State of Connecticut
Single Audit Report

For the Fiscal Year Ended June 30, 2010

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

STATE OF CONNECTICUT

Single Audit Report

For the Year Ended June 30, 2010

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL
JOHN C. GERAGOSIAN | 210 CAPITOL AVENUE | ROBERT M. WARD
HARTFORD, CONNECTICUT 06106-1559

March 29, 2011

Governor Dannel P. Malloy
Members of the General Assembly

We have conducted the Statewide Single Audit of the State of Connecticut for the fiscal year ended June 30, 2010.

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 \$10,260,000,000 in federal financial assistance during the fiscal year ended June 30, 2010. Of this amount, the State expended more than \$2,240,000,000 in federal financial assistance provided as a result of the enactment of the American Recovery and Reinvestment Act of 2010 (ARRA). 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 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, 2010.

Respectfully submitted,

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
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

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

Governor Dannel P. Malloy
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, 2010, 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, the Transportation Special Tax Obligations account within the Debt Service Fund, and the Clean Energy Fund account within the Environmental Programs Fund, which in the aggregate, represent six percent of the assets and six percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University, Connecticut Community-Technical Colleges, Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 64 percent of the assets and 39 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 94 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 57 percent of the assets and 75 percent of the revenues of the Environmental Programs Fund;

- the financial statements of the John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University, the Connecticut Community-Technical Colleges, Bradley International Airport, Bradley International Airport Parking Facility, the Connecticut Lottery Corporation, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 64 percent of the assets and 39 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, Bradley International Airport Parking Facility, Connecticut Development Authority, Capital City Economic Development Authority, 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 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.

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 the required actuarial valuation was not performed within the two year window permitted by GASB and the State of Connecticut did not present information pertaining to the Funded Status and Funding Progress, and Actuarial Methods and Assumptions for the State Employee OPEB Plan 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, 2010, and the respective budgetary comparison for the General Fund and the Transportation Fund, 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 January 28, 2011, 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 will be issued under separate cover in the State's Single Audit Report and 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 on pages 15 through 25, and the schedules of funding progress for pension and other post-employment benefit plans and the schedules of employer contributions for pension and other post-employment benefit plans on pages 92 and 93, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We did not audit this information and do not express an opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of such limited procedures, we found that the State of Connecticut has not presented data in the Schedule of Funding Progress and Schedule of Employer Contributions for the State Employee OPEB plan that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

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.

Robert M. Ward

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts

January 28, 2011
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, 2010. 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, 2010, the State had a combined net asset deficit of $9.4 billion, an increase of $3.4 billion when compared to the prior year ending deficit balance. This increase resulted mainly from an increase of $3.2 billion in the net asset deficit of governmental activities.

Fund Level:
The governmental funds had a total fund balance of $1.4 billion at year end. Of this amount, $2.4 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of $1.0 billion. The portion of the total unreserved fund balance deficit that pertains to the General Fund was a $1.7 billion deficit. The General Fund had an actual budget surplus of $0.4 billion this year.

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

Long–Term Debt:
Total long-term debt was $26.1 billion for governmental activities, of which $18.3 billion was bonded debt.

Total long-term debt was $2.6 billion for business-type activities, of which $1.5 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 58 percent to $9.4 billion. In comparison, last year the combined net asset deficit increased 121 percent.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009*	2010	2009	2010	2009*
ASSETS:						
Current and Other Assets	$ 4,568	$ 4,274	$ 4,051	$ 3,861	$ 8,619	$ 8,135
Capital Assets	10,570	10,194	3,382	3,352	13,952	13,546
Total Assets	15,138	14,468	7,433	7,213	22,571	21,681
LIABILITIES:						
Current Liabilities	4,417	3,346	792	733	5,209	4,079
Long-term Liabilities	24,394	21,572	2,356	1,976	26,750	23,548
Total Liabilities	28,811	24,918	3,148	2,709	31,959	27,627
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	4,910	4,619	2,671	2,612	7,581	7,231
Restricted	1,778	1,618	1,264	1,470	3,042	3,088
Unrestricted	(20,361)	(16,687)	350	422	(20,011)	(16,265)
Total Net Assets (Deficit)	$ (13,673)	$ (10,450)	$ 4,285	$ 4,504	$ (9,388)	$ (5,946)

* Restated for comparative purposes. See Note 23.

The net asset deficit of the State's governmental activities increased $3.2 billion (30.8 percent) to $13.7 billion during the current fiscal year. Of this amount, $6.7 billion was invested in capital assets (buildings, roads, bridges, etc.) or was restricted for various purposes, resulting in an unrestricted net asset deficit of $20.4 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 $7.5 billion which were issued to finance various municipal grant programs (e.g., school construction) and a contribution to a pension trust fund, and b) other long-term obligations in the amount of $7.8 billion (e.g., net pension obligation and compensated absences).

Net assets of the State's business-type activities decreased $0.2 billion (4.9 percent) to $4.3 billion during the current fiscal year. Of this amount, $3.9 billion was invested in capital assets or was restricted for various purposes, resulting in unrestricted net assets of $0.4 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

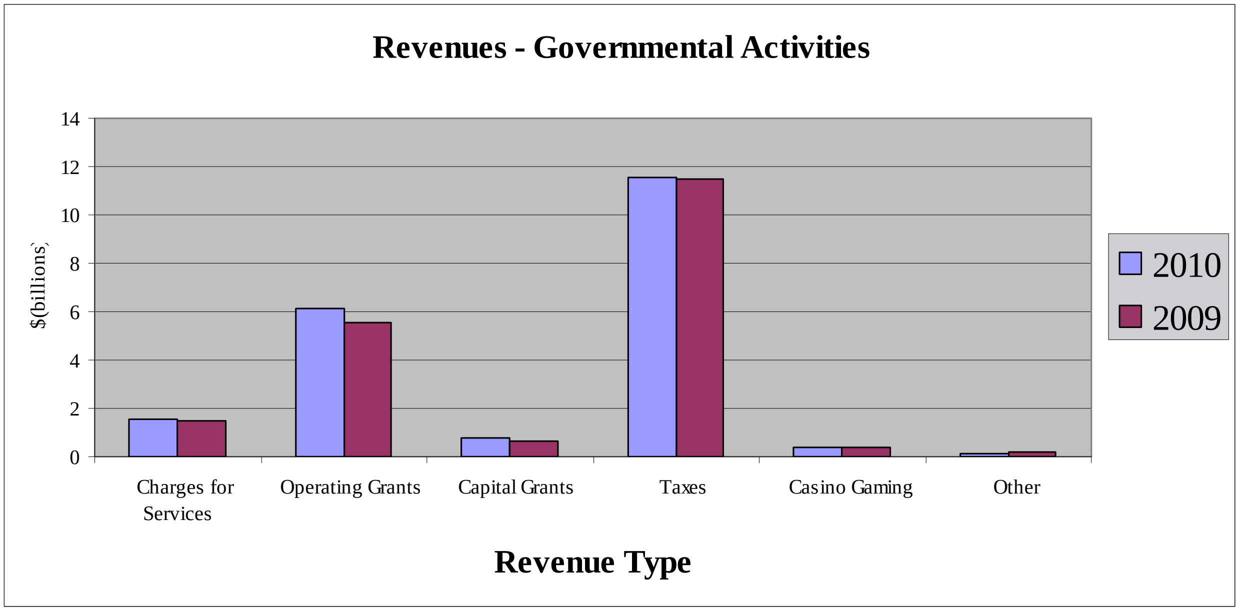
Changes in net assets for the years ended June 30, 2010 and 2009 were as follows:

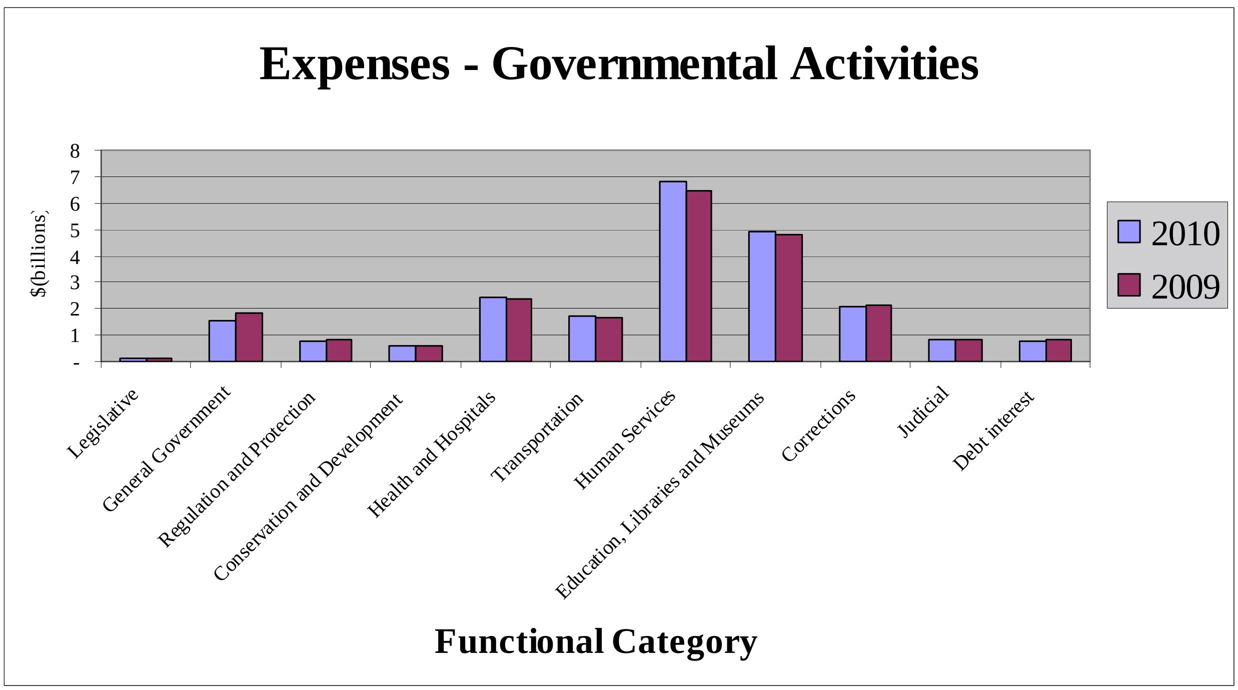
State of Connecticut's Changes in Net Assets (Expressed in Millions)

	Governmental Activities		Business-Type Activities		Total		%change
	2010	2009*	2010	2009	2010	2009*	10-09
REVENUES							
Program Revenues							
Charges for Services	$ 1,522	$ 1,490	$ 3,223	$ 3,108	$ 4,745	$ 4,598	3.2%
Operating Grants and Contributions	6,113	5,553	1,885	907	7,998	6,460	23.8%
Capital Grants and Contributions	766	646	18	64	784	710	10.4%
General Revenues							
Taxes	11,550	11,491	-	-	11,550	11,491	0.5%
Casino Gaming Payments	384	378	-	-	384	378	1.6%
Other	156	197	40	76	196	273	-28.2%
Total Revenues	20,491	19,755	5,166	4,155	25,657	23,910	7.3%
EXPENSES							
Legislative	106	106	-	-	106	106	0.0%
General Government	1,566	1,816	-	-	1,566	1,816	-13.8%
Regulation and Protection	796	801	-	-	796	801	-0.6%
Conservation and Development	566	585	-	-	566	585	-3.2%
Health and Hospitals	2,443	2,376	-	-	2,443	2,376	2.8%
Transportation	1,741	1,640	-	-	1,741	1,640	6.2%
Human Services	6,830	6,483	-	-	6,830	6,483	5.4%
Education, Libraries and Museums	4,921	4,790	-	-	4,921	4,790	2.7%
Corrections	2,083	2,156	-	-	2,083	2,156	-3.4%
Judicial	828	827	-	-	828	827	0.1%
Interest and Fiscal Charges	793	810	-	-	793	810	-2.1%
University of Connecticut & Health Center	-	-	1,703	1,725	1,703	1,725	-1.3%
State Universities	-	-	650	639	650	639	1.7%
Bradley International Airport	-	-	69	68	69	68	1.5%
CT Lottery Corporation	-	-	723	723	723	723	0.0%
Employment Security	-	-	2,701	1,574	2,701	1,574	71.6%
Clean Water	-	-	53	31	53	31	71.0%
Other	-	-	527	512	527	512	2.9%
Total Expenses	22,673	22,390	6,426	5,272	29,099	27,662	5.2%
Excess (Deficiency) Before Transfers and Special Items	(2,182)	(2,635)	(1,260)	(1,117)	(3,442)	(3,752)	-8.3%
Special Items	21	13	(21)	85	-	-	0.0%
Transfers	(1,062)	(873)	1,062	873	-	-	0.0%
Increase (Decrease) in Net Assets	(3,223)	(3,495)	(219)	(159)	(3,442)	(3,654)	-5.8%
Net Assets (Deficit) - Beginning (as restated)	(10,450)	(6,955)	4,504	4,663	(5,946)	(2,292)	159.4%
Net Assets (Deficit) - Ending	$ (13,673)	$ (10,450)	$ 4,285	$ 4,504	$ (9,388)	$ (5,946)	57.9%

Restated for comparative purposes. See note 23.
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence.

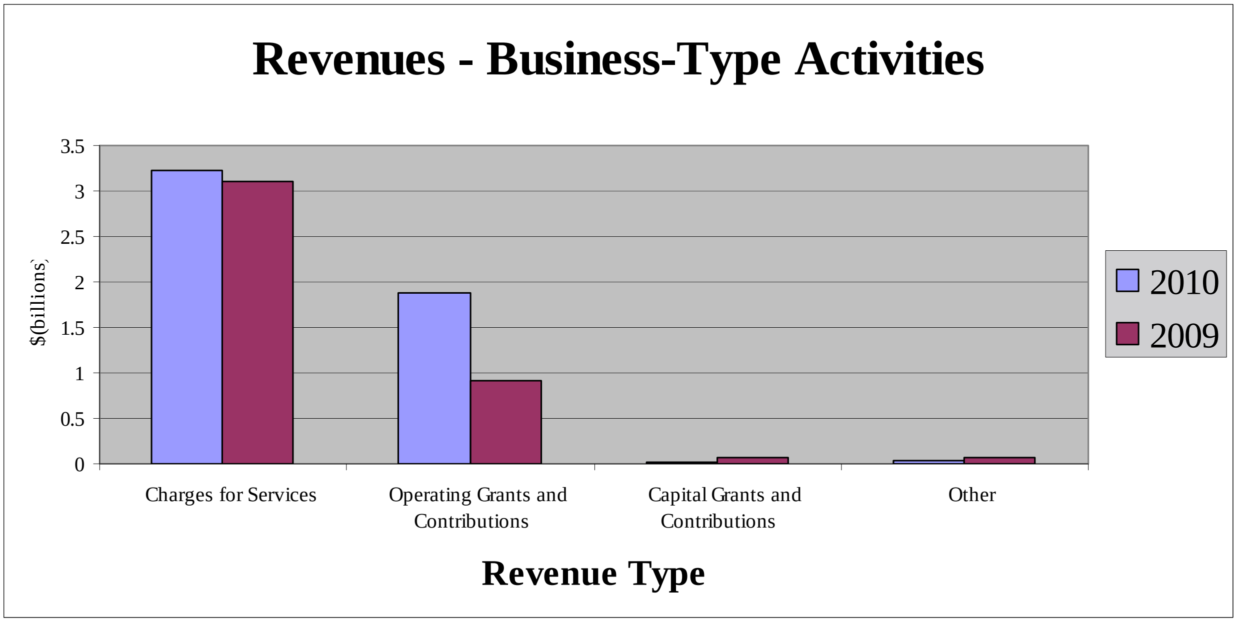
GOVERNMENTAL ACTIVITIES
The following charts provide a two year comparison of governmental activities revenues and expenses.

