report is prepared quarterly to provide data that shows the amount of overpayments, the types of overpayments and the source of overpayments related to the Unemployment Insurance program. Additionally, the recovered dollar amounts are also reported. The report captures the number of wage garnishments and prosecution cases referred to the courts during the quarter. The ETA 227 report includes a section for an aging of benefit overpayment accounts (accounts receivable).

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, 2008, 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 to accurately reflect the statistical calculations and collections of overpayments greater than four years old. Our information Technology Unit has been working on and off for several years to automate the ETA 227 report. Significant progress has been made and all involved felt that our goal of having an accurate, automated ETA 227 was within reach. Unfortunately, in July 2008, the Federal government implemented a thirteen (13) week extension to unemployment compensation that had to be programmed by the Information Technology Unit staff. It was then followed up by a second seven (7) week extension and a third thirteen (13) week extension. As a result, all available staff in the Information Technology Unit have been working on the programming of the Federal extensions causing a delay in the completion of our project. It is now expected that our project will be completed by the fourth quarter of 2009."

D. DEPARTMENT OF PUBLIC HEALTH

III.D.1. Allowable Costs/Cost Principles – Personnel Costs

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 2007-2008
Federal Award Number: 4CT700700

Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC) (CFDA #93.283) (Nonmajor Program)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: U90/CCU116996-07 and U90/CCU116996-08

Criteria: OMB Circular A-87 requires that the distribution of charges for the salaries and wages of employees working on multiple activities or cost objectives be supported by "at-least" monthly personnel activity reports or equivalent documentation of an after-the-fact distribution of the actual activity of each employee and the total activity for which they are compensated. The Department of Public Health has established policies for such documentation.

OMB Circular A-87 requires that costs charged to a Federal award be necessary and reasonable to carry out the Federal award.

Condition: Our review of payroll charges to the WIC grant (CFDA #10.557) at the Department of Public Health noted that there were no certificates documenting an employee's time and effort.

		Sample		Questioned Costs	
CFDA #	**Population**	**#**	**Amount**	**#**	**Amount**
10.557	$ 2,467,387	5	$ 9,644	1	$ 1,096

In addition, our sample included overtime costs of $251 that do not appear to be necessary and reasonable charges to the CDC grant (CFDA #93.283.) The budget for this award provides funds to cover unexpected overtime costs to "accept, process and analyze suspect" samples, 24 hours per day, seven days per week. We were told that the lab's regular hours for receiving specimens exceeds a standard eight hour workday by one-half hour. The Department has not arranged three employees' schedules to provide the necessary coverage without incurring overtime costs. One of the three employees, whose regular hours are charged to the General Fund, works the extra one-half hour that is charged to the Federal award.

		Sample		Questioned Costs	
CFDA #	Population	#	Amount	#	Amount
93.283	$ 6,854,252	13	$ 28,326	1	$ 251

Effect: In the absence of personnel activity reports, there is non-compliance with OMB Circular A-87. In addition to questioning $1,096 of WIC (CFDA #10.557) payroll expenses for one employee in our sample, all of the payments to that employee were not adequately supported by personnel activity reports. Therefore, we question all of the salary and fringe benefit costs associated with this employee's pay, totaling $21,358.

We question all of the salary, fringe benefit, and indirect costs charged to the CDC (CFDA #93.283) grant for the one employee's overtime totaling $3,228. These charges are not supported by the grant budget and are therefore not considered necessary and reasonable.

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

Recommendation: The Department of Public Health should comply with OMB Circular A-87 by only charging Federal awards for allowable costs that are supported by periodic personnel activity reports or equivalent documentation.

Agency Response: "We agree with the WIC finding.

We disagree with the CDC grant (CFDA #93.283.) finding."

WIC: "With this exception, all time and labor records required have been completed and submitted for WIC funded personnel. The subject of this finding was a temporary worker hired by the WIC program for a durational period of time. This was an oversight due to the dates of this staff member's employment not coinciding with the due dates of the quarterly reporting of time certifications. The program has subsequently been in contact with this former employee and has forwarded the necessary certifications of time for the periods in which she worked for the WIC Program. We will forward the certifications once the paperwork is returned to us. We expect to receive the paperwork by February 12, 2009.

Quarterly time and effort certifications were completed for all other staff working on the WIC Program. With regard to temporary employees in the future, time certifications will be obtained in the appropriate time frames and prior to completion of the employee's period of service as well as maintained through CoreCT time records."

CDC: "This staff member, because of broad knowledge of the Laboratory areas, has been working an additional 1/2 hour per day to provide phone coverage until 5:00 PM. Laboratory management decided that this was necessary because many routine calls received are related to emergency preparedness and can be quickly directed to the appropriate personnel. This triage action has been in place since 9/11 when we informed the FBI, CT State Police and Department of Environmental Protection that the laboratory would have a person available until 5:00 PM to assist them. After 5:00 PM the laboratory staff members are on-call if required. The agency management has the responsibility and right to determine appropriate staff to assign to duties."

Auditors' Concluding Comment: We do not question whether staff should be available until 5:00 p.m. to answer "routine calls," however, overtime charges were unnecessary since the work schedules of the three existing staff could have been arranged to avoid incurring the additional cost. In addition, the CDC award only provides funds to cover overtime charges to "accept, process and analyze suspect" samples. The costs referred to in the Department's response relate to day-to-day operations that in this case are not covered by the CDC award.

III.D.2. 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 Year: Federal Fiscal Year 2007-2008
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 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: As a result of a 2007 Statewide Single Audit recommendation, the Department of Public Health corrected its method for calculating monthly formula rebates and recovered most of the previously under collected rebates. Our current audit noted that rebates totaling $6,378 were not collected during February 2008, the same month that the new calculation method was implemented.

Effect: The cost of approximately $6,378 in food expenditures could be considered unnecessary and possibly questioned, because rebate income is used to offset such costs.

Cause: An isolated clerical error appears to have caused this error.

Recommendation: The Department of Public Health should bill vendors for all of the rebates due the State.

Agency Response: “We agree with this finding.

The under collection of rebate funds occurred during the first week of February 2008. This has been recognized and the rebate will be invoiced for collection in February 2009.”

III.D.3. Allowable Costs/Cost Principles – Contract Management Nonmajor Programs

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) (CFDA #93.889)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2005-2006
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.

Condition: Our audit was not provided with documentation to support whether or not a contractor of the Department of Public Health spent $121,200 of Federal CDC and NBHPP grant funds on allowable costs or activities. The Department’s and contractor’s managements have signed an agreement that “…no further payments or refunds are due to either party….” Our audit was not provided with any documentation pertaining to the relevant negotiations or expenditure information.

During our prior audits, we noted ongoing disputes over undocumented contract amendments. One of these disputes resulted in a negotiated resolution that required a contractor to return $207,410 in Federal CDC and NBHPP money and also extended the period of time for the contractor to spend a balance of $245,000. Subsequently, the contractor returned $207,410 and submitted its financial report that documented disbursements relating to the $245,000 with an unexpended balance of $121,200. As a result of our 2007 Statewide Single Audit, the Department officially requested that the contractor return the balance of $121,200. However, instead of recovering the unspent Federal money, the Department's and contractor's managements signed the aforementioned agreement, without documenting the negotiations or whether or not the Federal money was used for allowable costs and activities.

Effect: Due to the lack of sufficient documentation, the unspent balance of $121,200 may be considered a questioned cost.

Cause: The Department did not comply with its established controls over contracting. In addition, the Department continues to experience delays in executing contracts. Analytical procedures noted the following regarding contracts that were executed during the State fiscal year ending June 30, 2008:

	Number of Contracts					
CFDA #	**10.557**	**93.268**	**93.283**	**93.917**	**Other**	**Total**
Approved in a Timely Manner	3	2	1	-	9	15
Approved within 30 days after the Contract's Start Date	7	1	1	6	22	37
Approved between 31 and 361 days after the Contract's Start Date	8	1	61	12	141	223
Total Population	18	4	63	18	172	275

Recommendation: The Department of Public Health should improve its compliance with established procedures over contracting.

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

The funding outlined in the audit exception involves the Hartford Hospital Center of Excellence - Public Health Preparedness Contract. The services covered in the Contract are essential public health services conducted on an ongoing basis. Documentation was submitted by the Contractor verifying that the $121,200 represented a portion of expenses actually incurred by the Contractor. Those expenses were appropriate to the use of funds for the grant.

During the 2005 Contract Year, the Contractor documented expenses in the amount of $222,038 that it attributed to the Contract. This amount however had not been approved by [the Department,] DPH, in the original Contract budget. The Contractor believed the expenses were approved as a result of written communication with DPH but neither a contract Amendment nor a Budget Revision was completed.

As a result of the miscommunication and because the Public Health Preparedness Program considered the expenses to be consistent with the Grant obligations, DPH agreed to provide the funds and started the amendment process to the then existing (2007) contract, however, the amendment was never executed. The agreement allowing the Contractor to retain $121,200 was determined by both parties as reasonable to cover contractor's incurred obligations and provided partial compensation for the expenses that were documented on expenditure reports."

Auditors' Concluding Comment: Rather than recover an unspent balance of $245,000, the Department extended the contractor's award period to allow for disbursement of the Federal funds. Ultimately, an unspent balance of $121,200 remained. The Department has not provided us with written documentation supporting their assertion that the contractor has disbursed the funds for allowable costs and activities.

III.D.4. Cash Management – Monitoring of Subrecipient Cash Balances

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 or not a contract meets a $200,000 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 Department's policy does not comply with the requirements. We sampled payments against contracts that exceeded $200,000. In our sample of 34 payments totaling $2,692,475, we noted that 16 payments totaling $1,451,842, did not comply with cash management guidelines. The following table summarizes the population, sample size, and results of our testing.

CFDA #	Population of Contracts	Payment Sample #	Payment Sample Amount	Audit Exceptions #	Audit Exceptions Amount
10.557	$ 21,529,500	6	$ 252,181	-	$ -
93.283	1,522,353	2	80,000	-	-
93.917	13,437,735	24	975,171	11	763,701
Others	6,912,606	2	1,385,123	5	688,141
Total	$ 43,402,194	34	$ 2,692,475	16	$ 1,451,842

Effect: Our review of the Department's records found that during the 2008 State fiscal year there were 107 deposits from subrecipients who returned a total of $1,037,591 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.5. Cash Management – 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 and 2007-2008
Federal Award Number: 4CT700700

Public Health Emergency Preparedness (CFDA #93.069) (Nonmajor Program)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2007-2008
Federal Award Number: U90TP116996-08

Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC) (CFDA# 93.283) (Nonmajor Program)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2006-2007
Federal Award Number: U90/CCU116996-07

Immunization and Vaccine Grants for Children (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: CCH122525-05 and 2H23IP122525-06

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 requirements at the Department of Public Health noted that the Department's internal controls failed to prevent and detect errors in calculating Federal reimbursements. Such reimbursements are generally calculated based on the Department's cumulative expenditures for the period. These calculations do not consistently include credits and adjustments, resulting in occasional clerical errors. In addition, the Department does not detect these errors because it does not reconcile cumulative expenditures (net of credits and adjustments) to the total cash drawn for each award. We noted 40 erroneous draws that resulted in the Department overdrawing a net of $875,224 from the following Federal awards:

CFDA #	Population and Sample of Draws	#	Net Draws Under/(Over)
10.557	$43,749,826	16	$ (95,940)
93.069	6,732,501	9	(22,409)
93.268	2,965,482	5	109,383
93.283	6,573,861	8	(958,015)
93.917	14,765,798	2	91,757
	$74,787,468	40	$ (875,224)

Effect: Ineffective controls over drawdowns of Federal cash can result in erroneous draws. The Department overdrew $875,224, as noted in the above table.

Cause: The Department's method for calculating cash draws does not include reconciling cumulative expenditures (net of credits and adjustments) to the cumulative cash drawn for each award. Delays in posting accounting corrections contributed to some of these errors. Delays in recording accounting adjustments are also addressed in our finding III.D.6.

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 in part 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. Recently, the Department engaged the new Core-CT Projects module. The agency began migrating grants to Projects on 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.6. Period of Availability, Cash Management, and Financial Reporting – Coding Errors and Adjustments

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA #10.557)
Federal Award Agency: United States Department of Agriculture
Award Years: Federal Fiscal Year 2006-2007 and 2007-2008
Federal Award Number: 4CT700700

Public Health Emergency Preparedness (CFDA #93.069)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2007-2008
Federal Award Numbers: U90TP116996-08

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

Immunization and Vaccine Grants for Children (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: CCH122525-05 and 2H23IP122525-06

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 Year: Federal Fiscal Years 2006-2007
Federal Award Number: 05-0705-CT-5000

HIV Prevention Activities - Health Department Based (CFDA #93.940)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2006-2007
Federal Award Number: 5U62PS123477-04

Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups (CFDA #93.943)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2007-2008
Federal Award Number: 5U62PS123477-05

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.