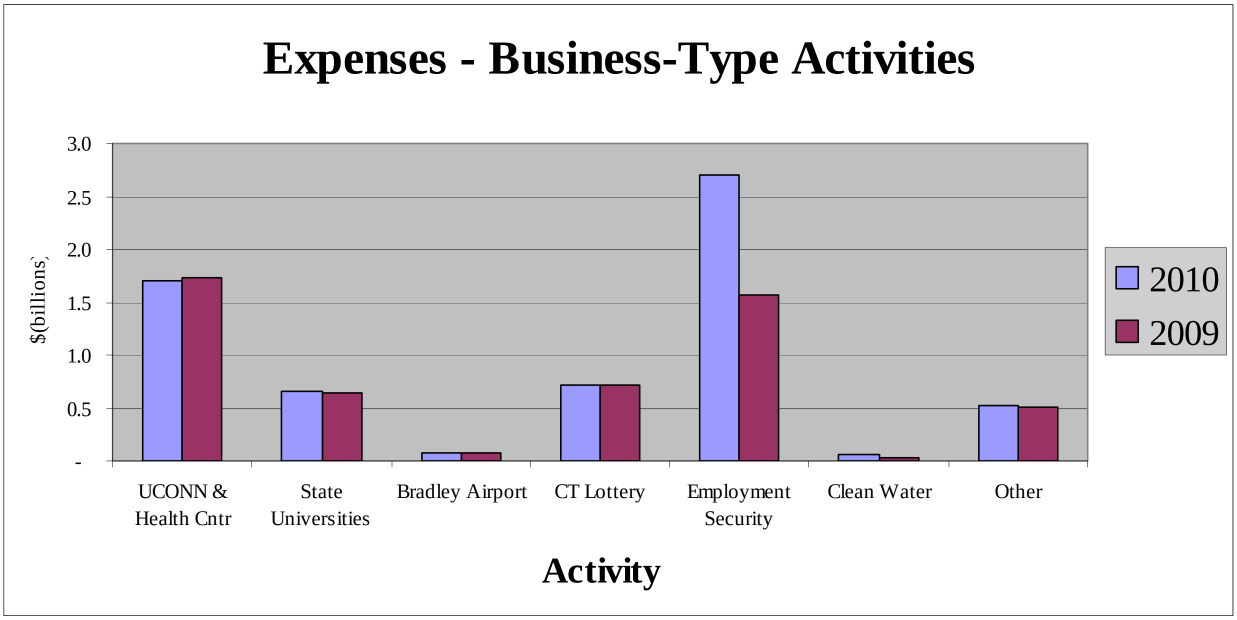




During the year, total revenues of governmental activities increased 3.7 percent to $20.5 billion, while total expenses increased 1.3 percent to $22.7 billion. In comparison, last year total revenues and expenses increased 0.1 percent and 2.4 percent, respectively. The increase in total revenues was due mainly to an increase in operating grants and contributions of $0.6 billion or 10.1 percent. Although, total expenses exceeded total revenues by $2.2 billion, this excess was increased by transfers and special items of $1.0 billion, resulting in a decrease in net assets of $3.2 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 increased 24.3 percent to $5.2 billion, while total expenses increased 21.9 percent to $6.4 billion. In comparison, last year total revenues and expenses increased 19.5 percent and 26.4 percent, respectively. The increase in total revenues was due mainly to an increase in operating grants and contributions of $1.0 billion or 107.8 percent. The increase in total expenses was due mainly to an increase in Employment Security expenses of $1.1 billion or 71.6 percent. Although, total expenses exceeded total revenues by $1.2 billion, this excess was reduced by transfers of $1.0 billion, resulting in a decrease in net assets of $0.2 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, 2010, the State's governmental funds had fund balances of $1.4 billion, remaining unchanged when compared to the prior year ending fund balances. Of the total governmental fund balances, $2.4 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 $1.0 billion.

General Fund

The General Fund is the chief operating fund of the State. As of June 30, 2010, the General Fund had a fund balance deficit of $1.0 billion. Of this amount, $0.7 billion was reserved for various purposes, leaving a deficit of $1.7 billion in unreserved fund balance. Fund balance decreased by $0.2 billion during the current fiscal year.

Debt Service Fund

As of June 30, 2010, the Debt Service Fund had a fund balance of $688 million, all of which was reserved. Fund balance increased by $8 million during the current fiscal year.

Transportation Fund

As of June 30, 2010, the Transportation Fund had a fund balance of $164 million. Of this amount, $70 million was reserved for various purposes, leaving $94 million in unreserved fund balance. Fund balance increased by $9 million during the current fiscal year.

Restricted Grants and Accounts Fund

As of June 30, 2010, the Restricted Grants and Accounts Fund had a fund balance of $621 million, all of which was reserved. Fund balance increased by $43 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, 2010, the net assets of the State's Fiduciary funds totaled $22.8 billion, an increase of $1.2 billion when compared to the prior year ending net asset balance.

Budgetary Highlights-General Fund

The General Fund had an estimated budget surplus of $2 million at the start of the fiscal year. Although the State's economy started to improve slowly during the fiscal year, the estimated budget surplus turned into a budget deficit of $515 million by the second quarter of the fiscal year. However, due to deficit reduction measures adopted by the State legislature, the Fund ended with an estimated budget surplus of $397 million by the end of the fiscal year.

Although actual fund revenues exceeded expenditures by $481 million, this excess was reduced by other financing uses of $31 million, resulting in an actual budget surplus of $450 million for the fiscal year.

Actual revenues were higher than originally budgeted by $316 million for the fiscal year. This positive revenue variance resulted mainly from a positive transfer revenue variance of $283 million.

Final budgeted appropriations were almost the same as originally budgeted for the fiscal year.

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, 2010 totaled $14.0 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 fiscal year was $0.4 billion, due mainly to a 3.7 percent increase in governmental activities' capital assets.

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

- Additions to buildings and infrastructure of $0.6 billion
- Depreciation expense of $0.9 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	
	2010	2009*	2010	2009	2010	2009*
Land	$ 1,562	$ 1,394	$ 60	$ 60	$ 1,622	$ 1,454
Buildings	1,453	1,209	2,530	2,493	3,983	3,702
Improvements Other than Buildings	201	222	254	252	455	474
Equipment	44	209	344	354	388	563
Infrastructure	5,591	5,809	-	-	5,591	5,809
Construction in Progress	1,719	1,353	194	193	1,913	1,546
Total	$ 10,570	$ 10,194	$ 3,382	$ 3,352	$ 13,952	$ 13,546

* Restated for comparative purposes. See Note 23.

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 $18.3 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	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	$ 13,593	$ 13,444	$ -	$ -	$ 13,593	$ 13,444
Transportation Related Bonds	3,030	2,817	-	-	3,030	2,817
Revenue Bonds	-	-	1,498	1,602	1,498	1,602
Long-Term Notes	1,144	228	-	-	1,144	228.00
Premiums and deferred amounts	527	420	41	32	568	452
Total	$ 18,294	$ 16,909	$ 1,539	$ 1,634	$ 19,833	$ 18,543

The State's total bonded debt increased by $1.3 billion (7.0 percent) during the current fiscal year. This increase resulted mainly from an increase in long-term notes of $0.9 billion.

The State's General Obligation Bonds are rated Aa2, AA, and AA by Moody's Investor Service, Standard and Poor's Corporation, and Fitch Ratings, respectively. Special Tax Obligation Bonds are rated Aa3, 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 2010, the State had a debt incurring margin of $2.4 billion.

Other Long-Term Debt

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Net Pension Obligation	$ 2,262	$ 2,021	$ -	$ -	$ 2,262	$ 2,021
Net OPEB Obligation	4,441	2,543	-	-	4,441	2,543
Compensated Absences	523	503	147	135	670	638
Workers Compensation	461	460	-	-	461	460
Lottery Prizes	-	-	181	204	181	204
Federal Loan Payable	-	-	499	-	499	-
Other	130	91	194	186	324	277
Total	$ 7,817	$ 5,618	$ 1,021	$ 525	$ 8,838	$ 6,143

The State's other long-term obligations increased by $2.7 billion (43.9 percent) during the fiscal year. This increase was due mainly to an increase in the Net OPEB Obligation of $1.9 billion (Governmental activities) and an increase in Federal loan payable of $0.5 billion (Business-Type activities).

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's economy improved while still in recession. The State lost 1,600 payroll jobs over the fiscal year, bringing the unemployment rate to 8.8 percent. New home permits and new auto registrations increased 28.3 percent and 2.4 percent over the fiscal year, respectively. Net business formation increased by 999 businesses as new business starts declined by 2.4 percent while business terminations decreased 19.3 percent over the fiscal year. Personal income increased 2.4 percent to $199.4 billion for the fiscal year. Nationally, the economy showed signs of improvement by growing 2.0 percent in the third quarter of 2010, which is quite modest but it has exhibited an upward trend since June 2009 when the national recovery began. However, the unemployment rate held steady at 9.5 percent by the end of the third quarter of the year.

For fiscal year 2011, the budget for the General Fund was estimated to be in balance at the start of the fiscal year. Budgeted revenues were expected to increase 1.7 percent to $17.7 billion, while budgeted appropriations were expected to increase 1.7 percent to $17.7 billion. Because the economy continued to improve slowly during the fiscal year, the Fund's budget remained in balance as of the end of the first half of the fiscal year.

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

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

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Basic Financial Statements

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Statement of Net Assets

June 30, 2010

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 631,340	$ 750,398	$ 1,381,738	$ 160,413
Deposits with U.S. Treasury	-	204,190	204,190	-
Investments	790,103	49,553	839,656	314,731
Receivables, (Net of Allowances)	2,274,050	820,558	3,094,608	49,199
Due from Primary Government	-	-	-	13,019
Inventories	46,051	12,918	58,969	3,970
Restricted Assets	-	159,338	159,338	1,584,803
Internal Balances	(267,814)	267,814	-	-
Other Current Assets	24,303	16,187	40,490	4,622
Total Current Assets	3,498,033	2,280,956	5,778,989	2,130,757
Noncurrent Assets:				
Cash and Cash Equivalents	-	346,352	346,352	-
Due From Component Units	14,967	-	14,967	-
Investments	-	212,043	212,043	39,232
Receivables, (Net of Allowances)	253,757	620,007	873,764	174,467
Restricted Assets	691,201	542,449	1,233,650	4,339,732
Capital Assets, (Net of Accumulated Depreciation)	10,569,852	3,381,524	13,951,376	428,653
Other Noncurrent Assets	109,914	50,020	159,934	13,036
Total Noncurrent Assets	11,639,691	5,152,395	16,792,086	4,995,120
Total Assets	15,137,724	7,433,351	22,571,075	7,125,877
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	811,819	291,798	1,103,617	64,377
Notes Payable	353,085	-	353,085	-
Due to Component Units	13,019	-	13,019	-
Due to Other Governments	125,961	918	126,879	-
Current Portion of Long-Term Obligations	1,716,298	203,846	1,920,144	188,879
Amount Held for Institutions	-	-	-	451,766
Deferred Revenue	14,700	225,504	240,204	-
Medicaid Liability	573,031	-	573,031	-
Liability for Escheated Property	532,762	-	532,762	-
Other Current Liabilities	275,870	70,386	346,256	28,274
Total Current Liabilities	4,416,545	792,452	5,208,997	733,296
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	24,394,224	2,356,256	26,750,480	4,594,213
Total Noncurrent Liabilities	24,394,224	2,356,256	26,750,480	4,594,213
Total Liabilities	28,810,769	3,148,708	31,959,477	5,327,509
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,910,178	2,671,350	7,581,528	286,142
Restricted For:				
Transportation	82,539	-	82,539	-
Debt Service	643,418	38,488	681,906	5,559
Federal Grants and Other Accounts	632,284	-	632,284	-
Capital Projects	227,823	211,913	439,736	-
Clean Water and Drinking Water Projects	-	729,588	729,588	-
Bond Indenture Requirements	-	2,120	2,120	877,749
Loans	-	5,808	5,808	-
Permanent Investments or Endowments:				
Expendable	2,190	-	2,190	79,812
Nonexpendable	93,193	12,017	105,210	258,498
Other Purposes	96,333	263,166	359,499	58,200
Unrestricted (Deficit)	(20,361,003)	350,193	(20,010,810)	232,408
Total Net Assets (Deficit)	$ (13,673,045)	$ 4,284,643	$ (9,388,402)	$ 1,798,368

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

Statement of Activities

For The Fiscal Year Ended June 30, 2010
(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	$ 105,870	$ 2,782	$ 30	$ -
General Government	1,565,653	515,852	41,717	-
Regulation and Protection	796,124	599,743	185,083	-
Conservation and Development	565,836	138,250	97,709	-
Health and Hospitals	2,443,119	65,592	189,708	-
Transportation	1,742,009	37,037	-	765,837
Human Services	6,829,916	25,075	4,586,457	-
Education, Libraries, and Museums	4,920,983	13,002	881,162	-
Corrections	2,082,743	6,596	122,951	-
Judicial	828,128	118,446	8,269	-
Interest and Fiscal Charges	792,950	-	-	-
Total Governmental Activities	22,673,331	1,522,375	6,113,086	765,837
Business-Type Activities:				
University of Connecticut & Health Center	1,703,104	921,293	210,998	2,396
State Universities	649,630	352,525	60,494	4,990
Bradley International Airport	69,471	55,303	-	10,150
Connecticut Lottery Corporation	723,572	997,023	-	-
Employment Security	2,700,797	718,128	1,480,063	-
Clean Water	52,761	21,782	25,975	-
Other	526,974	157,094	107,585	-
Total Business-Type Activities	6,426,309	3,223,148	1,885,115	17,536
Total Primary Government	$ 29,099,640	$ 4,745,523	$ 7,998,201	$ 783,373
Component Units				
Connecticut Housing Finance Authority (12-31-09)	$ 238,891	$ 179,067	$ -	$ -
Connecticut Health and Educational Facilities Authority	3,968	6,337	-	-
Other	251,036	189,719	6,185	1,309
Total Component Units	$ 493,895	$ 375,123	$ 6,185	$ 1,309

General Revenues:
Taxes:
Personal Income
Corporate Income
Sales and Use
Other
Restricted for Transportation Purposes:
Motor Fuel
Other
Casino Gaming Payments
Tobacco Settlement
Unrestricted Investment Earnings
Contributions to Endowments
Special Item-Deficit Reduction Transfers
Transfers-Internal Activities
Total General Revenues, Contributions, Special Item, and Transfers
Change in Net Assets
Net Assets (Deficit)- Beginning (as restated)
Net Assets (Deficit)- Ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (103,058)	$ -	$ (103,058)	$ -
(1,008,084)	-	(1,008,084)	-
(11,298)	-	(11,298)	-
(329,877)	-	(329,877)	-
(2,187,819)	-	(2,187,819)	-
(939,135)	-	(939,135)	-
(2,218,384)	-	(2,218,384)	-
(4,026,819)	-	(4,026,819)	-
(1,953,196)	-	(1,953,196)	-
(701,413)	-	(701,413)	-
(792,950)	-	(792,950)	-
(14,272,033)	-	(14,272,033)	-
-	(568,417)	(568,417)	-
-	(231,621)	(231,621)	-
-	(4,018)	(4,018)	-
-	273,451	273,451	-
-	(502,606)	(502,606)	-
-	(5,004)	(5,004)	-
-	(262,295)	(262,295)	-
-	(1,300,510)	(1,300,510)	-
(14,272,033)	(1,300,510)	(15,572,543)	-
-	-	-	(59,824)
-	-	-	2,369
-	-	-	(53,823)
-	-	-	(111,278)
5,773,609	-	5,773,609	-
465,980	-	465,980	-
3,150,203	-	3,150,203	-
1,455,628	-	1,455,628	-
494,222	-	494,222	-
209,684	-	209,684	-
384,248	-	384,248	-
128,977	-	128,977	-
27,681	40,339	68,020	77,234
-	-	-	27,581
21,000	(21,000)	-	-
(1,061,862)	1,061,862	-	-
11,049,370	1,081,201	12,130,571	104,815
(3,222,663)	(219,309)	(3,441,972)	(6,463)
(10,450,382)	4,503,952	(5,946,430)	1,804,831
$ (13,673,045)	$ 4,284,643	$ (9,388,402)	$ 1,798,368

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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.