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 uses a "Special ID" (SID) field to record transactions against a Federal grant and a "budget reference" field to track the various grant years within each SID. Accounting 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 following financial reports were not posted to Core-CT at the time of our audit.

CFDA #	Award Period	Report Date(s)	Audit Date
93.283	12/30/06-12/29/07	05/13/08	December 2008
93.283	08/31/07-08/09/08	11/10/08	December 2008
93.283	09/01/06-08/31/07	12/13/07	January 2009
93.777	07/01/07-06/30/08	11/07, 02/08, 05/08, 8/08	December 2008
93.917	04/01/07-03/01/08	10/22/08	December 2008
93.940	01/01/07-12/31/07	09/19/08	December 2008

In addition, the State's Schedule of Expenditures of Federal Awards (SEFA) is based on data accumulated by Core-CT based on the CFDA # that is associated with each SID. We noted that Core-CT was not accurate because in some cases the Department did not record or update the correct CFDA #s in Core-CT. The following were among the errors that required adjustments to the SEFA report:

CFDA #		Amount
per Core-CT	Actual	Miscoded
93.940	93.943	1,796,441
93.283	93.069	6,214,476

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

CFDA #	Population	Audit Exception
10.557	$ 95,665	$ 25,455
93.268	500,601	431,597
93.917	119,739	99,544

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.

Effect: There were no questioned costs noted. 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.

Cause: Clerical errors and employee turnover may have contributed to some of these findings.

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 with this finding.

The Department recognizes that Federal grant reporting using Core-CT presents many opportunities for errors. The Auditors of the Public Accounts of the State of Connecticut state, "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 accounts in addition to their appropriated accounts, many of which involve accounting for periods other than the State Fiscal Year. The Department has chosen 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.

The Department has chosen to address these problems by utilizing the projects module of Core-CT. The agency began migrating grants to projects beginning July 1, 2008. This function will allow the accountant 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 will match what is in Core-CT."

III.D.7. Subrecipient Monitoring – Review of Subrecipient Schedules of Expenditures of Federal Awards

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

(CFDA #10.557)
Federal Award Agency: United States Department of Agriculture
Award Year: Federal Fiscal Year 2006-2007
Federal Award Number: 4CT700700

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

Condition: During its review of subrecipients' SEFAs, the Department of Public Health noted a $1,338,007 discrepancy between the $3,336,204 included in one subrecipient's report and the $4,674,211 that the Department actually disbursed for WIC food in association with the subrecipient's activities. The Department did not follow-up on this discrepancy.

Effect: There is an increased risk that funding provided by the Department of Public Health may not have received the intended audit coverage.

Cause: The staff that was responsible for the audit at that time has retired and the cause could not be determined.

Recommendation: The Department of Public Health should follow-up on material discrepancies between the amounts reported on subrecipients' Schedules of Expenditures of Federal Awards and the amounts on the Department's records.

Agency Response: "We agree with this finding.

The Department has limited resources for these duties. As with all assignments priorities are established to address the multiple task each of our staff receives. We recognize the importance of the information from our contractors, but the daily demands place a low priority on these reviews. When these discrepancies are found, staff will address the concern to appropriate contractors for explanation."

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 Year: Federal Fiscal Year 2007-2008
Federal Award Number: 0801CT1401

Adoption Assistance (CFDA # 93.659)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2007-2008
Federal Award Number: 0801CT1407

Criteria: Title 45 Code of Federal Regulations Section 95.507 requires states to submit a cost allocation plan to the Director, Division of Cost Allocation (DCA), Department of Health and Human Services. The plan shall conform to the accounting principles and standards prescribed in OMB Circular A-87. OMB Circular A-87 requires that, 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.

Title 45 Code of Federal Regulations Section 1356.60(b) states that Federal financial participation for Title IV-E is available at the rate of seventy-five percent for the costs of (i) training personnel employed or preparing for employment by the State or local agency administering the plan, and; (ii) providing short-term training (including travel and per diem expenses) to current or prospective foster or adoptive parents and the members of the State licensed or approved child care institutions providing care to foster and adopted children receiving Title IV-E assistance. Federal financial participation for Title IV-E is available at the rate of fifty percent for administrative expenditures necessary for the proper and efficient administration of the Title IV-E State Plan. The following examples are allowable administrative costs: referral to services; preparation for and participation in judicial determinations; placement of the child; development of the case plan; case reviews; case management and supervision; recruitment and licensing of foster homes and institutions; rate setting; and a proportionate share of related agency overhead.

Condition: During our review of the Department's Public Assistance Cost Allocation Plan (PCAP) we reviewed the Foster and Adoption Assistance Services Unit (FASU) training and administrative cost pools. Costs allocated through the FASU training cost pool are claimed at the enhanced rate of 75 percent Federal financial participation (FFP) and costs allocated through the FASU administrative cost pool are claimed at the rate of 50 percent FFP. Our review disclosed that the Department allocated 100 percent of the salaries of eighteen FASU employees to the FASU training cost pool. Inquiries of fourteen of these individuals disclosed that all fourteen individuals did not spend 100 percent of their time on training related activities. Some of the activities reported during our inquiries included the licensing and recruitment of foster homes and matching children with appropriate placements. Personnel activity or similar reports were not maintained since these employees were claimed 100 percent under one cost objective.

Effect: There is non-compliance with OMB Circular A-87 and 45 CFR Section 1356.60(b) and costs were incorrectly claimed at the enhanced rate of 75 percent FFP that should have been claimed at 50 percent FFP.

Cause: In an effort to comply with the prior audit finding, the Department began charging one hundred percent of the salaries of specific individuals to the FASU training cost pool. However, it appears that personnel were not fully knowledgeable about the requirements of OMB Circular A-87 and Title 45 Code of Federal Regulations Section 1356.60(b).

Recommendation: The Department should institute procedures to ensure that only allowable training costs are claimed at the enhanced rate of 75 percent FFP and employees prepare personnel activity reports or equivalent documentation when they work on multiple activities or cost objectives.

Agency Response: "We agree with this finding. The Department will immediately, starting with the December 2008 IV-E claim, discontinue claiming any FASU training costs until personnel activity reports can be instituted to allocate FASU salaries between the administration and training cost pools."

III.E.2. Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Unallowable Activities/Unsupported Payments

Foster Care – Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 0701CT1401 and 0801CT1401

Criteria: Funds may be expended for Foster Care maintenance payments on behalf of eligible children. Title 42 United States Code Section 675(4)(A) defines the term "foster care maintenance payments" as 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. Title 42 United States Code Section 672(b) requires that Foster Care maintenance payments shall be limited so as to include in such payments only those items which are included in the term "foster care maintenance payments" as defined in Section 675(4).

Title 45 Code of Federal Regulations Section 1356.60(c)(3) states that allowable administrative costs do not include the costs of social services provided to the child, the child's family or foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.

OMB Circular A-87 requires that to be allowable under Federal awards, costs must be adequately documented.

Condition: We reviewed a sample of 40 Foster Care maintenance payments totaling \$74,556 (or \$37,278 at the 50 percent Federal Financial Participation (FFP) rate) for compliance with the Federal Activities Allowed or Unallowed/Allowable Costs, Cost Principles requirements. Our sample was randomly selected from a universe of \$67,582,968 of which 50 percent or \$33,791,484 was claimed for Federal reimbursement during the State fiscal year ended June 30, 2008. We could not determine the number of transactions included in our audit universe.

Our review disclosed that one transaction in the amount of \$5,631 contained charges for respite and consultative services, which resulted in the Department overclaiming \$152 in Federal reimbursements. Another transaction in the amount of \$90, was unsupported and therefore, we could not determine if the payment was allowable under the Foster Care program.

For the case where the transaction contained payment for unallowed activities, we found that maintenance payments made on behalf of the child to the same provider during the State fiscal year ended June 30, 2008, which totaled \$66,136 (of which \$62,783 was claimed for Federal reimbursement), also contained charges for unallowed activities which resulted in the Department overclaiming an additional \$1,786 for Federal reimbursement. These payments were not part of our sample.

Effect: One payment in our sample that contained charges for unallowed activities represents \$76 (net FFP) of improper payments. In addition, we identified payments that contained charges for unallowed activities resulting in improper payments of \$893 (net FFP) that were not part of our sample.

The payment lacking supporting documentation represents questioned costs of $45 (net FFP).

Cause: The Department's claiming process is not adequately designed to accurately identify costs of unallowable services included in certain per diem rates. The error identified was coded to a special foster care rate service code in which rates calculated for these service codes combine multiple service categories, which include both allowed and unallowed activities under the Foster Care program to arrive at a single per diem rate for the provider. 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 per diem rate paid on behalf of the child in our sample included 7.77 percent in respite and consultative costs.

We could not determine whether the documentation to support the payment was misplaced or not received by the Department.

Recommendation: The Department of Children and Families should establish internal controls that accurately calculate the costs of unallowable services included in provider per diem rates and should strengthen internal controls to ensure all amounts claimed for reimbursement are adequately supported.

Agency Response: "We agree with this finding. The Department is not currently able to apply a child specific IV-E rate and instead applies an overall rate for the provider. A new eligibility system is currently being developed that will allow for the use of child specific rates. Until the new system is completed, we have modified and reduced the percentage claimed to Title IV-E. In the audit sample, the auditors found that 7.77 percent of costs should have been excluded from the IV-E rate and the Department excluded only 5.07 percent. As a temporary measure until a child specific rate can be instituted, the Department has increased the excluded costs to 7.77 percent retroactive to the beginning of SFY 2008."

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

Foster Care – Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 0701CT1401 and 0801CT1401

Criteria: Title 42 United States Code Section 671(a)(10) requires that the State plan provides for the establishment or designation of a State authority or authorities which shall be responsible for establishing and maintaining standards for foster family homes and child care institutions.

Title 42 United States Code Section 672(b) requires that foster care maintenance payments may be made only on behalf of a child who is in the foster family home of an individual or in a child care institution. Title 42 United States Code Section 672(c) defines a foster family home for children or child-care institution as one which is licensed by the State in which it is situated or has been approved, by the agency of such State having responsibility for licensing homes of this type, as meeting the standards established for such licensing.

Title 45 Code of Federal Regulations Section 1356.30 requires that the State must provide documentation that criminal records checks have been conducted with respect to prospective foster parents and that the State may not claim Federal financial participation (FFP) for any foster care maintenance payments made if the State finds that the prospective foster parent has been convicted of a felony involving child abuse or neglect, spousal abuse, or a crime involving violence or if the prospective foster family has been convicted within the last five years of a felony involving physical assault, battery, or a drug-related offense.

Title 42 United States Code Section 671(a)(20)(A), as amended by Public Law 109-248 Section 152, requires that the State plan provide procedures for criminal records checks, including fingerprint-based checks of national crime information databases, for any prospective foster parent before the foster parent may be finally approved for placement of a child regardless of whether foster care payments are to be made on behalf of the child under the State plan.

Condition: We reviewed a sample of 40 Foster Care maintenance payments totaling $74,556 (or $37,278 at the 50 percent Federal Financial Participation (FFP) rate) for compliance with Federal eligibility requirements. Our sample was randomly selected from an audit universe of $67,582,968 of which 50 percent or $33,791,484 was claimed for Federal reimbursement during the State fiscal year ended June 30, 2008. We could not determine the number of transactions included in our audit universe.

Our review disclosed that for two transactions totaling $906, the child was placed with an unlicensed provider. For two transactions totaling $3,422, a satisfactory criminal background check on the foster parents was not documented.

For the two cases where children were placed with unlicensed providers, we found that additional payments totaling $5,995 were claimed for Federal reimbursement while the providers were unlicensed for approximately four months in each case. These payments were not part of our sample.

Effect: Two payments in our sample totaling $453 (net FFP) and payments totaling $2,998 (net FFP) that were not part of our sample, made on behalf of children placed with unlicensed providers, represent improper payments.

Two payments lacking criminal background check documentation represent questioned costs totaling $1,711 (net FFP).

Cause: The Department did not adequately review all available provider information during the eligibility determination or redetermination process.