Balance Sheet
Governmental Funds

June 30, 2010
(Expressed in Thousands)

	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	$ -	$ -	$ 114,139	$ -	$ 508,910	$ 623,049
Investments	689,020	-	-	-	101,083	790,103
Securities Lending Collateral	-	-	-	-	22,038	22,038
Receivables:						
Taxes, Net of Allowances	979,216	-	43,091	-	-	1,022,307
Accounts, Net of Allowances	220,942	-	11,745	9,336	16,688	258,711
Loans, Net of Allowances	-	-	-	-	253,757	253,757
From Other Governments	651,566	-	-	307,330	12,656	971,552
Interest	-	1,288	49	-	-	1,337
Due from Other Funds	24,761	-	1,288	514,735	734,730	1,275,514
Due from Component Units	14,967	-	-	-	-	14,967
Inventories	13,916	-	28,189	-	-	42,105
Restricted Assets	-	687,752	-	-	3,449	691,201
Other Assets	-	-	-	-	346	346
Total Assets	$ 2,594,388	$ 689,040	$ 198,501	$ 831,401	$ 1,653,657	$ 5,966,987
Liabilities and Fund Balances						
Liabilities						
Accounts Payable and Accrued Liabilities	$ 372,290	$ -	$ 29,143	$ 167,632	$ 74,140	$ 643,205
Notes Payable	-	-	-	-	353,085	353,085
Due to Other Funds	1,224,303	1,288	-	3,245	233,761	1,462,597
Due to Component Units	-	-	-	355	12,664	13,019
Due to Other Governments	124,488	-	-	1,473	-	125,961
Deferred Revenue	496,504	-	5,118	37,744	27,152	566,518
Medicaid Liability	573,031	-	-	-	-	573,031
Liability For Escheated Property	532,762	-	-	-	-	532,762
Securities Lending Obligation	-	-	-	-	22,038	22,038
Other Liabilities	253,832	-	-	-	-	253,832
Total Liabilities	3,577,210	1,288	34,261	210,449	722,840	4,546,048
Fund Balances						
Reserved For:						
Petty Cash	838	-	-	-	-	838
Inventories	13,916	-	28,189	-	-	42,105
Loans	14,967	-	-	-	253,757	268,724
Continuing Appropriations	113,285	-	41,977	-	115	155,377
Debt Service	-	687,752	-	-	-	687,752
Restricted Purposes	-	-	-	620,952	95,383	716,335
Surplus Transfer to FY 11	449,869	-	-	-	-	449,869
Budget Reserve Fund	103,274	-	-	-	-	103,274
Unreserved Reported In:						
General Fund	(1,678,971)	-	-	-	-	(1,678,971)
Transportation Fund	-	-	94,074	-	-	94,074
Special Revenue Funds	-	-	-	-	352,525	352,525
Capital Project Funds	-	-	-	-	229,037	229,037
Total Fund Balances	(982,822)	687,752	164,240	620,952	930,817	1,420,939
Total Liabilities and Fund Balances	$ 2,594,388	$ 689,040	$ 198,501	$ 831,401	$ 1,653,657	$ 5,966,987

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, 2010
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	1,420,939
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	3,173,636		
Equipment	1,535,777		
Infrastructure	12,555,781		
Other Capital Assets	3,752,851		
Accumulated Depreciation	(10,484,842)		10,533,203
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.			82,097
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.			551,947
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.			(24,691)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 17).			
Net Pension Obligation	(2,262,220)		
Net OPEB Obligation	(4,440,703)		
Worker's Compensation	(460,596)		
Capital Leases	(41,702)		
Compensated Absences	(520,284)		
Claims and Judgments	(60,289)		(7,785,794)
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 17).			
Bonds Payable	(17,767,148)		
Unamortized Premiums	(720,536)		
Less: Deferred Loss on Refundings	193,958		
Accrued Interest Payable	(157,020)		(18,450,746)
Net Assets of Governmental Activities		$	(13,673,045)

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, 2010
(Expressed in Thousands)

	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Funds	Total Governmental Funds
Revenues						
Taxes	$ 10,888,051	$ -	$ 705,858	$ -	$ 659	$ 11,594,568
Assessments	-	-	-	-	27,268	27,268
Licenses, Permits and Fees	256,245	-	296,206	11,338	47,746	611,535
Tobacco Settlement	-	-	-	-	128,977	128,977
Federal Grants and Aid	4,562,714	-	3,002	2,264,230	96,451	6,926,397
Charges for Services	33,679	-	60,768	-	4,170	98,617
Fines, Forfeits and Rents	59,047	-	23,091	-	4,382	86,520
Casino Gaming Payments	384,248	-	-	-	-	384,248
Investment Earnings	3,987	5,741	831	1,575	15,424	27,558
Interest on Loans	-	-	-	-	283	283
Miscellaneous	133,782	-	5,453	454,174	110,736	704,145
Total Revenues	16,321,753	5,741	1,095,209	2,731,317	436,096	20,590,116
Expenditures						
Current:						
Legislative	96,040	-	-	2,296	-	98,336
General Government	1,087,026	-	2,080	245,613	102,926	1,437,645
Regulation and Protection	354,507	-	81,640	100,412	198,159	734,718
Conservation and Development	174,224	-	-	138,723	191,303	504,250
Health and Hospitals	1,980,057	-	-	223,390	11,694	2,215,141
Transportation	2,295	-	626,318	796,620	14,839	1,440,072
Human Services	5,662,013	-	-	504,007	9,112	6,175,132
Education, Libraries, and Museums	3,223,942	-	-	610,337	545,596	4,379,875
Corrections	1,875,326	-	-	24,414	3,726	1,903,466
Judicial	724,498	-	-	18,405	19,387	762,290
Capital Projects	-	-	-	-	435,288	435,288
Debt Service:						
Principal Retirement	952,740	285,315	-	-	-	1,238,055
Interest and Fiscal Charges	668,259	147,559	2,043	108,524	9,493	935,878
Total Expenditures	16,800,927	432,874	712,081	2,772,741	1,541,523	22,260,146
Excess (Deficiency) of Revenues Over Expenditures	(479,174)	(427,133)	383,128	(41,424)	(1,105,427)	(1,670,030)
Other Financing Sources (Uses)						
Bonds and Notes Issued	915,795	-	-	-	1,702,115	2,617,910
Premiums on Bonds and Notes Issued	80,587	36,961	-	-	71,921	189,469
Transfers In	399,505	439,642	5,801	121,963	90,763	1,057,674
Transfers Out	(1,131,560)	(6,192)	(451,400)	(1,559)	(532,180)	(2,122,891)
Refunding Bonds Issued	-	344,105	-	-	-	344,105
Payment to Refunded Bond Escrow Agent	-	(379,015)	-	-	-	(379,015)
Special Items:						
Transfer from Other State Funds	113,244	-	71,200	-	-	184,444
Transfer to General or Transportation Fund	(71,200)	-	-	(36,368)	(50,777)	(158,345)
Total Other Financing Sources (Uses)	306,371	435,501	(374,399)	84,036	1,281,842	1,733,351
Net Change in Fund Balances	(172,803)	8,368	8,729	42,612	176,415	63,321
Fund Balances (Deficit) - Beginning	(799,578)	679,384	154,178	578,340	754,402	1,366,726
Changes in Reserves for Inventories	(10,441)	-	1,333	-	-	(9,108)
Fund Balances (Deficit) - Ending	$ (982,822)	$ 687,752	$ 164,240	$ 620,952	$ 930,817	$ 1,420,939

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, 2010

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 63,321
Amounts reported for governmental activities in the Statement of Activitie 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	(2,617,910)	
Refunding Bonds Issued	(344,105)	
Premium on Bonds Issued	(189,469)	(3,151,484)
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	1,238,055	
Payments to Refunded Bond Escrow Agent	379,562	
Capital Lease Payments	5,427	1,623,044
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	1,289,114	
Depreciation Expense	(888,234)	
Retirements	(549)	400,331
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.		(9,108)
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	(13,675)	
Decrease in Interest Accreted on Capital Appreciation Debt	96,947	
Amortization of Bond Premium	78,377	
Amortization of Loss on Debt Refundings	(27,110)	
Increase in Compensated Absences Liability	(21,813)	
Increase in Workers Compensation Liability	(818)	
Increase in Claims and Judgments Liability	(16,599)	
Increase in Net Pension Obligation	(241,555)	
Increase in Net OPEB Obligation	(1,897,745)	(2,043,991)
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		(98,586)
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		(14,032)
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	15,450	
Amortization of Debt Issue Costs	(7,608)	7,842
Change in Net Assets of Governmental Activities		$ (3,222,663)

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, 2010
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	**Original**	**Final**	**Actual**	**(negative)**
Budgeted:				
Taxes, Net of Refunds	$ 10,927,600	$ 10,838,500	$ 10,894,132	$ 55,632
Operating Transfers In	400,700	390,900	392,212	1,312
Casino Gaming Payments	384,100	384,300	384,248	(52)
Licenses, Permits, and Fees	281,500	262,900	257,569	(5,331)
Other	348,500	451,300	433,442	(17,858)
Federal Grants	4,051,800	4,047,500	4,066,314	18,814
Refunds of Payments	(700)	(1,200)	(1,188)	12
Operating Transfers Out	(61,800)	(61,800)	(61,800)	-
Transfer to the Resources of the General Fund	1,040,700	1,323,500	1,323,599	99
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	17,372,400	17,635,900	17,688,528	52,628
Expenditures				
Budgeted:				
Legislative	79,321	79,346	66,288	13,058
General Government	556,840	555,091	486,318	68,773
Regulation and Protection	302,745	302,867	262,821	40,046
Conservation and Development	151,115	147,202	129,152	18,050
Health and Hospitals	1,706,334	1,707,055	1,624,827	82,228
Transportation	2,904	2,904	2,294	610
Human Services	5,080,456	5,081,192	5,012,333	68,859
Education, Libraries, and Museums	4,025,926	4,026,713	3,990,199	36,514
Corrections	1,573,652	1,578,155	1,475,769	102,386
Judicial	560,894	560,944	524,043	36,901
Non Functional	3,892,206	3,848,566	3,633,977	214,589
Total Expenditures	17,932,393	17,890,035	17,208,021	682,014
Appropriations Lapsed	473,294	560,700	-	(560,700)
Excess (Deficiency) of Revenues Over Expenditures	(86,699)	306,565	480,507	173,942
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	88,772	88,772	88,772	-
Appropriations Continued to Fiscal Year 2011			(121,475)	(121,475)
Miscellaneous Adjustments	-	2,065	2,065	-
Total Other Financing Sources (Uses)	88,772	90,837	(30,638)	(121,475)
Net Change in Fund Balance	$ 2,073	$ 397,402	449,869	$ 52,467
Budgetary Fund Balances - July 1			(857,968)	
Changes in Reserves			980,281	
Budgetary Fund Balances - June 30			$ 572,182	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 684,800	$ 702,800	$ 706,005	$ 3,205
81,200	71,200	71,200	-
-	-	-	-
360,600	358,300	355,706	(2,594)
16,500	6,500	6,681	181
-	3,300	3,002	(298)
(2,600)	(2,900)	(2,906)	(6)
(9,500)	(6,500)	(6,500)	-
-	-	-	-
(15,300)	(15,300)	(15,300)	-
1,115,700	1,117,400	1,117,888	488
-	-	-	-
2,536	2,536	2,048	488
75,732	75,732	55,766	19,966
-	-	-	-
-	-	-	-
502,937	502,937	487,891	15,046
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
591,998	591,889	555,738	36,151
1,173,203	1,173,094	1,101,443	71,651
21,228	28,600	-	(28,600)
(36,275)	(27,094)	16,445	43,539
37,325	37,325	37,325	-
-	-	(41,977)	(41,977)
-	-	-	-
37,325	37,325	(4,652)	(41,977)
$ 1,050	$ 10,231	11,793	$ 1,562
		130,895	
		4,653	
		$ 147,341	

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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.

Statement of Net Assets
Proprietary Funds

June 30, 2010
(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	$ 358,203	$ 170,121	$ 48,134	$ 18,270
Deposits with U.S. Treasury	-	-	-	-
Investments	5,602	13,705	-	30,246
Receivables:				
Accounts, Net of Allowances	99,776	166,529	5,366	22,564
Loans, Net of Allowances	2,269	1,520	-	-
Interest	-	-	-	5,173
From Other Governments	-	2,479	1,598	-
Due from Other Funds	54,837	35,303	-	-
Inventories	12,918	-	-	-
Restricted Assets	146,323	-	13,015	-
Other Current Assets	9,924	3,156	151	2,657
Total Current Assets	689,852	392,813	68,264	78,910
Noncurrent Assets:				
Cash and Cash Equivalents	1,473	105,352	-	-
Investments	9,799	25,760	-	149,323
Receivables:				
Loans, Net of Allowances	9,986	9,698	-	-
Restricted Assets	11,257	-	93,289	-
Capital Assets, Net of Accumulated Depreciation	1,674,642	846,946	309,025	2,667
Other Noncurrent Assets	2,064	1,910	21,467	4,942
Total Noncurrent Assets	1,709,221	989,666	423,781	156,932
Total Assets	2,399,073	1,382,479	492,045	235,842
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	137,850	52,819	10,386	19,832
Due to Other Funds	15,625	3,218	1,666	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	65,826	20,492	10,630	31,190
Deferred Revenue	36,788	183,247	1,585	592
Other Current Liabilities	23,435	19,863	-	26,857
Total Current Liabilities	279,524	279,639	24,267	78,471
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	306,539	307,729	195,045	149,954
Total Noncurrent Liabilities	306,539	307,729	195,045	149,954
Total Liabilities	586,063	587,368	219,312	228,425
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,374,973	664,709	123,764	2,667
Restricted For:				
Debt Service	7,982	-	25,998	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	141,487	-	70,426	-
Nonexpendable Purposes	11,122	875	-	-
Bond Indentures	-	-	2,120	-
Loans	5,808	-	-	-
Other Purposes	20,169	28,597	-	7,417
Unrestricted (Deficit)	251,469	100,930	50,425	(2,667)
Total Net Assets (Deficit)	$ 1,813,010	$ 795,111	$ 272,733	$ 7,417

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
$ -	$ 4,421	$ 151,249	$ 750,398	$ 8,291
204,190	-	-	204,190	-
-	-	-	49,553	-
169,070	-	13,622	476,927	244
-	291,256	8,021	303,066	-
-	11,757	470	17,400	-
9,646	9,001	441	23,165	-
1,533	-	223,441	315,114	357
-	-	-	12,918	3,946
-	-	-	159,338	-
-	-	299	16,187	1,919
384,439	316,435	397,543	2,328,256	14,757
-	196,612	42,915	346,352	-
-	26,928	233	212,043	-
-	538,410	61,913	620,007	-
-	373,763	64,140	542,449	-
-	-	548,244	3,381,524	36,649
-	17,590	2,047	50,020	-
-	1,153,303	719,492	5,152,395	36,649
384,439	1,469,738	1,117,035	7,480,651	51,406
25	9,363	61,523	291,798	5,852
26,791	-	-	47,300	66,931
918	-	-	918	-
-	67,310	8,398	203,846	118
-	-	3,292	225,504	129
-	-	231	70,386	-
27,734	76,673	73,444	839,752	73,030
498,453	739,489	159,047	2,356,256	3,067
498,453	739,489	159,047	2,356,256	3,067
526,187	816,162	232,491	3,196,008	76,097
-	-	505,237	2,671,350	36,649
-	-	4,508	38,488	-
-	634,562	95,026	729,588	-
-	-	-	211,913	-
-	-	20	12,017	-
-	-	-	2,120	-
-	-	-	5,808	-
-	-	206,983	263,166	-
(141,748)	19,014	72,770	350,193	(61,340)
$ (141,748)	$ 653,576	$ 884,544	$ 4,284,643	$ (24,691)

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

For The Fiscal Year Ended June 30, 2010
(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	$ 814,335	$ 334,945	$ 42,651	$ 996,847
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	169,379	41,761	-	-
State Grants, Contracts and Other Aid	26,086	16,025	-	-
Private Gifts and Grants	39,749	2,708	-	-
Interest on Loans	-	-	-	-
Other	63,317	17,580	-	173
Total Operating Revenues	1,112,866	413,019	42,651	997,020
Operating Expenses				
Salaries, Wages and Administrative	1,484,581	567,439	38,445	93,663
Lottery Prize Awards	-	-	-	608,755
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	118,167	49,838	21,670	465
Other	85,385	22,896	-	7,916
Total Operating Expenses	1,688,133	640,173	60,115	710,799
Operating Income (Loss)	(575,267)	(227,154)	(17,464)	286,221
Nonoperating Revenue (Expenses)				
Interest and Investment Income	3,864	1,562	1,214	12,871
Interest and Fiscal Charges	(14,971)	-	(9,356)	(12,773)
Other	19,425	(9,457)	12,652	3
Total Nonoperating Revenues (Expenses)	8,318	(7,895)	4,510	101
Income (Loss) Before Capital Contributions, Grants, Transfers, and Special Item	(566,949)	(235,049)	(12,954)	286,322
Capital Contributions	2,396	4,990	10,150	-
Federal Capitalization Grants	-	-	-	-
Transfers In	649,974	254,807	9,849	-
Transfers Out	-	-	-	(285,500)
Special Item: Transfer to General Fund	(18,000)	(2,000)	-	-
Change in Net Assets	67,421	22,748	7,045	822
Total Net Assets (Deficit) - Beginning	1,745,589	772,363	265,688	6,595
Total Net Assets (Deficit) - Ending	$ 1,813,010	$ 795,111	$ 272,733	$ 7,417