We could not determine whether the supporting records for the criminal history background checks were misplaced or if the Department did not obtain the required documentation to support that the criminal history background checks were performed.

Recommendation: The Department of Children and Families should improve its internal controls to ensure that payments claimed for Federal reimbursement under the Foster Care Title IV-E program are made only for eligible children and are adequately documented.

Agency Response: "We agree with this finding. The Department will adjust its IV-E claim for the providers lacking adequate documentation. As an internal control measure, the Foster Care and Adoption Unit (FASU) supervisors reviewed the files of all foster care providers with active placements and updated the files, where necessary, with missing licensing and criminal background check documentation."

III.E.4. Eligibility/Activities Allowed or Unallowed – Inadequate Documentation

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: 0701CT1407 and 0801CT1407

Criteria: In accordance with Title 45 Code of Federal Regulations Section 1355.21, The Department of Children and Families administers the Title IV-E Program for the State's Adoption Assistance Program. In order for the State to be reimbursed for adoption subsidy payments under Title IV-E, the child must meet certain basic Federal eligibility requirements as required by Federal Regulations and as outlined in the IV-E State Plan.

Public Law 105-89 and Title 45 Code of Federal Regulations Section

1356.30 require that the State must provide documentation that criminal record checks have been conducted with respect to prospective adoptive parents. Title 42 United States Code Section 671(a)(20)(A), as amended by Public Law 109-248 Section 152, requires that the State plan provide procedures for criminal records checks including fingerprint based checks of national crime information databases for any prospective adoptive parents before the adoptive parent may be finally approved for placement of a child regardless of whether adoption assistance payments are to be made on behalf of the child under the State plan.

Title 45 Code of Federal Regulations Section 1356.40 (b) requires that the adoption assistance agreement must be signed and in effect at the time of or prior to the final decree of adoption.

Title 42 United States Code Section 673 requires that each State having an approved IV-E plan shall enter into adoption assistance agreements with the adoptive parents of children with special needs. A child shall not be considered a child with special needs unless the State has determined that the child cannot or should not be returned to the home of his parents.

Condition: We reviewed a sample of 40 Adoption Assistance payments totaling $37,806 (or $18,903 at the 50 percent Federal financial participation (FFP) rate) for compliance with Federal eligibility requirements. Our sample was randomly selected from an audit universe of $35,588,030, of which 50 percent or $17,794,015 was claimed for Federal reimbursement during the State fiscal year end June 30, 2008. We could not determine the number of transactions included in our audit universe.

A total of ten transactions totaling $9,354 failed to meet one or more eligibility requirements due to missing or inadequate documentation. Specifically:

- A satisfactory criminal background check on the adoptive parents (providers) was not documented for nine transactions. For six cases, the provider file had been transferred to an off-site record storage facility and could not be located; for the remaining three cases, the documentation was missing or was incomplete. The adoptive family's licensing record (provider file) contains the Department's official documentation that determines if a license may be granted. For six of these transactions, the licensing certificates to support the department's conclusions regarding the criminal background checks were also unavailable.

- For one transaction, the Termination of Parental Rights form (JD-JM 31) for the child was not on file to support the child was eligible for adoption.

- The child's closed adoption file, which includes the adoption decree, child's birth certificate, court documents initially removing the child from the home and terminating parental rights, and other supporting records, could not be located for one transaction. Therefore, we were unable to determine whether the payment met the eligibility requirements of the program.

Effect: The Department's Adoption Assistance claims included $9,354 ($4,677 net Federal reimbursement) in costs that we questioned as lacking adequate documentation at the time of the audit.

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

Cause: The Department either failed to obtain the required documents or subsequently misplaced the content of the case files.

Recommendation: The Department should improve internal controls to ensure that all documents supporting the eligibility of Adoption Assistance are obtained and maintained.

Agency Response: "We agree with this finding. The Department will make necessary claim adjustments for the ten transactions outlined above. In addition, the Department will develop additional procedures for ensuring all required documentation is completed."

F. DEPARTMENT OF EDUCATION

III.F.1. 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 2006-2007 and 2007-2008
Federal Award Numbers: S010A060007 and S010A070007

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: H027A060021 and H027A070021

Special Education–Preschool Grants (IDEA Preschool) (CFDA # 84.173)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: H173A060024 and H173A070024

Improving Teacher Quality State Grants (CFDA # 84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: S367A060006 and S367A070006

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 2006-2007 and 2007-2008
Federal Award Numbers: 2007IN109844 and 2008IN109844

Criteria: In order to determine if Federal programs funded through the Department of Education receive adequate coverage during the audit of subrecipients, Department staff must periodically conduct an effective examination of audited Schedules of Expenditures of Federal Awards (SEFAs).

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

- The Department's monitoring process had failed to disclose and resolve lacking or erroneous identification of Federal programs in five of the 15 (33 percent) SEFAs selected for testing.

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 audited Schedules of Expenditures of Federal Awards were categorized as follows:

- Five of 15 SEFAs had incorrect CFDA numbers.
- Two of 15 SEFAs had program description errors.
- One of 15 SEFAs had an incorrect program code error.

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 which are specifically designed to prevent the recurrence of the improperly reported Federal program expenditures by subrecipients.

Agency Response: "We agree in part. While the Department continues each year to publish instructions that clearly articulate the necessity to report programmatic expenditures through the use of accurate financial coding, it cannot entirely prevent miscoding errors made by a subrecipient that are included in the audited Schedules of Expenditures of Federal Awards (SEFAs). However, the Department can formally develop a post-review process that entails the selection of an appropriate sample of submitted audited SEFAs for testing. The sample would be reviewed for CFDA and CORE-CT coding and program description accuracy, and the results of the test would then be reported to the Department's Office of Internal Audit (OIA). If warranted, OIA would then notify the subrecipient's independent public auditor of the errors found and request that a revised SEFA reflecting the necessary corrections be submitted to the subrecipient, Department and all related parties."

III.F.2. Special Tests and Provisions – Verification of Applications

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 2006-2007 and 2007-2008
Federal Award Numbers: 2006IN109844 and 2007IN109844

Criteria: Pursuant to 42 U.S.C. §1758 (b)(3)(D)(iii), a LEA must verify the data submitted for a sample of benefit applications. The sample size must be the minimum of the lesser of three per cent or 3,000 applications approved for the benefit year selected from error prone applications.

An error prone application is defined in 42 U.S.C. §1758 (b)(3)(D)(i)(aa) as one which "indicates monthly income that is within $100, or an annual income that is within $1,200 of the income eligibility limitation for free or reduced price meals. " If the number of error prone applications is less than the required sample size, 42 U.S.C. §1758 (b)(3)(D)(v) allows the inclusion of "the number of additional randomly selected approved household applications that are required to comply with the sample size requirements. "

The Department is required to verify applications applicable to the Connecticut Technology High School System (CTHSS), which it operates.

Condition: To address the sampling provision of the verification requirement, the Department uses an electronic system to manage its benefit applications. Our review over the Department's use of the system revealed the following:

- The Department was unable to provide us with policies and procedures either written or verbal (this condition was rectified prior to the conclusion of our field work)
- The Department does not perform data validation activities, such as batch totaling
- The staff using the system was not aware of the origin of the system reported total application count; the count greatly exceeded the number of total students in the school system
- The staff using the system could not demonstrate that the applications chosen for verification were taken from the population of "error prone applications" as indicated in program compliance requirements
- The staff using the system did not have sufficient confidence in the system to utilize its capability to generate a sample for verification. Instead, a manual method was used that was not compliant with the requirements as described above

Additionally, with respect to the verification provision of the requirement, the Department attempted to verify 69 applications. Of the 69 attempts, 46 (67 percent) received no response. The Department determined that ten of the remaining 23 applications required a status change from free to reduced or paid. We sampled ten of the remaining 23 applications and found that an additional four of the ten samples (40 percent sample error rate) required a status change from free to reduced or paid. The overall rate of under supported applications from the 69 verification attempts exceeds 85 percent.

Effect: We were not able to determine whether the Department was in compliance with the sampling requirements set forth.

Also, some students were granted benefits in excess of their eligibility. Further quantification would be exceedingly difficult due to USDA regulations which skew the verification sample toward error prone applications and prohibit the Department from expanding the number of applications.

Cause: The Department's controls over this area were not properly designed or implemented.

Recommendation: The Department should design and implement controls over this area to improve initial compliance and to detect and correct instances of non-compliance with the requirement for verification of applications.

Agency Response: "We agree with this finding. A number of changes in the verification process have already been implemented by the district for the 2008-09 cycle, and CTHSS [Connecticut Technical High School System] staff will be contacting our system vendor to resolve the programming and reporting issues noted in the conditions."

III.F.3. Earmarking – Formula Subgrants to Local Education Authorities

Special Education – Grants to States (IDEA Part B) (CFDA# 84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: H027A060021 and H027A070021

Criteria: In order to determine if distributions of Federal funds administered through the State Department of Education (Department) are consistent with the terms specified by Federal authorities, the Department must systematically conduct a prompt and effective examination of all key pertinent data authorized per U.S. Department of Education Grant Award Notifications in comparison to corresponding formula calculations performed by the Department.

Condition: We observed that the Department's internal control over subgrant funding distributions was inadequate, in that we identified a $1,214,675 discrepancy between the aggregate amount authorized by the U.S. Department of Education and the amount per the model subsequently calculated for the same by the Department. This particular situation involved a $110,908,106 aggregate authorized distribution of subgrant funds which yields a relative calculation discrepancy rate of approximately 1.1 percent.

Effect: The Department's model for distributing subgrant funds failed to demonstrate compliance with a fundamental Earmarking requirement. In this particular situation, the Department had calculated an under-distribution of Program funds which could have resulted in a subsequent forfeiture of said funds. However, it would also appear that the Department could have conversely erred in its calculation towards an unforeseen premature depletion of Program funds. In either case, there presently seems to be no determinable limit as to the extent of any such further potential miscalculations, as even a slightly erroneous distribution rate applied to an aggregate grant award amount in excess of $100,000,000 can easily produce a substantial monetary miscalculation.

Cause: This condition was primarily attributable to the absence of clearly assigned responsibility within the Department for ensuring the prompt and effective review of all key pertinent data authorized through U.S. Department of Education Grant Award Notifications in comparison to distributive formula calculations performed by the Department.

Recommendation: The Department should formally assign responsibility for ensuring the prompt and effective review of all key pertinent data authorized through U.S. Department of Education Grant Award Notifications in comparison to distributive formula calculations performed by the Department.

Agency Response: "We agree with this finding. Effective immediately, the request for distribution of IDEA funds will utilize the specific dollar amount (instead of percentages) for 4 all three categories (State Administration, Other State Set-Aside and LEA distribution) as delineated on the *Fiscal Year Allocations, Grants to States, Individuals with Disabilities Education Act-Part B, Section 611 and 619* notification from the Federal government. This document is the initial Federal notification which determines the amounts of dollars for the three categories of funds referred to above."

In addition, when the preliminary *Request of Grant Calculation* is initially submitted to the Bureau Chief and the Associate Commissioner for approval in the spring, it will include as an attachment, the *Fiscal Year Allocations, Grants to States, Individuals with Disabilities Education Act-Part B, Section 611 and 619* notification from the Federal government. Utilizing this procedure, along with the use of dollar amounts from the grant notification, will allow multiple verifications to occur and will ensure that the correct dollar figures are utilized before the Grant Calculation document is forwarded to the Bureau of Grants Management."

III.F.4. Level of Effort – Maintenance of Effort and Supplement not Supplant

Title 1, Part A Improving Basic Grants (CFDA# 84.010)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2006-2007 and 2007-2008
Federal Award Numbers: S010A060007 and S010A070007

Background: The Department of Education operates the Connecticut Technical High School System (CTHSS). As such, the Department of Education is not only the State Educational Authority (SEA) for the Title I program on a Statewide basis but also acts as a Local Educational Authority (LEA) for the CTHSS.

Criteria: In accordance with the OMB Circular A-133 Compliance Supplement, "an LEA may receive funds under an applicable program only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by the Department of Education."

In addition, "an LEA may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources."

Condition: In its role as LEA for the CTHSS, the Department could not demonstrate compliance with OMB's Circular A-133 Compliance requirement, "Level of Effort - Maintenance of Effort" and "Level of Effort - Supplement not Supplant."

Effect: We were unable to determine whether the Department met the "Level of Effort" compliance requirements as LEA for the CTHSS.