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
$ -	$ -	$ 119,236	$ 2,308,014	$ 55,273
699,381	-	29,490	728,871	-
1,480,063	-	72,948	1,764,151	-
15,826	-	16,786	74,723	-
-	-	6,156	48,613	-
-	17,686	1,678	19,364	-
2,921	-	6,690	90,681	21
2,198,191	17,686	252,984	5,034,417	55,294
-	1,018	408,281	2,593,427	34,550
-	-	-	608,755	-
2,700,797	-	-	2,700,797	-
-	-	38,144	38,144	-
-	-	23,183	213,323	17,099
-	7,484	39,276	162,957	-
2,700,797	8,502	508,884	6,317,403	51,649
(502,606)	9,184	(255,900)	(1,282,986)	3,645
1,983	16,891	1,954	40,339	12
-	(44,259)	(6,269)	(87,628)	-
-	4,096	(11,821)	14,898	(13,204)
1,983	(23,272)	(16,136)	(32,391)	(13,192)
(500,623)	(14,088)	(272,036)	(1,315,377)	(9,547)
-	-	-	17,536	-
-	25,975	11,695	37,670	-
-	2,000	444,109	1,360,739	715
(3,528)	-	(9,849)	(298,877)	(100)
-	-	(1,000)	(21,000)	(5,100)
(504,151)	13,887	172,919	(219,309)	(14,032)
362,403	639,689	711,625	4,503,952	(10,659)
$ (141,748)	$ 653,576	$ 884,544	$ 4,284,643	$ (24,691)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2010
(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	$ 833,571	$ 336,975	$ 41,672	$ 1,003,607
Payments to Suppliers	(516,953)	(199,818)	(26,391)	(21,175)
Payments to Employees	(1,026,434)	(391,689)	(14,479)	(14,095)
Other Receipts (Payments)	320,530	79,630	-	(671,744)
Net Cash Provided by (Used in) Operating Activities	(389,286)	(174,902)	802	296,593
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(35,049)
Interest on Bonds and Annuities Payable	-	-	-	(13,917)
Transfers In	462,767	243,014	9,849	-
Transfers Out	-	-	-	(285,500)
Other Receipts (Payments)	11,076	1,587	-	8,758
Net Cash Flows from Noncapital Financing Activities	473,843	244,601	9,849	(325,708)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(128,335)	(30,148)	(29,148)	(347)
Proceeds from Capital Debt	105,000	-	-	-
Principal Paid on Capital Debt	(79,655)	(18,976)	(10,145)	-
Interest Paid on Capital Debt	(53,523)	-	(9,789)	-
Transfer In	134,588	19,739	-	-
Federal Grant	595	-	-	-
Capital Contributions	-	-	18,368	-
Other Receipts (Payments)	607	-	5,930	-
Net Cash Flows from Capital and Related Financing Activities	(20,723)	(29,385)	(24,784)	(347)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	2,409	-	34,078
Purchase of Investment Securities	(52)	(1,694)	-	(10,658)
Interest on Investments	3,977	1,667	1,252	14,019
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	(739)	-	15,550	(13,127)
Net Cash Flows from Investing Activities	3,186	2,382	16,802	24,312
Net Increase (Decrease) in Cash and Cash Equivalents	67,020	42,696	2,669	(5,150)
Cash and Cash Equivalents - Beginning of Year	444,978	232,777	136,286	23,420
Cash and Cash Equivalents - End of Year	$ 511,998	$ 275,473	$ 138,955	$ 18,270
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (575,267)	$ (227,154)	$ (17,464)	$ 286,221
Adjustments not Affecting Cash:				
Depreciation and Amortization	118,167	49,838	21,670	465
Other	83,097	(140)	-	80
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	6,315	(9,575)	(978)	6,809
(Increase) Decrease in Due from Other Funds	(31,239)	-	-	-
(Increase) Decrease in Inventories and Other Assets	2,567	(729)		846
Increase (Decrease) in Accounts Payables & Accrued Liabilities	7,074	12,875	(2,426)	2,172
Increase (Decrease) in Due to Other Funds	-	(17)	-	-
Total Adjustments	185,981	52,252	18,266	10,372
Net Cash Provided by (Used In) Operating Activities	$ (389,286)	$ (174,902)	$ 802	$ 296,593
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 358,203	$ 170,121	$ 48,134	
Cash and Cash Equivalents - Noncurrent	1,473	105,352	-	
Cash and Cash Equivalents - Restricted	152,322	-	90,821	
	$ 511,998	$ 275,473	$ 138,955	

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
	$ 676,222	$ 74,985	$ 152,144	$ 3,119,176	$ 57,837
	-	(7,484)	(81,474)	(853,295)	(35,597)
	-	(988)	(331,870)	(1,779,555)	(13,796)
	(1,173,131)	(108,977)	(116,978)	(1,670,670)	(5,765)
	(496,909)	(42,464)	(378,178)	(1,184,344)	2,679
	-	115,835	-	115,835	-
	-	(53,745)	(5,614)	(94,408)	-
	-	(37,113)	(2,405)	(53,435)	-
	-	2,000	242,857	960,487	-
	(3,527)	-	(9,849)	(298,876)	-
	498,453	(64,430)	(3,578)	451,866	(13,205)
	494,926	(37,453)	221,411	1,081,469	(13,205)
	-	-	(7,625)	(195,603)	(375)
	-	-	-	105,000	-
	-	-	-	(108,776)	-
	-	-	(3,620)	(66,932)	-
	-	-	202,412	356,739	-
	-	16,998	11,568	29,161	-
	-	-	-	18,368	-
	-	-	(45,995)	(39,458)	8,116
	-	16,998	156,740	98,499	7,741
	-	-	-	36,487	-
	-	-	-	(12,404)	-
	1,983	17,066	2,041	42,005	12
	-	7,703	1,507	9,210	-
	-	41,601	(4,779)	38,506	-
	1,983	66,370	(1,231)	113,804	12
	-	3,451	(1,258)	109,428	(2,773)
	-	970	152,507	990,938	11,064
	$ -	$ 4,421	$ 151,249	$ 1,100,366	$ 8,291
	$ (502,606)	$ 9,184	$ (255,900)	$ (1,282,986)	$ 3,645
	-	-	23,183	213,323	17,099
	-	-	(8,712)	74,325	(4,485)
	(23,088)	(51,648)	(146,628)	(218,793)	(4)
	264	-	-	(30,975)	2,568
	39,438	-	3,963	46,085	(1,301)
	3,753	-	5,916	29,364	(14,843)
	(14,670)	-	-	(14,687)	-
	5,697	(51,648)	(122,278)	98,642	(966)
	$ (496,909)	$ (42,464)	$ (378,178)	$ (1,184,344)	$ 2,679

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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.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(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	$ 111,850	$ -	$ -	$ 79,969	$ 191,819
Receivables:					
Accounts, Net of Allowances	18,448	-	-	7,195	25,643
From Other Governments	2,219	-	-	-	2,219
From Other Funds	1,593	-	-	5,670	7,263
Interest	85	504	-	10	599
Investments	21,775,795	884,741	-	-	22,660,536
Inventories	-	-	-	17	17
Securities Lending Collateral	2,789,794	-	-	-	2,789,794
Other Assets	-	48	22,098	367,861	390,007
Total Assets	24,699,784	885,293	22,098	$ 460,722	26,067,897
Liabilities					
Accounts Payable and Accrued Liabilities	9,930	200	-	$ 8,537	18,667
Securities Lending Obligation	2,789,794	-	-	-	2,789,794
Due to Other Funds	2,009	-	-	19,411	21,420
Funds Held for Others	-	-	-	432,774	432,774
Total Liabilities	2,801,733	200	-	$ 460,722	3,262,655
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	21,776,447	-	-		21,776,447
Other Employee Benefits (Note 15)	121,604	-	-		121,604
Individuals, Organizations, and Other Governments	-	885,093	22,098		907,191
Total Net Assets	$ 21,898,051	$ 885,093	$ 22,098		$ 22,805,242

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, 2010
(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	$ 408,833	$ -	$ -	$ 408,833
State	1,846,990	-	-	1,846,990
Municipalities	38,438	-	-	38,438
Total Contributions	2,294,261	-	-	2,294,261
Investment Income	2,730,497	4,466	-	2,734,963
Less: Investment Expense	(87,252)	(252)	-	(87,504)
Net Investment Income	2,643,245	4,214	-	2,647,459
Escheat Securities Received	-	-	87,980	87,980
Transfers In	2,740	-	-	2,740
Other	1,339	-	-	1,339
Total Additions	4,941,585	4,214	87,980	5,033,779
Deductions				
Administrative Expense	2,188	-	-	2,188
Benefit Payments and Refunds	3,444,847	-	-	3,444,847
Escheat Securities Returned or Sold	-	-	153,871	153,871
Distributions to Pool Participants	-	4,214	-	4,214
Pool's Share Transactions	-	222,575	-	222,575
Other	2,880	-	308	3,188
Total Deductions	3,449,915	226,789	154,179	3,830,883
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,491,670	-	-	1,491,670
Individuals, Organizations, and Other Governments	-	(222,575)	(66,199)	(288,774)
Net Assets - Beginning	20,406,381	1,107,668	88,297	21,602,346
Net Assets - Ending	$ 21,898,051	$ 885,093	$ 22,098	$ 22,805,242

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.

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Statement of Net Assets
Component Units

June 30, 2010

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-09)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 356	$ 160,057	$ 160,413
Investments	-	5,427	309,304	314,731
Receivables:				
Accounts, Net of Allowances	-	191	28,711	28,902
Loans, Net of Allowances	-	-	19,133	19,133
Other	-	-	1,164	1,164
Due From Primary Government	-	-	13,019	13,019
Restricted Assets	1,052,284	451,766	80,753	1,584,803
Inventories	-	-	3,970	3,970
Other Current Assets	-	131	4,491	4,622
Total Current Assets	1,052,284	457,871	620,602	2,130,757
Noncurrent Assets:				
Investments	-	-	39,232	39,232
Accounts, Net of Allowances	-	-	16,584	16,584
Loans, Net of Allowances	-	-	157,883	157,883
Restricted Assets	4,263,301	10,040	66,391	4,339,732
Capital Assets, Net of Accumulated Depreciation	3,234	271	425,148	428,653
Other Noncurrent Assets	-	-	13,036	13,036
Total Noncurrent Assets	4,266,535	10,311	718,274	4,995,120
Total Assets	5,318,819	468,182	1,338,876	7,125,877
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	33,882	1,007	29,488	64,377
Current Portion of Long-Term Obligations	156,953	-	31,926	188,879
Amount Held for Institutions	-	451,766	-	451,766
Other Liabilities	27,371	-	903	28,274
Total Current Liabilities	218,206	452,773	62,317	733,296
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	4,219,630	2,220	372,363	4,594,213
Total Noncurrent Liabilities	4,219,630	2,220	372,363	4,594,213
Total Liabilities	4,437,836	454,993	434,680	5,327,509
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,234	271	282,637	286,142
Restricted:				
Debt Service	-	-	5,559	5,559
Bond Indentures	877,749	-	-	877,749
Expendable Endowments	-	-	79,812	79,812
Nonexpendable Endowments	-	-	258,498	258,498
Other Purposes	-	7,820	50,380	58,200
Unrestricted	-	5,098	227,310	232,408
Total Net Assets	$ 880,983	$ 13,189	$ 904,196	$ 1,798,368

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/09)	$ 238,891	$ 179,067	$ -	$ -
Connecticut Health and Educational Facilities Authority	3,968	6,337	-	-
Other Component Units	251,036	189,719	6,185	1,309
Total Component Units	$ 493,895	$ 375,123	$ 6,185	$ 1,309

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 (12-31-09)	**Connecticut Health & Educational Facilities Authority**	**Other Component Units**	**Totals**
$ (59,824)	$ -	$ -	$ (59,824)
-	2,369	-	2,369
-	-	(53,823)	(53,823)
(59,824)	2,369	(53,823)	(111,278)
51,916	32	25,286	77,234
-	-	27,581	27,581
51,916	32	52,867	104,815
(7,908)	2,401	(956)	(6,463)
888,891	10,788	905,152	1,804,831
$ 880,983	$ 13,189	$ 904,196	$ 1,798,368

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Notes to the Financial Statements

June 30, 2010

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, 2009.

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, 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 2010 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 an independent 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.

Pursuant to Special Act No. 09-06, the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund of the State. Under the provisions of this program, any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, except for one modification. The modification provides that the balance of any compensated absences shall be paid in three equal annual installments beginning during fiscal year ending June 30, 2013.

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. These agreements are considered to be derivative instruments and are discussed in more detail in Note No. 19.

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)	$ 449,869	$ 11,793
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(155,746)	1,077
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(160,928)	(5,257)
Salaries and Fringe Benefits Payable	(7,805)	(598)
Increase in Continuing Appropriations	32,704	4,653
Plus Long-Term Note Proceeds	947,578	-
Less Transfer From Budget Rererve Fund	(1,278,475)	-
Fund Reclassification-Bus Operations	-	(2,939)
Net change in fund balances (GAAP basis)	$ (172,803)	$ 8,729

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, 2010, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue	
Consumer Counsel Public Utility Control	$ 2,188
Enterprise	
Bradley Parking Garage	$ 23,789
Internal Service	
Administrative Services	$ 32,732

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, 2010, 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	$ 35,323	$ 35,323	$ -
Federal Agency Securities	1,117,795	1,117,795	-
US Gov. Guaranteed Securities	187,521	177,422	10,099
Government Money Market Funds	450,000	450,000	-
Repurchase Agreements	459,126	459,126	-
Bank Commercial Paper	475,000	475,000	-
Total Investments	$ 2,724,765	$ 2,714,666	$ 10,099

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, 2010, 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 up to two years are 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, 2010, the amount of STIF's investments in variable-rate securities was $919 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, 2010, 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**	**Unrated**
Floating Rate Notes	$ 35,323	$ -	$ -	$ 35,323
Federal Agency Securities	1,117,795	1,117,795	-	-
US Gov. Guaranteed and Insured Securities	187,521	187,521	-	-
Government Money Market Funds	450,000	450,000	-	-
Repurchase Agreements	459,126	-	459,126	-
Bank Commercial Paper	475,000	-	475,000	-
Total Investments	$ 2,724,765	$ 1,755,316	$ 934,126	$ 35,323

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, 2010, 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**
US Bank	$ 475,000
Federal Home Loan Bank	$ 297,005
RBS Citizens Bank	$ 359,126
Federal Farm Credit	$ 337,924
Freddie Mac	$ 401,748
Goldman Sacks	$ 253,298
BlackRock	$ 225,000

Custodial Credit Risk-Bank Deposits-Nonnegotiable Certificate of Deposits and NOW Accounts (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, 2010, $1,854,000 of the bank balance of STIF's deposits of $1,855,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 1,668,600
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	185,400
Total	$ 1,854,000

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, 2010, STIF Plus had the following investments and maturities (amount in thousands):

Short-Term Plus Investment Fund

		Investment Maturities (in years)	
Investment Type	**Fair Value**	**Less Than 1**	**1-5**
Corporate Notes	$ 44,478	$ 44,478	$ -
Asset Backed Securities	8,064	5,574	2,490
Total Investments	$ 52,542	$ 50,052	$ 2,490

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, 2010, the weighted average maturity of STIF Plus was 105 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, 2010, STIF Plus's investment in variable-rate securities was $50 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, 2010, STIF Plus' investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Plus Investment Fund

		Quality Ratings				
Investment Type	Fair Value	AAA	AA	A	B	C
Corporate Notes	$ 44,477	$ -	$ 17,992	$ 26,485	$ -	$ -
Asset Backed Securities	8,065	5,267	-	-	1,585	1,213
Total	$ 52,542	$ 5,267	$ 17,992	$ 26,485	$ 1,585	$ 1,213

Concentration of Credit Risk

STIF Plus' policy for managing this risk is to limit the amount it may invest in any single corporate entity or federal agency to 5 percent and 15 percent, respectively, at the time of purchase. As of June 30, 2010, 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**
GE Capital Corp	$ 10,000
Goldman Sachs	$ 9,831
Merrill Lynch	$ 9,712
Wells Fargo	$ 7,993
Citigroup	$ 6,942

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, 2010, 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	$ 93,193	$ 603	$ 21,775,795
Other Investments	696,910	48,950	884,741
Total Investments-Current	$ 790,103	$ 49,553	$ 22,660,536

As of June 30, 2010, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	$ 1,640,653	$ 1,476,783	$ -	$ -	$ 163,870
Asset Backed Securities	91,299	1,442	83,312	6,545	-
Government Securities	2,823,711	284,301	968,336	712,400	858,674
Government Agency Securities	834,379	1,873	44,190	57,216	731,100
Mortgage Backed Securities	323,167	3,651	49,252	9,874	260,390
Corporate Debt	1,603,717	92,533	599,208	624,132	287,844
Convertible Debt	42,184	2,708	24,393	2,068	13,015
Mutual Fund	273,962	-	-	-	273,962
Total Debt Instruments	7,633,072	$ 1,863,291	$ 1,768,691	$ 1,412,235	$ 2,588,855
Common Stock	10,344,405				
Preferred Stock	68,897				
Real Estate Investment Trust	98,856				
Mutual Fund	736,370				
Limited Liability Corporation	4,239				
Trusts	2,709				
Limited Partnerships	2,896,391				
Total Investments	$ 21,784,939				

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 Barclays 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, 2010, 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	$ 3,038,956	$ -	$ 55,094	$ 1,921,763	$ 738,171	$ 191,445	$ 132,483	$ -	$ -
Aa	300,391	35,700	7,834	70,879	-	9,628	176,350	-	-
A	410,861	44,000	271	129,918	-	3,955	232,355	362	-
Baa	558,753	-	1,199	236,443	-	14,137	306,877	97	-
Ba	304,201	-	-	133,776	-	5,885	162,782	1,758	-
B	330,843	-	-	42,516	-	203	281,022	7,102	-
Caa	139,359	-	-	-	-	6,814	130,146	2,399	-
Ca	7,252	-	-	1,748	-	-	5,504	-	-
C	1,469	-	-	-	-	877	592	-	-
MIG 1	8,259	-	-	8,259	-	-	-	-	-
Prime 1	345,685	314,245	1,440	-	-	-	30,000	-	-
Not Rated	2,187,044	1,246,709	25,461	278,409	96,208	90,222	145,606	30,467	273,962
Total	$ 7,633,073	$ 1,640,654	$ 91,299	$ 2,823,711	$ 834,379	$ 323,166	$ 1,603,717	$ 42,185	$ 273,962

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, 2010, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Combined Investment Funds											
			Fixed Income Securitities						Equities		
Foreign Currency	Total	Cash	Government Securities	Mutual Funds	Corporate Debt	Convertible Securities	Asset Backed	Mortgage Backed	Common Stock	Preferred Stock	Real Estate Investment Trust
Argentine Peso	$ 1,084	$ 77	$ 1,007	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Australian Dollar	258,256	309	12,197	-	17,519	-	-	-	214,960	19.00	13,252
Brazilian Real	179,428	3,166	50,777	-	7,234	295	-	-	76,404	41,552	-
Canadian Dollar	100,682	442	8,160	-	-	-	-	-	92,080	-	-
Chilean Peso	1,084	1	-	-	582	-	-	-	345	156	-
Colombian Peso	16,603	-	7,619	-	8,984	-	-	-	-	-	-
Czech Koruna	15,382	211	-	-	-	-	-	-	15,171	-	-
Danish Krone	44,277	215	-	-	-	-	-	-	44,062	-	-
Egyptian Pound	21,263	239	5,989	-	-	-	-	-	15,035	-	-
Euro Currency	1,229,218	3,989	39,040	-	6,524	-	2,149	1,538	1,158,612	13,634	3,732
Ghana Cedi	240	-	240	-	-	-	-	-	-	-	-
Hong Hong Dollar	423,373	600	-	93	-	-	-	-	422,052	-	628
Hungarian Fornit	39,427	366	8,177	-	-	-	-	-	30,884	-	-
Iceland Krona	2	2	-	-	-	-	-	-	-	-	-
Indian Rupee	238	-	-	-	238	-	-	-	-	-	-
Indonesian Rupiah	92,502	125	13,066	-	13,083	-	-	-	66,228	-	-
Israeli Shekel	336	-	-	-	-	-	-	-	336	-	-
Japanese Yen	889,509	4,767	4,160	-	-	362	-	-	878,277	-	1,943
Kazakhstan Tenge	2,063	-	-	-	2,063	-	-	-	-	-	-
Malaysian Ringgit	76,137	15	22,445	-	3,679	-	-	-	49,998	-	-
Mexican Peso	96,933	1,839	41,406	-	-	-	-	-	53,688	-	-
Moroccan Dirham	430	30	-	-	-	-	-	-	400	-	-
New Russian Rubel	3,622	70	-	-	3,552	-	-	-	-	-	-
New Taiwan Dollar	64,030	474	-	-	-	-	-	-	63,556	-	-
New Zealand Dollar	42,681	191	32,822	49	-	-	-	-	9,609	-	10
Nigerian Naria	3,934	-	-	-	3,934	-	-	-	-	-	-
Norwegian Krone	32,836	111	6,431	-	-	-	-	-	26,294	-	-
Pakistan Rupee	170	170	-	-	-	-	-	-	-	-	-
Peruvian Nouveau Sol	1,296	-	1,296	-	-	-	-	-	-	-	-
Philippine Peso	21,160	11	-	-	-	-	-	-	21,149	-	-
Polish Zloty	60,926	5	33,589	-	-	-	-	-	27,332	-	-
Pound Sterling	789,570	1,744	-	-	-	-	-	-	784,189	-	3,637
Singapore Dollar	79,385	513	-	-	-	-	-	-	74,600	-	4,272
South African Rand	115,933	982	26,425	-	96	-	-	-	88,430	-	-
South Korean Won	386,354	466	5,369	-	-	-	-	-	369,387	11,132	-
Sri Lanka Rupee	202	-	-	-	202	-	-	-	-	-	-
Swedish Krona	93,854	1,647	-	-	-	-	-	-	92,207	-	-
Swiss Franc	345,585	651	-	-	-	-	-	-	344,934	-	-
Thailand Baht	96,871	-	9,468	-	996	-	-	-	86,407	-	-
Turkish Lira	111,662	308	17,446	-	-	-	-	-	93,908	-	-
Zambian Kwacha	362	-	-	-	362	-	-	-	-	-	-
Total	$ 5,738,900	$ 23,736	$ 347,129	$ 142	$ 69,048	$ 657	$ 2,149	$ 1,538	$ 5,200,534	$ 66,493	$ 27,474

Derivatives

As of June 30, 2010, the CIFS held the following derivative investments:

Derivative Investments	Fair Value
Asset Backed Securities	$ 74,806
Mortgage Backed Securities	109,747
Collateralized Mortgage Obligations	229,719
TBA's	101,398
Interest Only Securities	709
Options	942
Adjustable Rate Securities	1,110,057
Total	$ 1,627,378

The CIFS invest in derivative investments for trading purposes and to enhance investment returns. The credit exposure resulting from these investments is limited to their fair value at year end.

The CIFS also invest in foreign currency contracts. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the CIFS' investments against currency fluctuations. Losses may arise from changes in the value of the foreign currency or failure of the counterparties to perform under the contracts' terms. As of June 30, 2010, the fair value of contracts to buy and contracts to sell was $4,248 million and $4,182 million, respectively.

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, 2010, the CIFS had deposits with a bank balance of $40.2 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, 2010, the State had other investments and maturities as follows (amounts in thousands):

Other Investments

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Repurchase Agreements	$ 4,999	$ 4,999	$ -	$ -	$ -
State Bonds	42,866	1,730	5,921	17,346	17,869
U.S. Government Securities	80,746	27,294	39,149	10,928	3,375
Guaranteed Investment Contracts	390,651	105,930	55,680	109,048	119,993
Tax Exempt Proceeds Fund	16,203	16,203	-	-	-
Money Market Funds	10,584	10,584	-	-	-
Total Debt Investments	546,049	$ 166,740	$ 100,750	$ 137,322	$ 141,237
Annuity Contracts	179,569				
Endowment Pool	9,649				
Limited Partnership	150				
Total Investments	$ 735,417				

Credit Risk

As of June 30, 2010, other investments were rated by Standard and Poor's as follows (amounts in thousands):

Other Investments

		Quality Ratings			
Investment Type	Fair Value	AAA	AA	A	Unrated
Repurchase Agreements	$ 4,999	$ 4,999	$ -	$ -	$ -
State Bonds	42,866	-	42,866	-	-
Guaranteed Investment Contracts	390,651	71,516	216,266	102,869	-
Tax Exempt Proceeds Fund	16,203	-	-	-	16,203
Money Market Funds	10,584	11	-	-	10,573
Total	$ 465,303	$ 76,526	$ 259,132	$ 102,869	$ 26,776

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, 2010, $786,662 of the bank balance of the Primary Government of $791,904 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 707,485
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	79,177
Total	$ 786,662

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 12-31-09 and 6-30-10, respectively (amounts in thousands):

Major Component Units

		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 10
Collateralized Mortgage Obligations	$ 1,247	$ -	$ -	$ 1,247
Corporate Finance Bonds	5,428	-	5,428	-
Federated Funds	868	868	-	-
Fidelity Tax Exempt Fund	17,773	17,773	-	-
GNMA Program Assets	936,829	-	-	936,829
Guaranteed Investment Contracts	36,241	-	36,241	-
Mortgage Backed Securities	2,403	-	413	1,990
Repurchase Agreements	4,555	-	-	4,555
U.S. Government Securities	2,262	1,496	-	766
Structured Securities	685	-	-	685
Money Market Funds	412,676	412,676	-	-
Total	$ 1,420,967	$ 432,813	$ 42,082	$ 946,072

The CHFA and the CHEFA own 68.3 percent and 31.7 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, certificate of deposits, and the Federated and Fidelity Funds are fully collateralized by obligations issued by the United States Government or its agencies. Mortgage Backed Securities are fully collateralized by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association, and Collateralized Mortgage Obligations are fully collateralized by 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 as follows: obligations issued or guaranteed by the U.S. Government, including FDIC; qualified money market funds investing in short-term securities as permitted by the Authority's enabling legislation; State's Short-Term Investment Fund (STIF) provided it maintains a "AAA" rating by Standard and Poor's; and qualified repurchase agreements secured by obligations issued or guaranteed by the U.S. Government.

CHFA's and CHEFA's investments were rated as of 12-31-09 and 6-30-10, respectively, as follows (amounts in thousands):

Component Units

Investment Type	Fair Value	Quality Ratings AAA	AA	BBB	D	Unrated
Collateralized Mortgage Obligations	$ 1,247	$ -	$ 1,247	$ -	$ -	$ -
Corporate Finance Bonds	5,428	-	-	5,428	-	-
Federated Funds	868	-	-	-	-	868
Fidelity Tax Exempt Fund	17,773	-	-	-	-	17,773
GNMA Assets	936,829	-	-	-	-	936,829
Guaranteed Investment Contracts	36,241	-	36,241	-	-	-
Mortgage Backed Securities	2,403	-	-	-	-	2,403
Repurchase Agreements	4,555	-	-	-	-	4,555
Structured Securities	685	-	-	-	685	-
Money Market Funds	412,676	412,676	-	-	-	-
Total	$ 1,418,705	$ 412,676	$ 37,488	$ 5,428	$ 685	$ 962,428

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, 2010, the Authority had no investments in any one issuer that represents 5 percent 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 Trinity Funding LLC exceeded 5 percent of the Authority's portfolio.

Security Lending Transactions
Certain of the Combined Investment Funds are permitted by State Statute to engage in security lending transactions to provide incremental returns to the funds. The funds' master custodian is authorized to lend available securities to authorized broker-dealers and banks subject to a form loan agreement.

During the year, the master custodian lent certain securities and received cash or other collateral as indicated on the Securities Lending Authorization Agreement. The master custodian did not have the ability to pledge or sell collateral securities received absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

According to the Agreement, the master custodian has an obligation to indemnify the funds in the event any borrower failed to return the loaned securities or pay distributions thereon. There were no such failures during the fiscal year that resulted in a declaration and notice of Default of the Borrower. During the fiscal year, the funds and the borrowers maintained the right to terminate all securities lending transactions upon notice. The cash collateral received on each loan was invested in an individual account known as the State of Connecticut Collateral Investment Trust. At year end, the funds had no credit exposure to borrowers because the value of the collateral held and the market value of securities on loan were $2,830.3 million and $2,751.0 million, respectively.

Under normal circumstances, the average duration of collateral investments is managed so that it will not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. If any of these limits is exceeded for any 3-day period, the Trustee shall take certain actions. At year end, the average duration of the collateral investments was 25.9 days; the average duration of the loans was unknown, although it is assumed to remain at 1 day.

Note 5 Receivables-Current

As of June 30, 2010, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,212,937	$ -	$ -
Accounts	1,019,504	567,175	29,099
Loans-Current Portion	-	303,066	21,327
Other Governments	971,554	23,165	-
Interest	1,337	12,679	618
Other (1)	19,898	4,721	546
Total Receivables	3,225,230	910,806	51,590
Allowance for Uncollectibles	(951,180)	(90,248)	(2,391)
Receivables, Net	$ 2,274,050	$ 820,558	$ 49,199

(1) Includes a reconciling amount of $19,898 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2010 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 541,466	$ -	$ 541,466
Income Taxes	367,087	-	367,087
Corporations	39,522	-	39,522
Gasoline and Special Fuel	-	43,091	43,091
Various Other	221,771	-	221,771
Total Taxes Receivable	1,169,846	43,091	1,212,937
Allowance for Uncollectibles	(190,630)	-	(190,630)
Taxes Receivable, Net	$ 979,216	$ 43,091	$ 1,022,307

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2010, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	$ -	$ -	$ 16,584
Loans	256,463	622,817	169,174
Total Receivables	256,463	622,817	185,758
Allowance for Uncollec	(2,706)	(2,810)	(11,291)
Receivables, Net	$ 253,757	$ 620,007	$ 174,467

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 $538.4 million.

The Connecticut Higher Education Supplemental Loan Authority (a component unit) makes loans to individuals from the proceeds of bonds issued by the Authority. The loans bear interest rates ranging from 0 percent to 9.7 percent. At year end, the noncurrent portion of loans receivable was $106.7 million.