Cause: The Department's internal controls were not sufficiently designed or implemented to prevent or detect this potential instance of non-compliance.

Recommendation: The Department should develop and implement the necessary controls to ensure that it can demonstrate its compliance with OMB' Circular A-133 Compliance requirement for "Level of Effort – Maintenance of Effort" and "Level of Effort - Supplement not Supplant."

Agency Response: "We agree with the finding. Department staff is now developing a procedure to ensure that calculations are prepared and filed each year that illustrate the level of effort for the CTHSS [Connecticut Technical High School System] before the Title 1 grant award is made. Internal controls have been developed and are now being implemented to prevent this instance of not having documentation prepared and on file from happening again."

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, 2008
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 only completed a partial physical inventory of equipment and reconciliation to equipment records 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. In fiscal 2007, Inventory Control resumed conducting physical inventories and reconciling the results of the physical inventory to the equipment records through the use of departmental contacts, improved system efficiencies and additional labor. Departmental contacts have begun to conduct and reconcile their own physical inventories according to an annual cycling schedule beginning in 2008. In addition, the University has recently hired two full-time "end-dated" positions to accelerate compliance with OMB Circulars A-21 and A-110. Through these changes we expect to gain optimum results after two full cycles when reconciliations have been completed.

The University is considering 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. Subrecipient Monitoring (University of Connecticut)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:

Criteria: OMB Circular A-133, Subpart D-Section 400 (d)(3) requires that a pass-through entity 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 met.

Condition: An integral component of the University's subrecipient monitoring policy is the review and approval of invoices, by the Principal Investigator of the grant, prior to payment.

We tested the University's monitoring of seven subrecipients who received in total $412,639 during the fiscal year ended June 30, 2008. We noted that seven of seven, or 100 percent, of the invoices for payment to subrecipients were not approved by the Principal Investigator as required.

Effect: The University is not in compliance with OMB Circular A-133, Subpart D-Section 400(d)(3).

Cause: Established internal controls are not being followed and/or functioning as intended.

Recommendation: The University should review the adequacy and enforcement of its subrecipient monitoring policies to help ensure compliance with Circular A-133.

Agency Response: We agree with this finding. Office for Sponsored Programs (OSP) personnel will initiate a review of our subrecipient monitoring policy to identify areas where internal controls need to be strengthened or changed to ensure compliance with OMB Circular A-133. Specifically, we will determine whether the requirement that the Principal Investigator (PI) sign invoices to authorize payment to subrecipients can be effectively monitored through the University's Accounts Payable function. Because of the nature of the work being done, it is imperative that the PI review the invoice to determine if the costs are allowable and the amount being billed is commensurate with the technical progress on the project. The desired internal control is not functioning as intended due to the current process in place for requesting payment through the Accounts Payable function.

Currently, a CO-17 form is used to request payments to subrecipients. While Accounts Payable procedures require that an invoice accompany the CO-17, they do not review the invoice for a signature. Consistent with their current operating procedures, they review the CO-17 for an authorized signature. The University's Signature Authorization Policy applies to this document.

We will initiate a discussion with Accounts Payable personnel to address this concern. It is our understanding that a specific individual in Accounts Payable is responsible for processing payments to subrecipients. If this is the case, it is likely that the desired internal control can be implemented without any significant impact on the Accounts Payable function.

III.G.3. Allowable Costs/Cost Principles – Time and Effort Reporting (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
Nursing Research (93.361):
Account # 522903 – "Resource Use and Patient Outcomes in Medicare Home Care" – 5R01NR005081-06 from the National Institute of Health, project period April 1, 1999 through July 31, 2009
Cardiovascular Diseases Research (93.837):
Account # 522986 – "Phospholipid Signaling in Myocardial Ischemic Injury" – 5R01HL034360-19 from the National Institute of Health, project period September 1, 1994 through July 31, 2010
Account # 522944 – "Transgenic/Knockout Animals in Myocardia Preservation" – 5R01HL056322-11 from the National Institute of Health, project period August 1, 1996 through November 30, 2008

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 verify 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 certification of the charges. Although Circular A-21 doesn't address electronic signatures, they should be acceptable as long as they are functionally equivalent to the traditional "ink on paper" signature, i.e. they are unique and verifiable as executed by the signer.

Condition: We reviewed electronically filed time and effort reports for 40 individuals covering $91,509 of the $28,000,815 in salary payments charged to Federal Research and Development Programs accounts during the 2007-2008 fiscal year. When we started our review in June 2008 we found that three charges for work performed at least three months previously had not yet been certified. They included a charge of $2,639 for one individual to award 5R01NR005081-06 and charges for another individual of $644 to award 5R01HL056322-11 and $644 to award 5R01HL034360-19. There were associated fringe benefit charges of $826 to award 5R01NR005081-06, $202 to award 5R01HL056322-11 and $202 to award 5R01HL034360-19. Although certifications were subsequently provided to us, the fact that they had not been completed three months after the end of the quarter raises questions as to their accuracy. Additionally, we found that the integrity of the certifications made by one researcher had been compromised, as his password had been shared.

Effect: The conditions described above lessen the reliability of the documentation produced by the time and effort reporting system. A reviewer's ability to accurately recall the amount of effort devoted to various tasks can only deteriorate with the passage of time.

Cause: The Health Center monitors time and effort reports in process and follows up on incomplete reports. However, it appears that some researchers do not assign a high enough priority to completing them. Similarly, though the Health Center has made efforts to educate staff members as to the importance of maintaining the integrity of electronic signatures, not all researchers realize the importance of maintaining the security of their passwords.

Recommendation: The University should take whatever steps are required, including disciplinary action as necessary, to impress on staff the importance of completing time and effort reports in a timely manner and discourage the sharing of passwords.

Agency Response: "We agree with this finding."

III.G.4. Cash Management (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
Military Medical Research and Development (CFDA 12.420)
Basic Scientific Research (CFDA 12.431)

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

Condition: In previous reports we noted that, for direct Department of Defense awards, the Health Center was holding enough cash to cover an entire year's worth of expenditures. Although there has been noticeable improvement in this area, the Health Center continued to receive scheduled payments even though balances held were already excessive. The aggregate cash balance held for direct Department of Defense awards decreased from $2,473,442 as of June 30, 2007, to $1,968,816 as of June 30, 2008. This decrease is primarily attributable to an increase in the level of expenditures, which, per the Schedule of Expenditures of Federal Awards increased by $449,675 from $2,324,858 for the 2006-2007 fiscal year to $2,775,384 for the 2007-2008 fiscal year.

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

Cause: Most of the June 30, 2008, cash balance related to four awards under which excess cash balances had accumulated because program expenditures were not incurred at the levels envisioned when predetermined schedules were established. Efforts were made during the audited period to have the Department of Defense adjust predetermined payment schedules to a more realistic level. However, the Health Center did not return funds already received because:

- It was known that the principal investigators for two of the awards planned to leave the Health Center and their awards would be transferred to other institutions.
- The level of expenditures for another grant award had increased to a degree sufficient to expend the funds in a reasonable amount of time.

- Federal grant administrators responsible for the fourth award did not respond to Health Center efforts to take corrective action.

Recommendation: The University should continue its efforts to reduce the excess cash balances accumulated under Department of Defense awards.

Agency Response: "We agree with this finding, however, as stated in the Cause, the Health Center can not make unilateral changes to payment schedules. The Health Center continues to request revisions to payment schedules on DOD grants as appropriate, but these efforts are dependent upon the cooperation of the DOD. As required by DOD contracts, the Health Center annually remits any accrued interest earnings on DOD cash balances.

Since June 30, 2008, the Health Center's cash balance on DOD grants has decreased $838,665, from $1,968,816 at June 30, 2008 to $1,130,151 at January 30, 2009 (after adjustment for a pending transfer). The decrease is due to $463,518 in transfers to other institutions that have or will take place as a result of faculty departures, and grant expenditures exceeding cash receipts by $375,147."

III.G.5. Procurement and Suspension and Debarment (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Education
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities (CFDA 84.325):
Account # 522643 – "Early Intervention Credential" –H325A000021-04 from the Office of Special Education and Rehabilitative Services, project period October 1, 2000 through June 1, 2008.
Account # 522777 – "Center for Personnel Preparation in EI/E ECSE" – H325J020002-06 from the Office of Special Education and Rehabilitative Services, project period January 1, 2003 through December 31, 2008.

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
University Centers for Excellence in Developmental Disabilities Education Research and Service (CFDA 93.632):

Account #523050 – "University Centers for Excellence" –90DD0576/04 from the National Institute of Justice, project period July 01, 2003 through June 30, 2008.
Account #523092 – "University Centers for Excellence" –90DD0576/05 from the Administration for Children and Families, project period July 01, 2003 through June 30, 2008

Criteria: OMB Circular A-110 sets forth standards for use by recipients in establishing procedures for procuring goods and services with Federal funds. These standards call for all procurement transactions to be conducted in a manner to provide, to the maximum extent practical, open and free competition. Section 10a-151b of the General Statutes, which governs purchases by the State's constituent units of higher education, implements procedures that address this requirement. Per Section 10a-151b, all purchases greater than $10,000 must be based, when possible, on at least three competitive quotations. A more formal solicitation process must be followed for purchases greater than $50,000 in amount.

Condition: We conducted a review of contracts funded from restricted grant accounts to determine if they were awarded under a process that complied with the requirements of Section 10a-151b of the General Statutes. During that review we noted seven contracts with three vendors having an aggregate value of $210,200 that had been awarded noncompetitively and were charged to Federal grants. The contract amounts included $90,000 for award H325A000021-04, $89,200 for award H325J020002-06, $25,000 for award 90DD0576/04 and $6,000 for award 90DD0576/05.

Cause: It appears that staff responsible were not aware that the requirements for competition set forth in Section 10a-151b applied to procurements funded from grant funds. This may have created confusion regarding the different requirements pertaining to subgrants made from grant funds and contracts for the purchase of goods and services that are charged to grants.

Effect: The Health Center was not in compliance with the standards set forth in OMB Circular A-110 and Section 10a-151b of the General Statutes, which are intended to ensure that materials and services are obtained in a cost effective manner and in compliance with the provisions of applicable laws and regulations.

Recommendation: The University should award all procurement contracts under a competitive process that complies with the provisions of OMB Circular A-110 and Section 10a-151b of the General Statutes.

Agency Response: "We agree with this finding."

III.G.6. Reporting (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:

Research Related to Deafness and Communication Disorders (CFDA 93.173):

Account # 522541 – "Comparisons of Binaural Processing at Low & High Frequencies" – 5R01-DC004147-6 from the National Institute on Deafness and Other Communication Disorders, project period August 1, 2000 through June 7, 2007

Mental Health Research Grants (CFDA 93.242):

Account # 522860 – "Mental Health Research Infrastructure in Corrections" – 5R24-MH067030-03 from the National Institute of Mental Health, project period February 3, 2004 through January 31, 2009, reporting period through January 31, 2007

Alcohol Research Programs (CFDA 93.273):

Account # 522692 – "Aftercare for Adolescents with Substance Use Disorders" – 5K24-AA013442-05 from the National Institute on Alcohol Abuse and Alcoholism, project period February 1, 2002 through January 31, 2008

Extramural Research Programs in the Neurosciences and Neurological Disorders (CFDA 93.853):

Account # 522763 – "Neuroglial Interactions at the Node of Ranvier" – 5R01-NS044916-05 from the National Institute of Neurological Disorders and Stroke, project period September 30, 2002 through July 31, 2007

Aging Research (CFDA 93.866):

Accounts # 522657 and # 539179 – "Testosterone for Prevention of Fracture in Men" – 3R01-AG018887-05S1 from the National Institute on Aging, project period September 30, 2001 through June 30, 2007

Criteria: Per the National Institutes of Health (NIH) Grants Policy Statement, grantees must submit a final Financial Status Report within 90 days of the end of grant support, unless an extension is granted.

Condition: We tested five Financial Status Reports. Our testing disclosed that none of the five reports were filed on a timely basis.

- Award 5R01-DC004147-6 ended June 7, 2007; the final Financial Status Report was filed July 9, 2008.

- The reporting period for award 5R24-MH067030-03 ended January 31, 2007; the final Financial Status Report was filed September 27, 2007.
- Award 5K24-AA013442-05 ended January 31, 2008; the final Financial Status Report was filed May 28, 2008.
- Award 5R01-NS044916-05 ended July 31, 2007; the final Financial Status Report was filed May 8, 2008.
- Award 3R01-AG018887-05S1 ended June 30, 2007; the final Financial Status Report was filed June 4, 2008.

Cause: Adequate resources were not assigned to the task.

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.

Recommendation: The University should assign resources as necessary to assure that Financial Status Reports are completed within the required timeframe, as prescribed by National Institutes of Health policy.

Agency Response: "We agree with this finding."

III.G.7. Special Tests and Provisions – Key Personnel (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
Oral Diseases and Disorders Research (CFDA 93.121):
Account # 522989 – "Uconn Craniofacial Tissue Repair Regeneration Program" – 5U24-DE016495-02 from the National Institute of Dental & Craniofacial Research, project period September 21, 2004 through August 31, 2008

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
National Center for Research Resources (CFDA 93.389):
Account # 523064 – "Creating Multi-Gene Reporter Mice Via "Recombineering"" – 5R21-RR021707-02 from the National Center for Research Resources, project period August 17, 2006 through July 31, 2009

Criteria: Per NIH Notice Number NOT-08-065, award recipients may hold concurrent support from K (career development) awards and a competing research grant under certain conditions. K awards provide support for scientists seeking training to develop a career in the biomedical field; they are intended to enable promising scientists to gain education and experience.

Under the concurrent support concept, a portion of the award recipient's salary equivalent to the percentage of effort devoted to the research grant may be charged to the K award. The notice establishes a requirement for prior approval, stating that, for submissions to NIH, a letter must accompany the research grant application providing evidence that certain requirements related to the researcher's career development will be met. NIH has not established a policy authorizing award recipients to hold concurrent support from other grant types.

Condition: We reviewed the committed effort for key personnel on five awards. The committed effort requirement on one of the five awards, award 5R21-RR021707-02, included 50 percent effort from a researcher other than the principal investigator during the budget period from August 1, 2007 through July 31, 2008. The award was subsequently extended to July 31, 2009, with the researcher's committed effort requirement reduced to 5 percent effective August 1, 2008. The researcher's employment start date was September 30, 2007. Per the time and effort system, the only effort devoted to award 5R21-RR021707-02 during that period was four percent during June 2008 and five percent during July 2008. The researcher continued at that percentage through December 2008.

We were informed that it was intended that the researcher's effort on award 5R21-RR021707-02 be concurrent with effort on award 5U24-DE016495-02. There were three problems with this. First, prior approval for concurrent effort was not obtained.

Second, the award in question, award 5U24-DE016495-02, was not a K award. Though NIH has authorized concurrent support from K awards, it has not authorized concurrent support from U24 awards. The NIH U24 is a cooperative agreement award mechanism. In the cooperative agreement mechanism, the principal investigator retains the primary responsibility and dominant role for planning, directing, and executing the proposed project, with NIH staff being substantially involved as a partner with the principal investigator. These awards are quite different in concept than K awards, which focus on supporting individuals while they are gaining the experience they need to be fully productive.

Third, as discussed above, the time and effort reporting system did not support the effort devoted towards award 5R21-RR021707-02 and the principal investigator did not prepare supplementary documentation to substantiate that the committed effort requirement was met. In January 2009, the principal investigator asked the grantor to retroactively approve the Health Center's actions.

Effect: Acting in a manner that is inconsistent with Federal guidelines could affect an institution's ability to secure grants in the future.

Cause: We were told that the grantor had previously approved a similar request. It is possible that the principal investigator involved may have misinterpreted this as constituting blanket approval for the practice.

Concurrent support is not common at the Health Center. Accordingly, the time and effort reporting system was not designed to document it, and procedures addressing the preparation of supplementary documentation were not developed.

Recommendation: The University should comply with Federal requirements for prior approval where such is specifically required and whenever actions are contemplated that are not authorized by existing guidance. If the time and effort system cannot adequately document all of a researcher's time and effort, supplementary documentation should be prepared.

Agency Response: "We agree with the finding. "

III.G.8. Special Tests and Provisions – Committed Effort (University of Connecticut Health Center)

Federally-Sponsored Research and Development Programs

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2008
Research and Development Programs:
Various

Criteria: Per the NIH Grants Policy Statement, "Commitment overlap occurs when an individual's time commitment exceeds 100 percent, whether or not salary support is requested in the application, …. commitment of an individual's effort greater than 100 percent, is not permitted. Any overlap will be resolved by the IC [Institute/Center, i.e., grantor] with the applicant and the PI [Principal Investigator] at the time of award."

Condition: It came to our attention that a researcher who was awarded a relatively large number of grants appeared to have allocated more than 100 percent of her effort during prior years. At the time of our review, in December 2008, the Health Center was attempting to resolve this problem as part of the grant closeout process.

As of December 2008, the bulk of the researcher's time and effort for the period from April 2003 through December 31, 2003, was in uncertified status. Though time and effort reports for subsequent periods were certified in a timely manner, those for the period from April 2004 through June 2005 were certified from 11 to 36 months after the end of the quarter. Additionally, it appeared that time and effort reports that were in certified status as of December 2008 had been revised after they had been initially approved, necessitating several cost transfers and at least one refund to the Federal government for a closed grant.

Time and effort reports need to be accurately completed in a timely manner based on work actually performed without regard to salary distribution or level of effort commitments. There is unlikely to be a legitimate reason to postpone completing time and effort reports. In fact, significant delays may make it impossible to construct an accurate record of the actual distribution of effort. The situation described in the preceding paragraph creates the impression that the researcher is delaying the completion of and/or adjusting time and effort reports so that, when finalized, they will show committed effort percentages that satisfy, insofar as possible, all committed effort requirements that are identified during the grant closeout process.

It was also noted that the researcher's time and effort reports allocated no effort or, beginning in January 2007 and extending through the quarter ended October 31, 2008, the last period on file at the time of our review, one percent of effort to departmental administration. As these allocations for departmental administration do not appear adequate, they raise serious questions regarding the accuracy of the percentages of the researcher's time and effort allocated to grant awards, both during the prior periods discussed above and currently.

The researcher needs to provide a reasonable estimate of the actual percentage of effort devoted to departmental administration. If this results in a reduction of percentages previously allocated to grant awards to the point that committed effort requirements were not met, and/or salary support for the researcher was excessive, grantors should be notified and other appropriate actions taken.

Health Center administrators have been aware that there were problems with this researcher's committed effort for some time; these problems should have been fully addressed as soon as they became apparent. The retrospective approach taken is not in accordance with the NIH Grants Policy Statement, which directs that any overlap be resolved at the time of the award.

Effect: The Federal government approves applications based on various factors, one being the commitment of key personnel to devote a specified percentage of their effort to the project. Failure to maintain promised level of effort commitments could affect an institution's ability to secure grants in the future.

Cause: It appears that the researcher in question received a large number of awards in a relatively short period of time. Further, although the Health Center maintains a committed effort log, it does not maintain a monitoring system that aggregates all of a researcher's committed effort at all points in time. Without such a monitoring system, administrators may not detect commitment overlap until well after it has occurred.

Recommendation: The University should enhance recordkeeping systems and practices as necessary to adequately monitor committed effort and address problems at the time of the award, as required by NIH. Time and effort reports should be completed quickly and accurately and, absent extraordinary circumstances, should not be altered after they are certified.

Agency Response: "We agree with this finding. The investigator in question received a large increase in the number of grants in a short period of time. During the period in question (April – December 2003), there was extensive communication between the University to the sponsor agencies to document her effort, as well as any potential overlap in funding. This led to complications in reporting and documenting her direct effort and cost-share commitments within the time and effort system.

Since that time, considerable effort has been made to document effort as appropriate, using companion accounts to document cost share commitments as necessary. Administration and the researcher have recently developed a committed effort matrix that documents effort requirements for all awards and proposals. Adjustments to effort, when required, were made in conjunction with approval of the sponsor as appropriate.

Because the current Time and Effort system ties payroll allocation to effort, a cost transfer is required when effort is reported differently than the payroll allocation. Since January 2007, quarterly time and effort reports have been filed on a timely basis. "

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, 2008:

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 – Maximum Aggregate Loan Limits Exceeded

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Criteria: 34 CFR 682.204(e) states that the unpaid principal amount of all FFEL and Direct Loan funds may not exceed $46,000 for an undergraduate student.

Condition: In total, selected 105 recipients for eligibility testing from several State universities and colleges. Of the 105 in total selected, we selected 38 Title IV recipients from UConn. From this sample of 38 students, we noted one instance in which an undergraduate student at UConn was at the maximum aggregate limit for Federal Stafford loans of $46,000, yet received an additional $3,402 in unsubsidized Federal Stafford loans.

Effect: A student received $3,402 in FFEL loans that he was ineligible to receive. We are treating this amount as a questioned cost. Total FFEL awards in our sample were $344,532, while the total of FFEL awards at UConn was $107,522,746.

Cause: Noncompliance with the University's internal awarding procedures was the cause of this condition.

Recommendation: The University should follow its internal procedures in the awarding of FFEL loans in order to comply with the maximum aggregate loan limits stipulated in 34 CFR 682.204(e).

Agency Response: *UConn:* "We agree with this finding."

III.H.2. Student Eligibility – Direct Loans Packaging

Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Criteria:

- 34 CFR 685.203 establishes loan limits for subsidized and unsubsidized Direct Loans. Limits are based on graduate/undergraduate, independent/dependent status, and class rank (determined by the University according to the number of credits earned). Qualification for subsidized loans is based on financial need, which is defined as the student's cost of attendance less expected family contribution and other resources.
- Central CSU's established procedures are to add health insurance premiums to a student's cost of attendance budget and then record the

cost as a resource. The resource is then subtracted from the Cost of Attendance to arrive at gross need, the basis for financial awards.

Condition: In total, we selected 105 recipients for eligibility testing from several State universities and colleges. Of the 105 in total selected, we selected 13 Title IV recipients from Central CSU. From this sample of 13 students, we noted the following:

- Two students whose Direct Loan amounts were incorrect. The first student's Direct Subsidized Stafford loan was overstated by $329, and he received $255 more in Federal aid than his cost of attendance.

  The second student's Direct Subsidized Loan was overstated by $423 and his Direct Unsubsidized Loan was overstated by $475.

- One student's Cost of Attendance budget was reported incorrectly in the Financial Aid module in Banner.

Effect:

- These students received more Direct Loan funds than they were entitled to receive.
- The student's cost of attendance was reported incorrectly.

Cause:

- A health insurance premium incorrectly added to the cost of attendance for each of these students.
- A health insurance premium waiver program was not run each time a student's Institutional Student Information Record was brought into the Financial Aid module.

Recommendation: The University should develop procedures to ensure compliance with Federal cost of attendance regulations.

Agency Response: *Central CSU:* "We agree with this finding."

III.H.3. Student Eligibility – SMART Grants

Federal National Science and Mathematics Access to Retain Talent Grant (CFDA # 84.376)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Background: In February 2006, the Higher Education Reconciliation Act of 2005 (HERA) was signed into law. The Act established two new Title IV programs for the

2006-2007 award year. One of these new programs was the National Science and Mathematics Access to Retain Talent Grant, commonly referred to as the SMART Grant.

Criteria: 34 CFR 691.7(b) states, "An institution that offers one or more eligible programs, as defined in Section 691.2(d), for purposes of the National SMART Grant Program, and that participates in the Federal Pell Grant Program under 34 CFR part 690 must participate in the SMART Grant Program."

Condition: During our analysis of Financial Aid awards by program at Southern CSU, we noted that the University did not award a SMART Grant to any students during award year 2007-2008. Our inquiry revealed that the University was unaware of the requirements under 34 CFR 691.7(b).

Effect: Students who were entitled to receive a SMART Grant did not receive them until the auditor made the Financial Aid Office aware of the requirements.

Cause: The University was unaware of the requirements of 34 CFR 691.7(b).

Recommendation: The University should improve internal controls related to the awareness of new Title IV programs.

Agency Response: *Southern CSU:* "We agree with the finding."

III.H.4. Student Eligibility – FFEL Loans Packaging

Federal Family Education Loans (CFDA # 84.032)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Criteria: 34 CFR 682.204 establishes loan limits for subsidized and unsubsidized loans. Limits are based on various criteria pertaining to each student.

Condition: Qualification for a subsidized loan is based on financial need; qualification for an unsubsidized loan is not based on financial need. In total we selected 105 recipients for eligibility testing from several State universities and colleges. Of the 105 in total selected, we selected 15 Title IV recipients from Southern CSU. From this sample of 15 students, we noted an instance in which a student did not receive the maximum subsidized loan she was qualified to receive. The student should have received $750 more in subsidized loans rather than in unsubsidized loans.