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2010, 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	$ 687,752	$ -	$ -	$ -	$ 687,752
Environmental	3,449	-	-	-	3,449
Total-Governmental Activities	$ 691,201	$ -	$ -	$ -	$ 691,201
Business-Type Activities:					
Bradley International Airport	$ 90,821	$ 13,258	$ -	$ 2,225	$ 106,304
UConn/Health Center	152,322	-	-	5,258	157,580
Clean Water	67,543	306,220	-	-	373,763
Other Proprietary	37,838	26,302	-	-	64,140
Total-Business-Type Activities	$ 348,524	$ 345,780	$ -	$ 7,483	$ 701,787
Component Units:					
CHFA	$ 666,467	$ 952,027	$ 3,373,682	$ 323,409	$ 5,315,585
CHEFA	461,702	-	-	104	461,806
Other Component Units	113,316	25,115	-	8,713	147,144
Total-Component Units	$ 1,241,485	$ 977,142	$ 3,373,682	$ 332,226	$ 5,924,535

Note 9 Current Liabilities

a. Accounts Payable and Accrued Liabilities

As of June 30, 2010, 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	$ 121,988	$ 250,302	$ -	$ -	$ 372,290
Transportation	15,376	13,767	-	-	29,143
Other Governmental	202,001	23,645	-	16,126	241,772
Internal Service	2,325	2,374	-	1,153	5,852
Reconciling amount from fund financial statements to government-wide financial statements	-	-	157,020	5,742	162,762
Total-Governmental Activities	$ 341,690	$ 290,088	$ 157,020	$ 23,021	$ 811,819
Business-Type Activities:					
UConn/Health Center	$ 30,448	$ 79,275	$ -	$ 28,127	$ 137,850
State Universities	9,993	40,909	1,917	-	52,819
Other Proprietary	20,162	31,011	19,055	30,901	101,129
Total-Business-Type Activities	$ 60,603	$ 151,195	$ 20,972	$ 59,028	$ 291,798
Component Units:					
CHFA	$ -	$ -	$ 22,617	$ 11,265	$ 33,882
Other Component Units	2,739	-	1,478	26,278	30,495
Total-Component Units	$ 2,739	$ -	$ 24,095	$ 37,543	$ 64,377

b. Notes Payable

Notes payable consist of the short-term portion of Bond Anticipation Notes as described in Note 18. The activity for the notes for the year ended June 30, 2010 was as follows (amounts in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Bond Anticipation Notes	$ 353,085	$ -	$ -	$ 353,085

Note 10 Capital Assets

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

	Beginning Balance (1)	Additions	Retirements	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated:				
Land	$ 1,393,950	$ 168,649	$ 549	$ 1,562,050
Construction in Progress	1,352,502	865,112	498,237	1,719,377
Total Capital Assets not being Depreciated	2,746,452	1,033,761	498,786	3,281,427
Other Capital Assets:				
Buildings	2,882,181	323,408	31,070	3,174,519
Improvements Other than Buildings	470,170	3,020	1,766	471,424
Equipment	1,750,385	129,865	229,611	1,650,639
Infrastructure	12,266,463	289,318	-	12,555,781
Total Other Capital Assets at Historical Cost	17,369,199	745,611	262,447	17,852,363
Less: Accumulated Depreciation For:				
Buildings	1,673,310	79,363	31,070	1,721,603
Improvements Other than Buildings	248,286	23,750	1,766	270,270
Equipment	1,541,821	294,753	229,611	1,606,963
Infrastructure	6,457,874	507,228	-	6,965,102
Total Accumulated Depreciation	9,921,291	905,094 *	262,447	10,563,938
Other Capital Assets, Net	7,447,908	(159,483)	-	7,288,425
Governmental Activities, Capital Assets, Net	$10,194,360	$ 874,278	$ 498,786	$ 10,569,852

(1) Restated - See Note No. 23

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 5,879
General Government	49,749
Regulation and Protection	32,794
Conservation and Development	15,279
Health and Hospitals	14,656
Transportation	652,918
Human Services	2,207
Education, Libraries and Museums	41,731
Corrections	49,909
Judicial	23,111
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	16,861
Total Depreciation Expense	$ 905,094

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 59,628	$ -	$ 1	$ 59,627
Construction in Progress	193,135	99,765	98,760	194,140
Total Capital Assets not being Depreciated	252,763	99,765	98,761	253,767
Capital Assets being Depreciated:				
Buildings	3,783,753	161,517	1,579	3,943,691
Improvements Other Than Buildings	494,703	25,244	447	519,500
Equipment	939,157	58,901	39,840	958,218
Total Other Capital Assets at Historical Cost	5,217,613	245,662	41,866	5,421,409
Less: Accumulated Depreciation For:				
Buildings	1,291,005	123,917	823	1,414,099
Improvements Other Than Buildings	243,430	21,920	44	265,306
Equipment	584,386	68,100	38,239	614,247
Total Accumulated Depreciation	2,118,821	213,937	39,106	2,293,652
Other Capital Assets, Net	3,098,792	31,725	2,760	3,127,757
Business-Type Activities, Capital Assets, Net	$ 3,351,555	$ 131,490	$ 101,521	$ 3,381,524

Component Units

Capital assets of the component units consisted of the following as of June 30, 2010 (amounts in thousands):

Land	$ 29,031
Buildings	320,700
Improvements other than Buildings	3,067
Machinery and Equipment	415,139
Construction in Progress	14,670
Total Capital Assets	782,607
Accumulated Depreciation	(353,954)
Capital Assets, net	$ 428,653

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 6/30/2010	TRS 6/30/2010	JRS 6/30/2010
Retirees and beneficiaries receiving benefits	41,782	30,493	212
Terminated plan members entitled to but not yet receiving benefits	1,602	1,315	2
Active plan members	50,064	51,368	230
Total	93,448	83,176	444

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 percent 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. During fiscal year 2010, the State reduced the annual required contribution to the plan by $176.9 million to help reduce the deficit of the State's General fund.

Teachers' Retirement System
Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent, or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

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

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

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

Annual Pension Cost 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	$ 897,428	$ 559,224	$ 15,399
Interest on net pension obligation	213,181	(41,428)	4
Adjustment to annual required contribution	(157,856)	35,358	(3)
Annual pension cost	952,753	553,154	15,400
Contributions made	720,527	559,224	-
Increase (decrease) in net pension obligation	232,226	(6,070)	15,400
Net pension obligation (asset) beginning of year	2,508,005	(487,390)	49
Net pension obligation (asset) end of year	$ 2,740,231	$ (493,460)	$ 15,449

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	2008	$ 776,227	91.7%	$ 2,396,999
	2009	$ 810,776	86.3%	$ 2,508,005
	2010	$ 952,753	75.6%	$ 2,740,231
TRS	2008	$ 542,508	464.2%	$ (480,510)
	2009	$ 532,423	101.3%	$ (487,390)
	2010	$ 553,154	101.1%	$ (493,460)
JRS	2008	$ 13,435	100%	$ 48
	2009	$ 14,174	100%	$ 49
	2010	$ 15,400	0%	$ 15,449

Funded Status and Funding Progress
The following is funded status information for each plan as of June 30, 2010 the most recent actuarial valuation date (amounts in millions):

	Actuarial Value of Assets (a)	Actrarial 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	9,349.6	21,054.2	11,704.6	44.4%	3,295.7	355.1%
TRF	14,430.2	23,495.9	9,065.7	61.4%	3,646.0	248.6%
JRF	179.7	276.8	97.1	64.9%	31.6	307.3%

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	6/30/2010	6/30/2010	6/30/10
Actuarial Cost Method	Projected unit credit	Entry Age	Projected unit credit
Amortization Method	Level percent of payroll, closed	Level percent closed	Level percent of payroll, closed
Remaining Amortization Period	21 Years	25.3 years	21 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%	0.00%
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 $35.5 million and $24.6 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 7/1/2010	CPJERS 12/31/2009
Retirees and beneficiaries receiving benefits	5,705	288
Terminated plan members entitled to but not receiving benefits	720	22
Active plan members	8,579	412
Total	15,004	722
Number of participating employers	186	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 13 Pension Trust Funds Financial Statements

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

Statement of Fiduciary Net Assets (000's)

	State Employees'	State Teachers'	Judicial	Connecticut Municipal Employees'	Probate Judges'	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ 1,095	$ 1	$ -	$ 33	$ 234	$ 1,363
Receivables:							
Accounts, Net of Allowances	2,088	8,939	7	7,409	5	-	18,448
From Other Governments	-	2,219	-	-	-	-	2,219
From Other Funds	(8)	(7)	-	1	-	-	(14)
Interest	28	49	1	7	-	-	85
Investments	7,789,607	12,273,555	149,775	1,470,621	71,821	991	21,756,370
Securities Lending Collateral	979,674	1,518,160	27,783	248,333	12,191	172	2,786,313
Total Assets	8,771,389	13,804,010	177,567	1,726,371	84,050	1,397	24,564,784
Liabilities							
Accounts Payable and Accrued Liabilities	15	-	-	-	-	-	15
Securities Lending Obligation	979,674	1,518,160	27,783	248,333	12,191	172	2,786,313
Due to Other Funds	358	1,520	-	131	-	-	2,009
Total Liabilities	980,047	1,519,680	27,783	248,464	12,191	172	2,788,337
Net Assets							
Held in Trust For Employee Pension Benefits	7,791,342	12,284,330	149,784	1,477,907	71,859	1,225	21,776,447
Total Net Assets	$ 7,791,342	$ 12,284,330	$ 149,784	$ 1,477,907	$ 71,859	$ 1,225	$ 21,776,447

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	$ 65,662	$ 252,975	$ 1,570	$ 15,879	$ 297	$ 52	$ 336,435
State	720,527	559,224	-	-	-	-	1,279,751
Municipalities	-	-	-	38,437	-	-	38,437
Total Contributions	786,189	812,199	1,570	54,316	297	52	1,654,623
Investment Income	986,656	1,538,815	19,350	174,508	8,577	93	2,727,999
Less: Investment Expenses	(31,745)	(48,923)	(623)	(5,614)	(276)	(2)	(87,183)
Net Investment Income	954,911	1,489,892	18,727	168,894	8,301	91	2,640,816
Transfers In	-	-	-	-	2,740	-	2,740
Other	-	201	-	989	149	-	1,339
Total Additions	1,741,100	2,302,292	20,297	224,199	11,487	143	4,299,518
Deductions							
Administrative Expense	417	-	-	-	-	-	417
Benefit Payments and Refunds	1,272,121	1,428,516	18,694	95,514	3,175	2	2,818,022
Other	-	126	-	3	2,751	-	2,880
Total Deductions	1,272,538	1,428,642	18,694	95,517	5,926	2	2,821,319
Changes in Net Assets	468,562	873,650	1,603	128,682	5,561	141	1,478,199
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,322,780	11,410,680	148,181	1,349,225	66,298	1,084	20,298,248
End of Year	$ 7,791,342	$ 12,284,330	$ 149,784	$ 1,477,907	$ 71,859	$ 1,225	$ 21,776,447

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 (Healthcare Policy and Benefit 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. Administrative costs of the plan are financed by the State.

As of June 30, 2010, the latest actuarial valuation for the plan was dated April 1, 2008. This valuation disclosed that the plan had an unfunded accrued liability of $26.6 billion as of that date. Because of the date of the actuarial valuation, required disclosures for the plan on funded status, funding progress, and actuarial methods and assumptions could not be 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, 2010 (date of the latest actuarial valuation), the plan had 33,151 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 percent 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	$ 2,145,724	$ 121,334
Interest on Net OPEB Obligation	12,719	897
Adjustment to Annual Required Contribution	191,220	(6,910)
Annual OPEB Cost	2,349,663	115,321
Contributions Made	555,131	12,108
Increase in net OPEB Obligation	1,794,532	103,213
Net OPEB Obligation - Beginning of Year	2,356,334	186,624
Net OPEB Obligation - End of Year	$ 4,150,866	$ 289,837

In addition, other related information for each plan for the past three fiscal years was as follows:

	Fiscal Year		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
SEOPEBP	2010	$	2,349,663	23.6%	$	4,150,866
	2009	$	1,669,321	27.1%	$	2,356,334
	2008	$	1,602,739	28.9%	$	1,139,042
RTHP	2010	$	115,321	10.5%	$	289,837
	2009	$	113,704	19.7%	$	186,624
	2008	$	116,123	17.9%	$	95,353

Funded Status and Funding Progress

The following is funded status information for the RTHP as of June 30, 2010, 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	$0	$ 2,997.8	$ 2,997.8	0.0%	$ 3,646.0	82.2%

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 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

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	6-30-2010
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	29 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, 5% 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 6/30/10 there were 8 municipalities participating in the plan with a total membership of 610 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	$ 44,406	$ 66,072	$ 9	$ 110,487
Receivables:				
From Other Funds	42	1,565	-	1,607
Investments	-	-	19,425	19,425
Securities Lending Collateral	-	-	3,481	3,481
Total Assets	44,448	67,637	22,915	135,000
Liabilities				
Accounts Payable and Accrued Liabilities	8,792	1,123	-	9,915
Securities Lending Obligation	-	-	3,481	3,481
Total Liabilities	8,792	1,123	3,481	13,396
Net Assets				
Held in Trust For Other				
Postemployment Benefits	35,656	66,514	19,434	121,604
Total Net Assets	$ 35,656	$ 66,514	$ 19,434	$ 121,604

Statement of Changes in Fiduciary Net Assets (000's)	State Employees'	Retired Teachers'	Policemen and Firemen	Total
Additions				
Contributions:				
Plan Members	$ -	$ 71,946	$ 452	$ 72,398
State	555,131	12,108	-	567,239
Municipalities	-	-	1	1
Total Contributions	555,131	84,054	453	639,638
Investment Income	177	181	2,140	2,498
Less: Investment Expenses	-	-	(69)	(69)
Net Investment Income	177	181	2,071	2,429
Other	-	-	-	-
Total Additions	555,308	84,235	2,524	642,067
Deductions				
Administrative Expense	-	1,771	-	1,771
Benefit Payments and Refunds	544,313	81,604	908	626,825
Total Deductions	544,313	83,375	908	628,596
Changes in Net Assets	10,995	860	1,616	13,471
Net Assets Held in Trust For Other Postemployment Benefits:				
Beginning of Year (as restated)	24,661	65,654	17,818	108,133
End of Year	$ 35,656	$ 66,514	$ 19,434	$ 121,604

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):

2011	$ 29,987
2012	19,119
2013	19,012
2014	19,142
2015	19,917
Thereafter	106,691
Total	$ 213,868

Contingent revenues for the year ended June 30, 2010, were $.3 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2010, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2011	$ 77,403	$ 7,855
2012	61,546	7,300
2013	47,758	7,168
2014	46,816	4,008
2015	32,522	3,157
2016-2020	69,382	14,537
2021-2025	3,440	6,135
2026-2030	-	6,103
2031-2035	-	1,215
Total minimum lease payments	$ 338,867	57,478
Less: Amount representing interest costs		15,776
Present value of minimum lease payments		$ 41,702

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, 2010, were $77.4 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 $224 million at June 30, 2010.

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

The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2010, (amounts in thousands):

Governmental Activities	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Bonds:					
General Obligation	$ 13,443,525	$ 1,496,445	$ 1,347,262	$ 13,592,708	$ 1,001,780
Transportation	2,817,015	549,775	336,305	3,030,485	271,330
	16,260,540	2,046,220	1,683,567	16,623,193	1,273,110
Plus/(Less) premiums and deferred amounts	420,036	162,227	55,685	526,578	96,017
Total Bonds	16,680,576	2,208,447	1,739,252	17,149,771	1,369,127
Long-Term Notes	228,160	1,268,880	353,085	1,143,955	228,160
Other L/T Liabilities:					
Net Pension Obligation	2,020,664	1,521,306	1,279,750	2,262,220	-
Net OPEB Obligation	2,542,958	2,464,984	567,239	4,440,703	-
Compensated Absences	502,667	28,494	8,397	522,764	18,098
Workers' Compensation	459,778	109,601	108,783	460,596	96,598
Capital Leases	47,129	-	5,427	41,702	2,198
Claims and Judgments	43,690	18,745	2,146	60,289	2,117
Liability on Interest Rate Swaps	-	27,817	-	27,817	-
Contracts Payable & Other	705	-	-	705	-
Total Other Liabilities	5,617,591	4,170,947	1,971,742	7,816,796	119,011
Governmental Activities Long-Term Liabilities	$ 22,526,327	$ 7,648,274	$ 4,064,079	$ 26,110,522	$ 1,716,298
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,601,797	$ 47,545	$ 150,965	$ 1,498,377	$ 107,953
Plus/(Less) premiums, discounts and deferred amounts	32,282	8,410	(83)	40,775	163
Total Revenue Bonds	1,634,079	55,955	150,882	1,539,152	108,116
Lottery Prizes	203,967	10,714	33,537	181,144	31,190
Compensated Absences	134,649	34,090	21,299	147,440	41,736
Federal Loans Payable	-	498,453	-	498,453	-
Other	186,268	26,402	18,757	193,913	22,804
Total Other Liabilities	524,884	569,659	73,593	1,020,950	95,730
Business-Type Long-Term Liabilities	$ 2,158,963	$ 625,614	$ 224,475	$ 2,560,102	$ 203,846

The liability for claims and judgments (Governmental Activities) includes a pollution remediation liability of approximately $56.2 million. This liability represents the State's share of the cost of cleaning up certain polluted sites in the state under federal and state superfund regulations. The liability was estimated using the cash flow technique.

As of June 30, 2010, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2010	Amounts due within year
Bonds Payable	$ 4,489,729	$ 123,304
Escrow Deposits	193,105	54,437
Closure of Landfills	54,481	10,243
Due to State	14,967	-
Deferred Revenue	4,125	461
Other	26,685	434
Total	$ 4,783,092	$ 188,879

Note 18 Long-Term Notes and Bonded Debt

a. Bond Anticipation Notes

As of June 30, 2010, $581.2 million in Bond Anticipation Notes bearing interest rates from 2% to 4% were outstanding. These notes mature on June 11, 2011. Of these notes, $353.1 million were issued in fiscal year 2010 to refund prior year Bond Anticipation Notes in the same amount. These refunding notes are reported as short-term liabilities of Capital Projects and Special Revenue funds.

The $228.1 million portion of the notes was issued in the prior fiscal year. Future amounts needed to pay principal and interest on the prior year bond anticipation notes outstanding at June 30, 2010, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	$ 228,160	$ 8,945	$ 237,105
Total	$ 228,160	$ 8,945	$ 237,105

b. Economic Recovery Notes

Public Act 09-2 authorized the issuance of $915.8 million of General Obligation Economic Recovery Notes in December, 2009. The notes funded a major part of the deficit in the State's general fund as reported by the Comptroller to the Governor for the fiscal year ended June 30, 2009. The notes also funded interest due on the notes through June 30, 2011 and pertinent issue costs in accordance with Section 3-115 of the General Statues.

Economic recovery notes outstanding at June 30, 2010 were $915.8 million. The notes mature on various dates through 2016 and bear interest rates from 2.0% to 5.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2010, were as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ -	$ 40,568	$ 40,568
2012	167,860	40,568	208,428
2013	174,570	33,854	208,424
2014	182,705	25,724	208,429
2015	191,280	17,146	208,426
2016	199,380	9,044	208,424
Total	$ 915,795	$ 166,904	$ 1,082,699

c. 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, 2010, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2010-2030	2.00-7.352%	$ 2,077,503	$ 259,657
School Construction	2010-2029	1.50-6.777%	4,330,584	17,501
Municipal & Other				
Grants & Loans	2010-2029	2.00-7.000%	904,939	227,438
Elderly Housing	2011-2029	2.299-6.795%	89,550	25,994
Elimination of Water				
Pollution	2010-2023	3.00-6.753%	247,256	531,383
General Obligation				
Refunding	2010-2022	2.00-6.00%	3,389,581	-
Pension Obligation	2014-2032	4.20-6.27%	2,276,578	-
Miscellaneous	2010-2038	3.00-6.75%	126,790	535,246
			13,442,781	$ 1,597,219
Accretion-Various Capital Appreciation Bonds			149,927	
		Total	$ 13,592,708	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2010, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	$ 1,000,144	$ 700,250	$ 1,700,394
2012	943,859	638,877	1,582,736
2013	870,851	577,032	1,447,883
2014	840,518	523,264	1,363,782
2015	818,719	473,223	1,291,942
2016-2020	3,499,297	1,833,025	5,332,322
2021-2025	2,784,078	1,361,458	4,145,536
2026-2030	1,989,330	514,101	2,503,431
2031-2035	689,330	64,008	753,338
2036-2040	6,655	652	7,307
Total	$ 13,442,781	$ 6,685,890	$ 20,128,671

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, 2010, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Infrastructure				
Improvements	2010-2029	2.00-6.500%	$ 3,030,485	$ 1,626,232
			3,030,485	$ 1,626,232
Accretion-Various Capital Appreciation Bonds			-	
		Total	$ 3,030,485	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2010, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	$ 271,330	$ 140,992	$ 412,322
2012	256,030	128,292	384,322
2013	288,790	115,615	404,405
2014	242,200	103,446	345,646
2015	206,350	92,851	299,201
2016-2020	824,525	338,679	1,163,204
2021-2025	609,525	160,703	770,228
2026-2030	331,735	39,156	370,891
	$ 3,030,485	$ 1,119,734	$ 4,150,219

Variable-Rate Demand Bonds

As of June 30, 2010, 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	$ 22,200	1990	2010
General Obligation	40,000	1997	2014
General Obligation	100,000	2001	2021
General Obligation	280,000	2005	2023
Total	$ 442,200		

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,
2001 GO expires in the year 2015, 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.

d. 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, 2010, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Uconn	2011-2033	2.0-6.0%	$ 168,167
State Universities	2011-2036	2-6.0%	276,471
Clean Water	2011-2028	2-5.%	767,817
Drinking Water	2011-2027	2-5.%	54,132
Bradley International Airport	2011-2033	2.5-5.25%	188,785
Bradley Parking Garage	2011-2024	6.125-6.6%	43,005
Total Revenue Bonds			1,498,377
Plus/(Less) premiums, discounts and deferred amounts:			
Uconn			(1,705)
State Universities			1,194
Clean Water			38,981
Bradley International Airport			143
Other			2,162
Revenue Bonds, net			$ 1,539,152

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, 2010, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $5.5 million. These bonds were issued in July, 2004, to redeem the 1992 Airport Revenue Refunding Bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.
b) 2001 Bradley International Airport Revenue Bonds in the amount of $166.3 million and 2001 Bradley International Airport Refunding Bonds in the amount of $17.0 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects. 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.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2010, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	$ 107,952	$ 67,427	$ 175,379
2012	108,387	63,498	171,885
2013	111,033	58,436	169,469
2014	97,652	53,702	151,354
2015	138,107	82,380	220,487
2016-2020	399,602	172,615	572,217
2021-2025	326,570	88,004	414,574
2026-2030	174,099	23,388	197,487
2031-2035	33,910	2,681	36,591
2036-2040	1,065	21	1,086
Total	$ 1,498,377	$ 612,152	$ 2,110,529

e. Component Units
Component units' revenue bonds outstanding at June 30, 2010, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2011-2020	4.10-5.250%	$ 19,225
CT Housing Finance Authority	2011-2049	0.30-7.125%	4,189,023
CT Resources Recovery Authority	2011-2016	5.125-5.50%	16,200
CT Higher Education Supplemental Loan Authority	2011-2028	1.70-6.00%	157,035
Capital City Economic Development Authority	2011-2033	2.50-7.00%	102,681
UConn Foundation	2011-2029	3.875-5.00%	6,735
Total Revenue Bonds			4,490,899
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			10
CRRA			(256)
CCEDA			(327)
CHESLA			(597)
Revenue Bonds, net			$ 4,489,729

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, 2010 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 $19.2 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, 2009, bonds outstanding under the bond resolution and the indenture were $4,133.6 million and $55.5 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 ($287.6 million at 12/31/09) on all outstanding bonds. As of December 31, 2009, the Authority has entered into interest rate swap agreements for $994.3 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 $16.2 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 $9.0 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, 2010, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	$ 138,372	$ 147,588	$ 285,960
2012	132,399	141,943	274,342
2013	140,985	136,539	277,524
2014	122,592	148,871	271,463
2015	140,920	130,321	271,241
2016-2020	733,171	564,947	1,298,118
2021-2025	779,893	420,174	1,200,067
2026-2030	793,556	273,677	1,067,233
2031-2035	759,761	143,980	903,741
2036-2040	516,880	33,959	550,839
2041-2045	203,975	2,033	206,008
2046-2050	28,395	194	28,589
Total	$ 4,490,899	$ 2,144,226	$ 6,635,125

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, 2010 were $1,088.6 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. The amount of these bonds outstanding at June 30, 2010 were $78.9 million. Of this amount , $35.4 million was partially 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, 2010, were $7,393.4 million, of which $281.1 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 $344.1 million of general obligation and special tax obligation refunding bonds with an average interest rate of 3.89 percent to redeem $40.9 million and to advance refund $311.4 million of general obligation and special tax obligation bonds with an average interest rate of 4.96 percent. The reacquisition price exceeded the carrying amount of the old debt by $27.2 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 advanced refunded these bonds to reduce its total debt service payments over the next eleven years by $12.1 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $12.6 million. As of June 30, 2010, $2,031.4 million of outstanding general obligation, special tax obligation, and revenue bonds had been advanced refunded and are, accordingly, considered defeased.

Note 19 - Derivative Financial Instruments

The fair value balances and notional amounts of the State's derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (amounts in thousands; debit(credit)):

	Changes in Fair Value		Fair Value at Year End		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swap	Other Non-current Assets	(6,804)	Non-current portion of LT Obligations	(27,817)	355,620
Business-type activities					
Cash flow hedges:					
Bradley Airport:					
Pay-fixed interest rate swap	Other Non-current Assets	(8,542)	Non-current portion of LT Obligations	(16,747)	152,380

Objective and Terms of Hedging Derivative Instruments

The following table displays the objective and the terms of the States' hedging derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty (amounts in thousands).

Type	Objective	Notional Amounts (000's)	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2001 GO bonds	$ 20,000	6/28/2001	6/15/2012	Pay 4.33% receive CPI plus 1.43%	A/A/A
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	140,000	3/24/2005	3/1/2023	Pay 3.392% receive 60% of LIBOR+30bp	Aa/AAA/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	140,000	3/24/2005	3/1/2023	Pay 3.401% receive 60% of LIBOR+30bp	Aa/A/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	15,620	4/27/2005	6/1/2016	Pay 3.99% receive CPI plus .65%	A/A/A
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	20,000	4/27/2005	6/1/2017	Pay 5.07% receive CPI plus 1.73%	A/A/A
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	20,000	4/27/2005	6/1/2020	Pay 5.2% receive CPI plus 1.79%	Aa/AA/AA
	Total Notional Amount	$ 355,620				

The fair values of interest rate swaps 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, 2010, the State had no credit risk exposure on any of the 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.

Interest Rate Risk
The State is exposed to interest rate risk on its interest rate swaps. As the LIBOR or CPI swap index rate decreases, the State's net payment on the swap increases.

Basis Risk
The State's variable-rate bond interest payments are based on the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) index rate, or the CPI floating rate. The State is exposed to basis risk on those swaps for which the State receives variable-rate payments that are based on the LIBOR swap index rate. As of June 30, 2010, the SIFMA rate was 0.25 percent, whereas 60 percent of LIBOR plus 30bp was 0.509 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2010, 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 2005 swap agreements, the State has up to 270 days to fund any required termination payment.

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.

Hedging Derivative Instrument Payments and Hedged Debt
As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of June 30, 2010, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands).

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate SWAP, Net	Total
2011	$ -	$ 1,777	$ 10,833	$ 12,610
2012	20,000	1,778	10,832	32,610
2013	-	1,170	10,575	11,745
2014	-	1,170	10,575	11,745
2015	-	1,751	16,804	18,555
2016-2020	260,620	3,492	28,918	293,030
2021-2023	75,000	337	2,780	78,117
Total	$ 355,620	$ 11,475	$ 91,317	$ 458,412

As of June 30, 2010, 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.

Note 20 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 lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

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

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per 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 and Health Center 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 6-30-08	$ 412,619	$ 21,290
Incurred claims	143,104	8,790
Paid claims	(95,945)	(4,856)
Balance 6-30-09	459,778	25,224
Incurred claims	109,601	3,800
Paid claims	(108,783)	(10,709)
Balance 6-30-10	$ 460,596	$ 18,315

Note 21 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2010, were as follows (amounts in thousands):

	Balance due to fund(s)											
Balance due from fund(s)	General	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
General	$ -	$ -	$ 509,123	$ 612,478	$ 54,327	$ 21,579	$ 19,165	$ 1,533	$ 357	$ 5,741	$ -	$ 1,224,303
Debt Service	-	1,288	-	-	-	-	-	-	-	-	-	1,288
Restricted Grants & Accounts	3,245	-	-	-	-	-	-	-	-	-	355	3,600
Other Governmental	2,673	-	4,316	8,262	510	13,724	204,276	-	-	-	12,664	246,425
UConn	15,625	-	-	-	-	-	-	-	-	-	-	15,625
State Universities	3,218	-	-	-	-	-	-	-	-	-	-	3,218
Employment Security	-	-	-	26,791	-	-	-	-	-	-	-	26,791
Other Proprietary	-	-	1,296	370	-	-	-	-	-	-	-	1,666
Internal Services	-	-	-	66,931	-	-	-	-	-	-	-	66,931
Fiduciary	-	-	-	19,898	-	-	-	-	-	1,522	-	21,420
Component Units	14,967	-	-	-	-	-	-	-	-	-	-	14,967
Total	$ 39,728	$ 1,288	$ 514,735	$ 734,730	$ 54,837	$ 35,303	$ 223,441	$ 1,533	$ 357	$ 7,263	$ 13,019	$ 1,626,234

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

Note 22 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2010, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)										
Amount transferred from fund(s)	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Internal Services	Fiduciary	Total
General	$ -	$ -	$ -	$ -	$ 72,512	$ 543,946	$ 242,054	$ 272,333	$ 715	$ -	$ 1,131,560
Debt Service	-	-	5,741	451	-	-	-	-	-	-	6,192
Transportation	-	439,642	-	5,300	6,458	-	-	-	-	-	451,400
Restricted Grants & Accounts	-	-	-	-	-	-	-	1,559	-	-	1,559
Other Governmental	114,005	-	60	116,112	8,288	106,028	12,753	172,194	-	2,740	532,180
Internal Service	-	-	-	100	-	-	-	-	-	-	100
Connecticut Lottery	285,500	-	-	-	-	-	-	-	-	-	285,500
Employment Security	-	-	-	-	3,505	-	-	23	-	-	3,528
Other Proprietary	-	-	-	-	-	-	-	9,849	-	-	9,849
Total	$ 399,505	$ 439,642	$ 5,801	$ 121,963	$ 90,763	$ 649,974	$ 254,807	$ 455,958	$ 715	$ 2,740	$ 2,421,868

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 23 Restatement of Net Assets, Restricted Assets, and Special Items

As of June 30, 2010, the beginning net assets for the following activities was restated as follows (amounts in thousands):

	Balance 6-30-09 Previously Reported	Reclassification	Balance 6-30-09 as Restated
Governmental Activities			
Governmental Activites:			
Capital Assets	$ 11,075,553	$ (881,193)	$ 10,194,360
Net Assets of Governmental Activites	$ (9,569,189)	$ (881,193)	$ (10,450,382)

The beginning net asset balance of governmental activities was adjusted to correct a net overstatement in the balance of capital assets (mainly land) reported last year.

As of June 30, 2010, the government-wide statement of net assets reported $3,041 of restricted net assets, of which $478 million was restricted by enabling legislation.

Special Items

Special items are significant transactions within the control of management that are either unusual in nature or infrequent in occurrence. During the fiscal year, the state legislature mandated the transfer of funds from certain governmental and enterprise funds to the General and Transportation funds to help reduce budget deficits of these funds. In the Statement of Activities, only the transfers from enterprise funds to the General fund are reported.

Note 24 Related Organizations

The Community Economic Development Fund and the Connecticut Student Loan Foundation are legally separate organizations that are related to the State because the State appoints a voting majority of the organizations' governing board. However, the State's accountability for these organizations does not extend beyond making the appointments.

Note 25 New Accounting Pronouncements

In fiscal year 2010, the State implemented the following Statements issued by the Governmental Accounting Standards Board: Statement No. 51, "Accounting and Financial Reporting for Intangible Assets"; and Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments".

Statement No. 51 establishes standards of accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have initial useful life extending beyond a single reporting period.

Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments, which are complex financial arrangements used by governments to manage specific risks or to make investments. For example, interest rate swaps, options, forward contracts, etc..

Note 26 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, 2010, the Departments of Transportation and Public Works had contractual commitments of approximately $2,873 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program $2,908 million.
Clean and drinking water loan programs $425 million.
Various programs and services $1,998 million.

All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

Component Units

As of December 31, 2009, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately $187 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.

Grant amounts received or receivable by the State from federal agencies are subject to audit and adjustment by these agencies. 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.

Public Act 10-179 authorizes the State to issue “Economic Recovery Revenue Bonds” backed by the competitive transition adjustment and conservation charges currently imposed on electric bills. General Fund revenue for Fiscal Year 2011 anticipates $646.6 million in receipts from the sale of such bonds. At the time of this report (January 28, 2011), the issuance of these bonds has been delayed by a lawsuit seeking to enjoin and declare invalid the financing order of the Department of Public Utility Control which imposed assessments on Connecticut Light and Power and United Illuminating utility bills that is intended to cover the cost of issuance and debt service for these bonds.

Note 27 Subsequent Events

In November 2010, the State issued $440.4 million of Special Tax Obligation Transportation Infrastructure “Taxable Build America bonds. The bonds will mature in years 2020 through 2030 and bear interest rates ranging from 4.126 percent to 5.459 percent.

In November 2010, the State issued $199.6 million of Special Tax Obligation Transportation Infrastructure bonds. The bonds will mature in years 2011 through 2019 and bear interest ranging from 2.0 percent to 5.0 percent.

In November 2010, the State issued $137.7 million of Special Tax Obligation “Build America” bonds. The bonds will mature in 2030 and bear an interest rate of 5.09 percent.

In October 2010, the State issued $203.4 million of Taxable General Obligation “Qualified School Construction” bonds. The bonds will mature in 2029 and bear an interest rate of 5.305 percent.

In October 2010, the State issued $22.2 million of Taxable General Obligation “Recovery Zone Economic Development” bonds. The bonds will mature in 2030 and bear an interest rate of 5.305 percent.

In October 2010, the State issued $47.0 million of General Obligation refunding bonds. The bonds will mature in years 2011 through 2022 and bear interest rates ranging from 2.0 percent to 5.0 percent.

In October 2010, the State issued $294.4 million of Taxable General Obligation “Build America” bonds. The bonds mature in 2030 and bear an interest rate of 5.09 percent.