Effect: The student incurred a higher cost of repayment since the US Department of

Education pays the interest cost on subsidized loans.

Cause: An error in the packaging process appears to be the cause.

Recommendation: The University should ensure that the packaging process evaluates students for subsidized loan eligibility.

Agency Response: *Southern CSU:* “We agree with the finding.”

III.H.5. Student Eligibility – Components of Cost of Attendance Budgets

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: 2007-2008

Background: Institutions establish student cost of attendance budgets which consist of various components, including tuition and fees, transportation costs, room and board, books, miscellaneous personal expenses, etc. The amounts used to support tuition and fees would be actual costs for the student’s academic courseload.

For items such as room and board, costs may vary depending on the student’s enrollment and on whether the student is residing in University-provided housing, lives off campus, or with their parents. For University-provided housing, costs can be objectively determined. For students not living on campus, the cost should be based on expenses reasonably incurred by the student.

Criteria: Section 472 of the Higher Education Act of 1965 defines cost of attendance for “all other students” as “an allowance based on the expenses reasonably incurred by such students for room and board.”

Condition: During our testing of eligibility at Southern CSU, we noted that the cost of attendance budgets for room and board/meals for various categories of students did not reasonably represent the students’ costs to attend the University. Room and board costs for a half-time in-state student were estimated at less than ten percent of the costs of a full-time in-state student.

In addition, the board/meal allowance for full-time in-state students living on campus is approximately $1,400 higher than the allowance for full-time in-state students living off campus.

Effect: Using a cost of attendance that does not adequately represent the student's actual room and board costs may prevent the student from obtaining sufficient financial aid to cover expenses.

Cause: The cause is unknown.

Recommendation: The University should re-evaluate components of the student budgets to ensure that they are supported by reasonable costs of attendance and, where applicable, actual costs of attendance.

Agency Response: *Southern CSU:* "We agree with the finding."

III.H.6. Student Eligibility – Cost of Attendance Inaccuracies

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: 2007-2008

Criteria: Adequate controls over the Financial Aid awarding process require that data be entered correctly and processed correctly by the institution's information system.

Condition: In total, selected 105 recipients for eligibility testing from several State universities and colleges. Of the 105 in total selected, we selected 38 Title IV recipients from UConn. From this sample of 38 students, we noted four separate instances in which either a data entry error or unknown system processing error resulted in an incorrect cost of attendance for three students.

Effect: These errors resulted in the incorrect cost of attendance being recorded for these three students.

Cause: Either data entry error or unknown system processing error were the causes of these conditions.

Recommendation: Data should be entered and processed correctly in the Financial Aid awarding process.

Agency Response: *UConn:* "We agree with this finding."

III.H.7. Period of Availability of Federal Funds

Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Criteria: Per the Campus-Based Program Funding Statement of Account, the grant period for the Federal Supplemental Educational Opportunity Grants (FSEOG) was July 1, 2007 through June 30, 2008. Federal funds must be obligated within this period.

Condition: Supplemental Educational Opportunity Grants totaling $2,775, which consisted of $2,081 in Federal SEOG funds and $694 in state matching funds, were awarded to two students in September 2008; this is after the period of availability for FSEOG funds.

Effect: FSEOG funds totaling $2,081 were not obligated within the period of availability. We are treating this amount as a questioned cost.

Cause: The University received additional FSEOG funding of $2,081 on September 18, 2007. This was not allocated to the program on the University's Financial Aid system or accounting records until after the end of the grant period.

Recommendation: Federal funds should be allocated to the program upon notification from the US Department of Education. Prior to the end of the grant period, the Office of Sponsored Programs should notify the Financial Aid Office of any unexpended authorizations available.

Agency Response: *UConn:* "We agree with this finding."

III.H.8. 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: 2007-2008

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 for verification testing at UConn. From this sample we noted the following:

- The adjusted gross income (AGI) figure and the income tax paid figure on the income tax returns for one student did not agree with the reported amount on the Institutional Student Information Record (ISIR).
- A field in the PeopleSoft Financial Aid system normally includes a comment that verification has been completed on an individual student. For two students, that field did not include such a comment.
- The parent(s) income tax return was not signed as required in one instance. In this instance, the parent's tax return contained the student's signature.

Effect: The University was not in compliance with verification requirements.

Cause: Established verification procedures were not followed.

Recommendation: The University should complete verification in accordance with Federal regulations.

Agency Response: *UConn:* "We agree with this finding."

III.H.9. Special Tests: Disbursements – Requirements Related to FFEL and Direct Loan Funds

Federal Family Education Loans (CFDA # 84.032)
Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Background: *UConn:* Per the US Department of Education, it is the borrower of the loan who has all rights to the loan. In the case of PLUS loans to a dependent student, the parent is the borrower.

Central CSU: In our audit of fiscal year 2006, we noted that Direct Loan borrowers were not notified of the date and amount of the disbursement. This notification is required by 34 CFR 668.165. These student borrowers received a mass notification through the Central "Pipeline" advising them that they have the right to cancel or reduce their loan award and to contact the Financial Aid Office if they wished to do so. The loan disbursement was not included in this notification. Students who received Direct Loan disbursements after the mass notification received no notification of any kind. We also noted that the University did not notify parent borrowers who receive Direct Loans that the loan had been or would be disbursed.

Criteria: Per 34 CFR 668.165(a)(2), if an institution credits a student's account at the institution with Direct Loan, FFEL or Federal Perkins Loan Program funds, the institution must notify the student, or parent [in the case of PLUS loans] of – (i) The date and amount of disbursement; (ii) – The student's right, or parent's right, to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan; and (iii) The procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement.

Per 34 CFR 668.165(a)(3), the institution must send the notice described in paragraph (a) (2) in writing no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution.

Condition: From 38 students selected for eligibility testing at UConn, 36 received FFEL funds. From this sample of 36 FFEL recipients, we noted the following:

- No email notification of the crediting of their student account was sent to five of the 36 students.

- It is the University's policy to notify the student of the credit of PLUS loan funds to their student account. Eight of the 36 FFEL recipients received PLUS loans; we noted that one of these eight students was not notified of the credit of PLUS loan funds to her account in the Fall 2007 semester.

- During the audited period, there was no evidence to indicate that the parent borrower was notified of the date and amount of the disbursement of PLUS loan funds to the student's account, the right to cancel all or a portion of the loan disbursement, or the procedures and time by which the University must be notified that the borrower wishes to cancel the loan or loan disbursement.

- One student had a credit balance in her student account resulting from the disbursement of PLUS loan funds to the account. The credit balance was returned to the student, rather than to the parent borrower. The University did not have the authorization to make this payment to the student rather than to the parent.

Although Central CSU has developed procedures to provide the required notifications to students and parents that their loans have been disbursed, those procedures have not been performed consistently and do not provide evidence of compliance with regulations.

Effect: These institutions were not in compliance with disbursement requirements related to FFEL or Direct Loan program funds.

Cause: UConn:

- The cause is unknown.

- The cause is unknown.

- There was no audit trail to indicate that the parent borrower was notified of the credit of PLUS loan funds to the student's account; nor was there a trail to indicate that the parent borrower was notified of any rights available to them as the borrower.

- During our audited period, the University refunded the excess balance of PLUS loan funds to the student without parent authorization.

Central CSU:
The Financial Aid module in Banner, the University's information system, does not provide the capability to notify individual students and parents by email of loan disbursements. The procedures that have been developed by the University involve multiple steps to provide that notification. The Financial Aid Office did not perform these procedures consistently.

Recommendation: These universities should comply with the requirements related to the disbursement of Federal loan funds and any procedures developed as a result should be performed consistently.

Agency Response: *UConn:* "We agree with the finding."

Central CSU: "We agree with the finding."

III.H.10. Special Tests: Disbursements – Mid-year Transfers in to the Institution

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: 2007-2008

Criteria: 34 CFR 668.19 requires the institution to obtain information from the National Student Loan Data System (NSLDS) on a student who previously attended another eligible institution. This information must be obtained prior to disbursing Title IV funds.

For a student who transfers to the institution in mid-year, Dear Colleague Letter GEN-01-09 further clarifies this criteria by requiring that the information from NSLDS must be obtained no earlier than 30 days before the first day of the student's payment period.

Condition: We noted an instance in which a student transferred into UConn for the Spring 2008 semester. Documentation in the Financial Aid Office's information system states that the student attended a different institution until December 1, 2007. The student transferred to UConn for the Spring semester, and Title IV funds were credited to his account on January 24, 2008. The NSLDS was contacted by UConn on December 19, 2007, which is more than 30 days prior to the start of the semester on January 22, 2008. UConn then contacted the NSLDS on February 6, 2008, which is after Title IV funds had been disbursed.

Effect: The University was not in compliance with the requirements for contacting the NSLDS on a student who transfers in to the institution in mid-year.

Cause: The cause is unknown.

Recommendation: The University should comply with the requirements for contacting the NSLDS on students who transfer in to the institution in mid-year.

Agency Response: *UConn:* "We agree with the finding."

III.H.11. Special Tests: Student Status Changes

Federal Family Education Loans (CFDA # 84.032)
Federal Direct Loan Program (CFDA # 84.268)
Federal Award Agency: Department of Education
Award Year: 2007-2008

Background: *Central CSU:* The University establishes a schedule of student roster submissions for each award year and submits that schedule to the National Student Clearinghouse (NSC). When a student withdraws immediately after a student roster is sent to the NSC, the student's withdrawal most likely will not be reported within the required time frame. The NSC has suggested that the University, among other institutions, submit an additional roster in order to ensure compliance with Federal regulations. The University has revised its schedule for award year 2008-2009 and added an additional submission.

Criteria: 34 CFR 682.610(c) requires that changes in enrollment of FFEL recipients 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.

34 CFR 685.309 applies similar reporting criteria to institutions disbursing Direct Loans.

Condition: From a sample of 25 students who received FFEL funds and also separated from UConn, we noted the following:

- Six students' changes in enrollment status were not reported to the National Student Loan Data System (NSLDS) within 30 days (a roster file would not be expected within 60 days).
- An incorrect status first-started-date was reported to the National Student Clearinghouse (Clearinghouse) for two borrowers.
- The enrollment status and status first-started-date for one borrower was reported incorrectly to the Clearinghouse.

From a sample of ten students who received FFEL funds and also separated from Western CSU, we noted the following:

- One student was reported as full-time when she had actually withdrawn four months earlier.
- Two students were reported as withdrawn when they had actually

graduated.

- One student was reported as being on leave-of-absence when he had actually withdrawn.

- The correct status of another student was not reported to the NSLC within the required 60 days.

From a sample of 11 Direct Loan recipients at Central CSU, we noted that the University did not report to the NSC within 60 days the change in status of two students who had withdrawn from the University.

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: UConn:

- Because the University submitted enrollment data three times a semester, the first subsequent-of-term submission was generated more than 45 days after the first-of-term submission, which caused the reporting of one student's change in enrollment status of withdrawn to be delayed.

  A Summer Transmission should be provided at the beginning and end of each Summer session. It allows students who were enrolled in the Spring and Summer, but are not returning in the Fall, to be reported as withdrawn. The University submitted one Summer Transmission at the end of the Summer session which included only one student with an enrollment status of withdrawn.

  Because of transmission issues, the reporting of three students who graduated was delayed.

- One student whose anticipated graduation date was the end of the Spring semester did not graduate until the end of the Summer term. His status first-started-date was reported as the end of the Spring semester.

  Another student, whose registration was cancelled, was reported with a status first-started-date of the effective date of the change on the University's registration system rather than the end of the previous semester that he last attended.

- Also, the Clearinghouse did not process students with a graduated enrollment status who were submitted by the University on its degree verify runs before the actual conferral date. This caused one student in our sample to be shown as withdrawn at the end of the Spring semester on the first-of-term submission for the subsequent Fall semester, rather than graduated, effective at the end of the Summer term.

Western CSU:
The cause is unknown.

Central CSU:
The students withdrew shortly after submission of a roster to the NSC. Therefore, the students' withdrawals were not reported until the next roster submission.

Recommendation: UConn and Western CSU:
These universities should send enrollment data to the National Student Clearinghouse at least four times during the semester. In those instances in which a change in enrollment occurs but a roster file is not expected within 60 days, the University should develop procedures to report the change in enrollment to the lender/guarantor within 30 days.

Resolution: Central CSU:
The University has resolved the issue by adding an additional submission to the schedule. This should ensure compliance with Federal regulations.

Agency Response: *UConn:* "We agree with this finding."

Western CSU: "We agree with the finding."

I. DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

III.I.1. Reporting

Home Investment Partnerships Program (CFDA #14.239)
Federal Award Agency: Department of Housing and Urban Development
Award Year: State Fiscal Year 2007-2008
Federal Award Number: M07-SG090100

Criteria: Each recipient who receives directly from the Department of Housing and Urban Development (HUD) financial assistance shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of Section 3. Where the program providing the Section 3 covered assistance requires submission of an annual performance report, the Section 3 report will be submitted with that annual performance report. (24 CFR 135.90)

Condition: The Department did not submit the Section 3 report with its annual performance report for the 2007 program year (July 1, 2007 – June 30, 2008).

Effect: HUD's ability to monitor program recipient's compliance with Section 3 is diminished.

Cause: The Department informed us that it reports on Section 3 compliance in their annual performance report to HUD. Data is collected quarterly from their sponsors, and a cumulative response is provided to HUD. We were informed that the Department has had significant discussions with the HUD local office on this issue in the past, and believe that they are in compliance with HUD's direction on this issue.

Recommendation: The Department should submit the Section 3 report with its annual performance report.

Agency Response: "We agree with this finding in part. The Department does report on Section 3 compliance in our annual performance report as is required by HUD. However, the Department did not report on the Section 3 Summary Report, HUD Form 60002, nor has our HUD office required that the aforementioned form be submitted. The Department will report on Section 3 compliance using HUD Form 60002 beginning with the 2008 Performance Evaluation Report."

III.I. 2 Special Tests and Provisions – Drawdowns of HOME Funds

Home Investment Partnerships Program (CFDA #14.239)
Federal Award Agency: Department of Housing and Urban Development
Award Year: State Fiscal Year 2007-2008
Federal Award Number: M07-SG090100

Criteria: The Integrated Disbursement and Information System (IDIS) is used both to collect information on compliance with program requirements and to disburse HOME funds. Participating jurisdictions (or their authorized representatives) are required to have different staffs setting up projects and drawing down funds. (24 CFR section 92.502).

Condition: Our review of the IDIS Security Administrator User Profile List identified four users who were authorized to both set up projects and draw down funds. The profile list identifies which IDIS functions an IDIS user is authorized to use.

Effect: An individual could setup a project in IDIS and request a drawdown of funds on the project.

Cause: Internal controls were not in place that ensured that incompatible access privileges were not authorized for IDIS system users. We were informed by the Department that staff setting up projects are different from those drawing down funds. We attempted to verify the Department's representations by contacting IDIS Technical Support and inquiring whether IDIS internally identified specific individuals setting up projects and individuals drawing down funds. We were informed by IDIS technical staff that IDIS does not identify this type of information and were referred by technical staff to the IDIS Security Administrator User Profile List.

Recommendation: The Department should ensure that IDIS system users are not authorized with incompatible access privileges.

Agency Response: "We do not agree with this finding. Substantial internal controls exist, above and beyond those required by HUD, to prevent the same individual from both setup and drawdown on a single project. IDIS requires that there be a segregation of responsibilities between project setup and drawdown's on the same project, and the Department has established internal controls to ensure that this occurs. At no time or situation did a single individual both setup and drawdown on the same project. The Department's procedures require that three individuals are involved in a project related transaction in IDIS. One person sets up the project in IDIS; another person records and requests a drawdown of funds on the project; a third supervisory person must then approve the drawdown in IDIS before the draw can occur. This is an additional layer that is not required by HUD.

There appear to be inconsistencies between the security setup and operation of IDIS and the OMB Circular A-133 testing requirements. HUD does not require that staff who have setup privileges be prevented from having drawdown privileges. If HUD wanted to prohibit that practice it would be done through the IDIS security. To date, DECD continues to be in compliance with HUD and IDIS requirements for both project setup and drawdowns."

Auditors' Concluding Comment:

Federal agencies are responsible for annually informing the Office of Management and Budget (OMB) of any updates to OMB Circular A-133. The auditor attempted to apply the suggested audit procedure identified under the Home program's Special Tests and Provisions Requirements, "Drawdown of Home Funds" contained in the Circular. The procedure directs the auditor to verify that persons setting up projects were not the same person as the person drawing down funds. The auditor was unable to execute this procedure because IDIS does not internally identify specific individuals setting up projects or individuals drawing down funds. The auditor determined that alternate procedures were necessary in order to achieve the separation of duties compliance audit objective and concluded that reviewing access privileges in IDIS would accomplish this.

J. BOARD OF EDUCATION AND SERVICES FOR THE BLIND

III.J.1. Cash Management

Rehabilitation Services–Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Education
Award Years: Federal Award Years 2005-2006, 2006-2007 and 2007-2008
Federal Award Numbers: H126A060008, H126A070008 and H126A0800008

Criteria: 34 CFR Section 80.21 provides that grantees may be paid in advance if the time elapsed between the Federal transfer of funds to the grantee and the disbursement of those funds by the grantee is minimized.

31 CFR Section 205.33 requires that the State minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. Also, the timing and amount of fund transfers must be as close as is administratively feasible to a State's actual cash outlay for program costs.

On the payment request submitted by the Department of Administrative Services (DAS) to the U.S. Department of Education is a certification that states "I certify, by processing this payment request and/or reallocation, that the funds are being expended within three business days of receipt for the purpose and condition of the grant or agreement."

Title 34 CFR Section 76.702 requires that a State shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

Title 34 CFR Section 76.731 requires a State to keep records to show its compliance with program requirements.

Condition: The Available Cash Trial Balance Report on Core-CT shows cash balances of $285,526 and $322,484 as of June 30, 2007 and 2008, respectively. We were informed by DAS staff that there should be a zero balance of cash on hand because drawdowns are made after cash has been disbursed by the State. However, DAS does not reconcile cash on hand to Core-CT and had no explanation for the Core-CT balances.

We calculated cash balances assuming a zero balance after the last drawdown in June 2007. When we did this, we found four instances when cash was drawndown in the 2007-2008 fiscal year and held more than three business days before being disbursed. The excess over three days ranged from one to eight days.

Effect: Without a reconciliation to the official Core-CT records, we cannot be certain as to the amount of cash on hand in excess of the three days allowed by the U.S. Department of Education. BESB and DAS cannot be certain as to the cash on hand and that there was compliance with Federal cash management requirements.

Cause: There was inadequate monitoring of cash balances. We were informed that DAS reconciles cash receipts and expenditures to Core-CT, but does not reconcile cash balances to Core-CT. Also, expenditures were transferred from Federal accounts to State accounts (to charge as matching) after drawdowns of Federal funds were made based on the original charges to Federal funding.

Recommendation: Cash management should be improved to ensure compliance with Federal requirements. Cash balances should be monitored and reconciled to the official records maintained on Core-CT.

Agency Response: "DAS agrees with the auditor that it does not reconcile cash on hand to the Available Cash Trial Balance Report used during the audit. DAS does reconcile Core-CT General Ledger balances to the Federal Department of Education G5 system prior to each draw down of Federal funds. These receivable drawn down records are maintained and on file. DAS will review the report and work with the Comptrollers and/or Core-CT support to investigate and reconcile any differences in the report to other General Ledger and Federal Reports used."

III.J.2. Period of Availability

Rehabilitation Services–Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Education
Award Year: Federal Award Year 2005-2006
Federal Award Number: H126A060008

Criteria: Pursuant to 34 CFR Section 361.64, grant awards may be obligated during the grant year and the succeeding Federal fiscal year (FFY), provided the matching requirement was met in the first FFY. Also, program income may be obligated in the FFY received and in the succeeding FFY.

Expenditures of the 2005-2006 grant award, and of program income received during the 2005-2006 FFY, were required to be obligated by September 30, 2007, and liquidated by December 31, 2007.

Title 34 CFR Section 76.731 requires a State to keep records to show its compliance with program requirements.

Condition: Expenditures of the 2005-2006 FFY grant award and program income possibly made after the period of availability total $334,768. We were informed that the Department of Administrative Services (DAS) reviews each disbursement to ensure that it is within the period of availability, and, we did not identify specific expenditures in noncompliance. However, complete support was not maintained to support the total obligations unliquidated at the September 30, 2007, end of the period of availability, as described below.

FFY 2005-2006 grant expenditures after September 30, 2007, totaled $483,660. Of that amount, $199,257 was supported by payroll and a list of other expenditures obligated prior to September 30, 2007. We were not provided with evidence that the remaining $284,403 was obligated before September 30, 2007.

On SF-269 Financial Status Reports, the Agency reported that $115,830 of FFY 2005-2006 program income was disbursed between September 30, 2007 and December 31, 2007. However, expenditures posted to Core-CT after September 30, 2007, totaled $129,848. Of that amount, $79,483 was supported by a list of expenditures obligated prior to September 30, 2007. We were not provided with evidence that the remaining $50,365 was obligated before September 30, 2007.

Effect: We question the following expenditures made after the September 30, 2007, deadline for obligating the 2005-2006 FFY grant award and program income received during that year:

- $284,403 of the grant award, and
- $50,365 of program income.

Cause: Many accounting adjustments were made to the expenditures for this Federal Program. This indicates lack of control over how the State uses the funds for each grant award and makes it difficult to monitor compliance with period of availability requirements. Although we were informed that DAS reviews each disbursement, and its original coding, to ensure that it is within the period of availability, complete support for the total obligations unliquidated as of the September 30, 2007 deadline for obligations was not maintained.

Recommendation: Grant awards and program income should be obligated in compliance with period of availability requirements. Complete support for total obligations unliquidated as of the September 30th end of period of availability date should be maintained.

Agency Response: "DAS agrees with the finding. BESB's purchasing department discontinues the use of the budget reference designating the closing grant year on purchase orders [POs] of September 30th of each year. This ensures that only POs posted prior to October 1st of each year and corresponding expenditures liquidated prior to December 31st of the applicable year are posted in Core to the proper Federal fiscal year. Also, disbursements made between October 1st and December 31st are reviewed to ensure compliance to the period of availability. In order to comply with the recommendation of the auditors, BESB will run a detailed Purchase Order Report (CTPOR313) for all VR [vocational rehabilitation] accounts as of September 30th of each future fiscal year. This report will list total unliquidated obligations by purchase order as of September 30th and will be used to verify that matching expenditures are within the period of availability. DAS will run expenditure reports as of December 31st of each year to match expenditures to purchase orders."

III.J.3. Financial Reporting

Rehabilitation Services–Vocational Rehabilitation Grants to States (CFDA # 84.126)
Federal Awarding Agency: Department of Education
Award Years: Federal Award Years 2005-2006, 2006-2007 and 2007-2008
Federal Award Numbers: H126A060008, H126A070008 and H126A0800008

Criteria: The Agency is required to report the status of grant funds, including those obligated, liquidated and unliquidated on the SF-269 Financial Status Reports.

U.S. Department of Education Policy Directive RSA-PD-06-08 requires that the RSA-2 reports include all expenditures, which are to include unliquidated obligations, made during the Federal fiscal year from Federal, State and other rehabilitation funds. It must reflect all expenditures charged to Section 110 [State Allotments, CFDA 84.126] and Title VI-B [Supported Employment CFDA 84.187] Federal funds and program income funds.

Title 34 CFR Section 76.730 requires that a State shall keep records that fully show how the State uses the funds, the total cost of the project, the share of that cost provided from other sources and other records to facilitate an effective audit.

Title 34 CFR Section 76.731 requires a State to keep records to show its compliance with program requirements.

Condition: The Department of Administrative Services (DAS) submitted the SF-269 and RSA-2 Reports for the Board of Education and Services for the Blind (BESB). We found unreconciled variances between amounts reported and receipts and expenditures recorded on Core-CT, as detailed in the following sections.

SF-269 Reports:

Quarter Ended June 30, 2008 Report:

- Program income receipts for the 2007-2008 FFY grant were reported as \$12,916 and recorded as \$23,723 on Core-CT, a variance of \$10,807. The receipt occurred in June 2008. That amount was posted to the General Ledger in Core-CT in June 2008 and to the Appropriation Ledger in Core-CT in July 2008. DAS used the July date for its reporting.
- State matching was reported as \$958,603 for the 2006-2007 FFY grant award and totaled \$1,055,752 on Core-CT, a variance of (\$97,149).

Quarter Ended December 31, 2007 Report:

- State matching was reported as \$978,035 for the 2005-2006 FFY grant award, and totaled \$889,931 on Core-CT, a variance of \$88,104.

RSA-2 Report for the 2006-2007 FFY:

The RSA-2 Report is to show expenditures, both those liquidated and those obligated. We prepared an analysis using expenditures per Core-CT and obligations reported on SF-269 reports. This analysis showed a variance of \$271,693 between the audit calculation and the total reported on the RSA-2 Report. It should be noted that support for the obligations was not available (as reported under period of availability above); however, the amounts reported on the SF-269 and on the RSA-2 reports should agree.

The RSA-2 report is to reflect activity of multiple Federal programs. Amounts reported are totals of all applicable programs. We were unable to obtain the actual breakdown of expenditures reported by Federal program or grant award. Because of this we cannot be certain to which Federal program or grant award the above variances are attributable. However, activity of CFDA 84.126 comprises the majority of expenditures reported and we are therefore reporting the entire variance under this CFDA number.

Effect: Amounts reported on SF-269 and RSA-2 reports are not fully supported.

Cause: Lack of adequate recordkeeping and procedures caused the above conditions.

Recommendation: Complete records should be maintained to support SF-269 and RSA-2 Reports. Reported amounts should agree with official accounting records maintained in Core-CT or should be reconciled to those records.

Agency Response: "DAS agrees with the finding. The RSA-2 report is a snap shot of Annual Vocational Rehabilitation total expenditures and program activity as of September 30th of the Federal fiscal year. The report combines Core-CT, SF 269, and BESB case management software reports into this one Federal report. Per RSA Policy Directive RSA-PD-06-08 – for the purposes of the report, expenditures include unliquidated obligations. The variances outlined in the auditor's analysis are attributed to several factors including the overlapping of Budget references (State and Federal Fiscal Years) and the differences in the reporting of unliquidated obligations between the RSA-2 and the SF 269, and the analysis. DAS and BESB will seek technical assistance and clarifying guidance from the U.S. Department of Education, Rehabilitation Services Administration to ensure that all necessary documentation to support the accuracy of the RSA-2 submission is available for future audits."

K. DEPARTMENT OF TRANSPORTATION

III.K.1. Allowable Costs/Cost Principles – Federal Reimbursement for Non-Participating Expenditures

Highway Planning and Construction (CFDA 20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration (FHWA))
Award Year: State Fiscal Year Ended June 30, 2008
Federal Project Number: 1093 (108)
State Project: DOT00930153CN

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: The Department began using a new Federal billing computer system effective with the 2007-2008 State fiscal year. During our review of the new Federal billing procedures we noted an instance in which the Federal Government was billed $65,919 for costs that were not an authorized activity per the project Federal aid agreement. In response to this finding we performed a special procedure in which we selected 60 Federal aid agreements, to test whether the project activities were properly set up in the billing system and whether there were any other billings for unauthorized activities. We noted that twelve of the 60 agreements we tested had project activities set up in the billing system which were not Federally participating per the Federal agreements. None of them had overbilling because there were no charges to those activities. Any charges to those activities would have resulted in overbilling and could result in overbilling in the future if they are left uncorrected in the billing system. We were told that the Federal Billing Unit is reviewing the Federal aid agreements and correcting the information in the billing system, as necessary.

Effect: The Federal Government was overbilled by $65,919. This overbilled amount was corrected in October 2008.

Cause: Errors were made at the point of initial entry which resulted in activities being authorized for Federal billing even though they were not authorized per the Federal aid agreements.

Recommendation: The Department's Federal Billing Unit should continue its review of the Federal aid agreements and the activities authorized, and make the necessary corrections in the Federal billing system for those activities that are not authorized per the Federal agreements but are eligible for billing per the billing system.

Agency Response: "We agree with this finding. The Department had also recognized this weakness in the implementation process of the Customer Contract Module. The development and use of watchdog reports identified the potential to bill the Federal government for unauthorized charges. Once the weakness was identified, steps were taken to correct the known errors and identify any other potential charges. With most of these charges being coded to State Special Identifier (SID) 42925, all projects were analyzed with this special State funding source to identify problem projects and corrective action was initiated.

Going forward, a Project Analysis Worksheet was prepared as part of the Project Initiation/Modification process. This worksheet details the approved funding for each Project/Activity combination which is used as the basis to populate the Core-CT Customer Contract to ensure that only activities funded with Federal funding are processed for payment. If changes are made to Federally eligible activities or funding sources, an expenditure review is performed to ensure that necessary corrections are made to previous transactions."

III.K.2. Matching Requirements – Federal Billing in Excess of the Authorized Participation Rate

Highway Planning and Construction (CFDA 20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration (FHWA))
Award Year: State Fiscal Year Ended June 30, 2008
Federal Project Number: H014 (002)
State Project: DOT00180113CN

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 100 percent Federal participation for a portion of the project and 80 percent for the rest. The Department billed the FHWA for an expenditure at the 100 percent Federal participation rate rather than the 80 percent rate that should have been used. The Department was aware of the overbilling prior to our review and computer programmers provided the Department with procedures on how to manually correct the Federal participation rates in situations such as the one noted.

Effect: The error resulted in the Federal Government being overbilled by $543,000. This overbilled amount was corrected in December 2008.

Cause: The error was caused by an apparent flaw in the Federal billing computer program that caused the remaining portion of a payment to be billed at 100 percent instead of 80 percent, even though the entire portion of the project that allowed 100 percent participation was used up.

Recommendation: The Department's Federal Billing Unit should monitor transactions for projects with varying Federal participation rates to ensure that the proper amounts are billed.

Agency Response: "We agree with this finding. The Department worked with Core-CT staff to resolve the issue which caused the error. The over billed amount was corrected. The Department's Federal Billing Unit will closely monitor the transactions being processed when there is a change in Federal participation to ensure that over/under billing does not take place as part of managing the Over the Limit (OLT) process."

III.K.3. Subrecipient Monitoring – Regional Planning Organizations (RPOs)

Highway Planning and Construction (CFDA 20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration (FHWA))
Award Year: State Fiscal Year Ended June 30, 2008

Criteria: Per 49 CFR 18.40 (a), grantees are responsible for monitoring subgrant supported activities to assure compliance with applicable Federal requirements and to assure that performance goals are being achieved.

Condition: During the audited period the Department provided FHWA funds to 15 RPOs throughout the State. The RPOs are required to submit quarterly reports to the Department that document the progress of the work being performed. Our review disclosed that eight of the 60 quarterly reports required to be submitted to the Department were not. One of the RPOs had submitted only one such report during the year. The Department requested and received all of the reports subsequent to our review.

Effect: Without effective monitoring procedures the Department cannot assure itself that the RPOs are meeting the requirements of the agreements they have with the Department.

Cause: Staffing changes appear to be the cause. Three Field Coordinators who had the monitoring assignments for the RPOs that did not submit the required reports left the Unit that is responsible for performing the monitoring function for the Department.

Recommendation: The Department should implement procedures to ensure effective monitoring of the Regional Planning Organizations activities and compliance with the agreements that the Department has with them.

Agency Response: "The Department has implemented procedures to ensure the effective monitoring of the RPOs by setting up a monitoring system to track the receipt of the RPOs' quarterly reports. Invoices submitted at the end of a quarter from a RPO will not be processed until its quarterly report is submitted to the Department for review. The RPOs have also been reminded that quarterly reports are due ten days after the quarter ends, and were asked to make this task one of the top priorities among the administrative activities associated with their program."

III.K.4. Matching Requirements

Federal Transit Cluster (CFDA 20.500 and 20.507)
Federal Award Agency: Department of Transportation (Federal Transit Administration (FTA))
Federal Award Numbers: Various
Award Year: State Fiscal Year Ended June 30, 2008

Criteria: The share of allowable costs for a particular grant is established in the grant agreement between the Department and the FTA.

Condition: Our expenditure review consisted of 40 transactions participating in the Federal Transit Cluster. For ten of the tested transactions the Department billed the FTA in excess of the amounts allowed in the various grant agreements. Also, there were an additional three transactions which were not billed as of the date of our review, but that had incorrect entries made in the accounting system, such that if they were billed, they too would have resulted in overbilling.

Effect: The errors we noted resulted in the Federal Government being overbilled by $486,334.

Cause: The 2007-2008 fiscal year is the first year in which the Department began using its new Federal billing system. Entries were made in the accounting system that did not properly allocate the Federal and State shares of the expenditures, thus resulting in overbilling. We were told that the errors were caused in part by a computer problem which did not allow the Department to properly allocate the Federal and State shares when entering the payment coding.

Recommendation: The Department should institute internal controls that provide assurances that Federal billings are in compliance with the terms stated in the Federal Transit Cluster grant agreements and review the Federal Transit Cluster billings it made during the 2007-2008 fiscal year to determine the extent of the data entry errors and correct the overbilled transactions that resulted from them.

Agency Response: "We agree with this finding. The first seven payments identified in the finding that amounted to $340,828 in over billings to the Federal Transit Administration (FTA) were the result of purchase orders being created and coded correctly, receivers being entered correctly, but vouchers being systematically split incorrectly in the Core-CT Accounts Payable Module. This problem was uncovered in October 2007, communicated to the Core-CT Support-Financials Team and resolved around January 2008.

The eighth payment identified in the finding amounted to a $144,803 over billing to FTA. As a result of the Core Accounts Payable split issue above, a purchase order was created with a separate line for Federal and State. Unfortunately, this required staff to manually split the receiver into two lines, one Federal and one State. In this instance, staff only received against the Federal line of the purchase order.

The last two payments identified in the finding that amounted to $702 in over billings to FTA were the result of purchase orders being created incorrectly as 100 percent Federally participating. The purchase order coding is systematically carried forward to the receiver and voucher, thus, creating this miscoding of the voucher payment.

All incorrectly coded vouchers will be SSJ'd (Spreadsheet Journaled) to correct the Federal/State split. All purchase orders that have remaining balances will be closed and reestablished with the correct coding split."

III.K.5. Reporting - Misstatements in the State's Accounting System (Core-CT) Nonmajor Programs

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)

Federal Highway Safety Data Improvements Incentive Grants (CFDA # 20.603)
Safety Incentive Grants for Use of Seatbelts (CFDA # 20.604)
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)
State Traffic Safety Information System Improvements Grants (CFDA # 20.610)
Incentive Grant Program to Increase Motorcyclist Safety (CFDA # 20.612)
Federal Award Agency: Department of Transportation (National Highway Traffic Safety Administration)
Award Year: State Fiscal Year Ended June 30, 2008
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 and related Federal reimbursements recorded in Core-CT do not agree with those recorded in the Federal Grant Tracking System (GTS), which is the financial system used by the National Highway Traffic Safety Administration (NHTSA). The Department maintains manual records of expenditures and Federal reimbursements which it reconciles with the GTS, but not with Core-CT. The expenditures recorded in Core-CT are the basis for reporting expenditures in the Schedule of Expenditures of Federal Awards.

Effect: The amounts per the Schedule of Expenditures of Federal Awards do not agree with the expenditures recorded in the GTS.

Cause: We did not determine the cause.

Recommendation: The Department should reconcile, on a monthly basis, the expenditures and Federal reimbursements recorded in the Federal Grant Tracking System for

National Highway Traffic Safety Administration transactions with the expenditures and Federal revenue it records in Core-CT. Each individual Federal program, by CFDA number, should be reconciled.

Agency Response: "We agree with this finding. Corrective action to reconcile the National Highway Transportation Safety Administration (NHTSA) allotments at the legal level has been started. The issue reported is caused, in part, by the Department's transition from our legacy system into the State's Financial Management System (Core-CT), coding errors, and changes in the Special Identifiers (SID's) used by the NHTSA program. A full reconciliation of expenditures needs to be completed by the Department's Federal Billing Unit to ensure that the State's Accounting System and the NHTSA Federal Grant Tracking System (GTS) are in agreement.

One step will be to reconcile the expenditures that have been incurred in Core-CT (since July 1, 2007) and then go back and reconcile those expenditures that were incurred prior to Core-CT in our legacy system. The necessary corrections and adjustments will be made to bring the two systems into balance.

The Federal Billing Unit manually downloads the expenditures from Core-CT and then enters those into the GTS. It then provides the appropriate information to the Division of Financial Reporting in order to create the receivable on the State's Accounting System and to post the revenue when received. The Department will develop a formal business process to reconcile, on a monthly basis, the revenue and expenditures for each bill submitted to NHTSA."