In October 2010, the State issued $78.9 million of Special Obligation Bonds revenue bonds. The bonds are limited obligations of the Connecticut Housing Finance Authority, a component unit. However, the State is contractually obligated to pay the debt service requirements from the General fund.

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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						
6/30/2005	$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%
6/30/2009 *	$-	$-	$-	0.0%	$-	0.0%
6/30/2010	$9,349.6	$21,054.2	$11,704.6	44.4%	$3,295.7	355.1%
*No actuarial valuation was performed.						
TRS						
6/30/2005 *	$-	$-	$-	0.0%	$-	0.0%
6/30/2006	$10,190.3	$17,112.8	$6,922.5	59.5%	$3,137.7	220.6%
6/30/2007 *	$-	$-	$-	0.0%	$-	0.0%
6/30/2008	$15,271.0	$21,801.0	$6,530.0	70.0%	$3,399.3	192.1%
6/30/2009 *	$-	$-	$-	0.0%	$-	0.0%
6/30/2010	$14,430.2	$23,495.9	$9,065.7	61.4%	$3,646.0	248.6%
*No actuarial valuation was performed.						
JRS						
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%
6/30/2009 *	$-	$-	$-	0.0%	$-	0.0%
6/30/2010	$179.7	$276.8	$97.1	64.9%	$31.6	307.3%
*No actuarial valuation was performed.						
RTHP						
6/30/2008	$-	$2,318.8	$2,318.8	0.0%	$3,399.3	68.2%
6/30/2009 *	$-	$-	$-	0.0%	$-	0.0%
6/30/2010	$-	$2,997.8	$2,997.8	0.0%	$3,646.0	82.2%

*No actuarial valuation was performed.

Actuarial valuations for other postemployment benefit plans are required to be disclosed starting with fiscal year 2008.

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
2005	$518.8	100.0%	$281.4	65.8%	$12.2	100.0%	$0.0	0.0%
2006	$623.1	100.0%	$396.2	100.0%	$11.7	100.0%	$0.0	0.0%
2007	$663.9	100.0%	$416.0	99.0%	$12.4	100.0%	$0.0	0.0%
2008	$716.9	99.2%	$518.6	485.7%	$13.4	100.0%	$116.1	21.5%
2009	$753.7	92.8%	$539.3	100.0%	$14.2	100.0%	$116.7	25.3%
2010	$897.4	80.3%	$559.2	100.0%	$15.4	0.0%	$121.3	10.0%

Schedules of employer contributions for other postemployment benefit plans (RTPH) are required to be disclosed starting with fiscal year 2008.

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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

JOHN C. GERAGOSIAN

STATE CAPITOL
210 CAPITOL AVENUE
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ROBERT M. WARD

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 Dannel P. Malloy
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, 2010, which collectively comprise the State's basic financial statements and have issued our report thereon dated January 28, 2011. 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 auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. The audits of the 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.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 our *Auditors' Report, State Comptroller - State Financial Operations, for the Fiscal Year Ended June 30, 2010*, and in separately issued departmental audit reports covering the fiscal year ended June 30, 2010. The State's management response to the findings identified in our audit is not audited by us, 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.

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts

January 28, 2011
State Capitol
Hartford, Connecticut

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

STATE OF CONNECTICUT

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

JOHN C. GERAGOSIAN

ROBERT M. WARD

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Governor Dannel P. Malloy
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 could have a direct and material effect on each of the State of Connecticut's major federal programs for the year ended June 30, 2010. 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 $104,397,768 in Federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2010. 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 Government,s 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.21. in the accompanying Schedule of Findings and Questioned Costs, the State of Connecticut did not comply with requirements regarding *Subrecipient Monitoring*, that are applicable to its *Social Services Block Grant* (CFDA #93.667) program. Compliance with such requirement 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, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items III.A.5., III.A.7., III.A.8, III.A.10., III.A.11., III.A.12., III.A.14., III.A.18., III.A.19., III.A.21., III.A.24., III.A.30., III.B.2., III.B.4., III.B.5., III.C.3., III.C.8., III.D.1., III.E.1., III.E.2., III.E.3., III.E.4., III.F.1., II.F.2., III.I.3., and III.I.5..

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses in internal control over compliance have been identified.. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies in internal control over compliance and others that we consider to be material weaknesses in internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider- the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items III.A.11., III.A.12., III.A.21., III.D.1., III.D.2., III.F.1., III.F.2. and III.I.3., and III.I.5. to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement with a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. 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.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.B.1., III.B.2., III.B.3., III.B.4., III.B.5., III.B.6., III.C.1., III.C.2., III.C.3., III.C.4., III.C.5., III.C.6., III.C.7., III.C.8., III.D.3., III.D.4., III.D.5., III.D.6., III.D.7., III.E.1., III.E.2., III.E.3., III.E.4., III.E.5., III.E.6., III.F.1., III.F.2., III.G.3., III.G.6., III.H.1., III.I.1., III.I.2. III.I.3., III.I.4., III.I.5., III.I.6., III.I.7., III.I.8., III.I.9., III.I.10., III.I.11., III.I.12., III.I.13., III.I.14., III.I.15., III.I.16., III.J.1., III.J.2., III.J.3., and II.K.1. to be significant deficiencies.

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, 2010, and have issued our report thereon dated January 28, 2011. 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 solely 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, 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.

Robert M. Ward

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts

March 29, 2011
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, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Agriculture		
SNAP Cluster:		
Supplemental Nutrition Assistance Program (See Note 13 Re: ARRA, and Note 3)	10.551	545,267,779
State Administrative Matching Grants for the Supplemental Nutrition Assistance	10.561	28,573,891
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561ARRA	2,010,383
Total SNAP Cluster		575,852,053
Child Nutrition Cluster:		
School Breakfast Program	10.553	18,819,691
National School Lunch Program (Note 3)	10.555	86,166,001
Special Milk Program for Children	10.556	282,271
Summer Food Service Program for Children	10.559	1,659,266
Total Child Nutrition Cluster		106,927,229
Miscellaneous Programs	10.000	1,102
Plant and Animal Disease, Pest Control, and Animal Care	10.025	876,031
Market Protection and Promotion	10.163	73,438
Specialty Crop Block Grant Program	10.169	56,263
Specialty Crop Block Grant Program - Farm Bill	10.170	45,987
Grants for Agricultural Research, Special Research Grants	10.200	123,547
Grants for Agricultural Research-Competitive Research Grants	10.206	765
Higher Education Multicultural Scholars Program	10.220	28,770
Integrated Programs	10.303	22,486
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	1,550
Crop Insurance Education in Targeted States	10.458	159,757
Cooperative Extension Service	10.500	2,586,857
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 7)	10.557	56,393,964
Child and Adult Care Food Program	10.558	14,153,886
State Administrative Expenses for Child Nutrition	10.560	1,289,949
Emergency Food Assistance Program (Administrative Costs)	10.568	426,768
Emergency Food Assistance Program (Administrative Costs)	10.568ARRA	340,995
WIC Farmers' Market Nutrition Program	10.572	88,481
Team Nutrition Grants	10.574	54,932
WIC Grants To States	10.578ARRA	156,275
Child Nutrition Discretionary Grants Limited Availability	10.579ARRA	785,875
Fresh Fruit and Vegetable Program	10.582	1,062,389
Cooperative Forestry Assistance	10.664	587,434
Urban and Community Forestry Program	10.675	3,764
Forest Legacy Program	10.676	408,092
Forest Stewardship Program	10.678	3,025
Rural Business Enterprise Grants	10.769	10,802
Resource Conservation and Development	10.901	72,126
Environmental Quality Incentives Program	10.912	8,342
Farm and Ranch Lands Protection Program	10.913	3,757,105
Wildlife Habitat Incentive Program	10.914	134,889
Total Department of Agriculture		766,494,929
Department of Commerce		
Miscellaneous Programs	11.000	155,309
Economic Development -Technical Assistance	11.303	92,339
Economic Adjustment Assistance (See Note 8)	11.307	(23,068)
Trade Adjustment Assistance for Firms	11.313	3,100
Anadromous Fish Conservation Act Program	11.405	31,486
Interjurisdictional Fisheries Act of 1986	11.407	19,220
Coastal Zone Management Administration Awards	11.419	5,285,931
Habitat Conservation	11.463ARRA	245,255
Habitat Conservation	11.463	166,065
Congressionally Identified Awards and Projects	11.469	15,762
Atlantic Coastal Fisheries Cooperative Management Act	11.474	174,808
Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478	(1)
Cooperative Science and Education Program	11.555	4,527,645
State Broadband Data and Development Grant Program	11.558ARRA	325,967
Total Department of Commerce		11,019,820
Department of Defense		
Miscellaneous Programs	12.000	28,976
Procurement Technical Assistance For Business Firms	12.002	11,913
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	33,153
Basic and Applied Scientific Research	12.300	32,265
Military Construction, National Guard	12.400	13,963,205
National Guard Military Operations and Maintenance (O&M) Projects	12.401	15,985,879
National Guard Military Operations and Maintenance (O&M) Projects	12.401ARRA	6,930

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National Guard Civilian Youth Opportunities	12.404	217,488
Total Department of Defense		30,279,809
Department of Housing and Urban Development		
Section 8 Project-Based Cluster: (See Note 1)		
Section 8 Housing Assistance Payments Program	14.195	5,201,192
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	76,858
Total Section 8 Project-Based Cluster		5,278,050
CDBG - State-Administered Small Cities Program Cluster:		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	26,772,685
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255ARRA	452,138
Total State-Administered Small Cities Program Cluster		27,224,823
Supportive Housing for Persons with Disabilities	14.181	1,686,270
Multifamily Housing Service Coordinators	14.191	352,252
Emergency Shelter Grants Program	14.231	1,117,032
Supportive Housing Program	14.235	1,371,937
Shelter Plus Care	14.238	8,499,303
Home Investment Partnerships Program	14.239	15,487,443
Housing Opportunities for Persons with AIDS	14.241	267,540
Homelessness Prevention and Rapid Re-Housing Program	14.257ARRA	3,287,361
Fair Housing Assistance Program-State and Local	14.401	272,739
Section 8 Housing Choice Vouchers (See Note 1)	14.871	63,192,463
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	2,061,875
Total Department of Housing and Urban Development		130,099,087
Department of the Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration Program	15.605	2,828,684
Wildlife Restoration	15.611	1,661,548
Total Fish and Wildlife Cluster		4,490,231
Miscellaneous Programs	15.000	942
Cooperative Endangered Species Conservation Fund	15.615	29,313
Coastal Wetlands Planning Protection and Restoration Act	15.614	261,250
Clean Vessel Act	15.616	867,536
Wildlife Conservation and Restoration	15.625	1,034
Landowner Incentive Program	15.633	181,351
State Wildlife Grants	15.634	569,137
U. S. Geological Survey-Research and Data Collection	15.808	15,000
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	27,015
National Geological and Geophysical Data Preservation Program	15.814	6,663
Historic Preservation Fund Grants-In-Aid	15.904	606,838
Outdoor Recreation-Acquisition, Development and Planning	15.916	1,673,537
Total Department of the Interior		8,729,846
Department of Justice		
Miscellaneous Programs	16.000	218,800
Law Enforcement Assistance_Narcotics and Dangerous Drugs_Laboratory Analysis	16.001	7,155
Sexual Assault Services Formula Program	16.017	204,532
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	267,468
Law Enforcement Assistance-FBI Crime Laboratory Support	16.301	316,810
Services for Trafficking Victims	16.320	10,794
Juvenile Accountability Block Grants	16.523	417,035
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	66,798
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	614,992
Part D-Research, Evaluation, Technical, Assistance and Training	16.542	132,889
Title V-Delinquency Prevention Program	16.548	117,481
State Justice Statistics Program for Statistical Analysis Centers	16.550	84,564
National Criminal History Improvement Program	16.554	211,144
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	548,017
Crime Victim Assistance	16.575	5,016,244
Crime Victim Compensation	16.576	1,004,807
Edward Byrne Memorial Formula Grant Program	16.579	97,084
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants	16.580	71,193
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	111,186
Violence Against Women Formula Grants	16.588	1,197,807
Violence Against Women Formula Grants	16.588ARRA	551,806
Residential Substance Abuse Treatment for State Prisoners	16.593	74,248
State Criminal Alien Assistance Program	16.606	1,856,174
Public Safety Partnership and Community Policing Grants	16.710	345,991
Enforcing Underage Drinking Laws Program	16.727	299,110

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Special Data Collections and Statistical Studies	16.734	20,612
Edward Byrne Memorial Justice Assistance Grant Program	16.738	1,738,420
Statewide Automated Victim Information Notification (SAVIN) Program	16.740	30,000
Forensic DNA Backlog Reduction Program	16.741	402,108
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	12,264
Harold Rogers Prescription Drug Monitoring Program	16.754	476,432
Recovery Act - Internet Crimes against Children Task Force Program	16.800ARRA	206,539
Recovery Act - State Victim Assistance Formula Grant Program	16.801ARRA	502,545
Recovery Act - State Victim Compensation Formula Grant Program	16.802ARRA	285,841
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program	16.803ARRA	5,459,414
Total Department of Justice		22,978,304
Department of Labor		
Employment Service Cluster:		
Employment Service/Wagner-Peyser Funded Activities	17.207ARRA	3,789,043
Employment Service/Wagner-Peyser Funded Activities	17.207	7,180,587
Disabled Veterans' Outreach Program	17.801	783,981
Local Veterans' Employment Representative Program	17.804	819,958
Total Employment Service Cluster		12,573,569
WIA Cluster:		
WIA Adult Program	17.258	6,102,436
WIA Adult Program	17.258ARRA	2,238,502
WIA Youth Activities	17.259	7,919,497
WIA Youth Activities	17.259ARRA	6,982,690
WIA Dislocated Workers	17.260	11,287,490
WIA Dislocated Workers	17.260ARRA	7,605,342
Total WIA Cluster		42,135,957
Labor Force Statistics	17.002	1,953,479
Compensation and Working Conditions	17.005	100,124
Unemployment Insurance (See Note 1 and Note 9)	17.225	1,718,033,604
Unemployment Insurance (See Note 1 and Note 9)	17.225ARRA	1,054,152,194
Senior Community Service Employment Program	17.235	1,398,166
Senior Community Service Employment Program	17.235ARRA	259,468
Trade Adjustment Assistance	17.245	7,162,296
Attestations by Employers Using Alien Crewmembers for Longshore Activities in U.S.Ports	17.252	700,000
Workforce Investment Act	17.255	138,800
WIA Pilots, Demonstrations, and Research Projects	17.261	1,783,152
Work Incentive Grants	17.266	330,004
Incentive Grants -WIA Section 503	17.267	645,315
H-1B Job Training Grants	17.268	2,338,312
Complex Humanitarian Emergency and War-Related Injury Public Health Activities	17.269	882,824
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sector:	17.275ARRA	18,895
Occupational Safety and Health-State Program	17.503	441,090
Consultation Agreements	17.504	785,524
Women's Bureau	17.700	224
Total Department of Labor		2,845,832,998
U. S. Department of State		
Academic Exchange Programs - Undergraduate Programs	19.009	314
One-Time International Exchange Grant Program	19.014	37,628
Professional and Cultural Exchange Programs - Citizen Exchanges	19.415	122,791
Total U. S. Department of State		160,732
Department of Transportation		
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205ARRA	78,353,095
Highway Planning and Construction	20.205	526,891,133
Recreational Trails Program	20.219	1,038,848
Total Highway Planning and Construction Cluster		606,283,076
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	46,978,706
Federal Transit - Capital Investment Grants	20.500ARRA	8,684,342
Federal Transit - Formula Grants	20.507ARRA	31,215,775
Federal Transit - Formula Grants	20.507	57,715,415
Total Federal Transit Cluster		144,594,238

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Highway Safety Cluster:		
State and Community Highway Safety	20.600	3,906,867
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	1,036,378
Occupant Protection Incentive Grants	20.602	231,216
Safety Belt Performance Grants	20.609	1,117,351
State Traffic Safety Information System Improvement Grants	20.610	382,657
Incentive Grant Program to Increase Motorcyclist Safety	20.612	89,507
Total Highway Safety Cluster		6,763,976
Transit Services Programs Cluster:		
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,406,180
Job Access-Reverse Commute	20.516	1,469,156
New Freedom Program	20.521	76,298
Total Transit Services Programs Cluster		2,951,634
Airport Improvement Program	20.106	6,827,106
Airport Improvement Program	20.106ARRA	6,753,214
Highway Training and Education	20.215	332,274
National Motor Carrier Safety	20.218	1,674,173
Performance and Registration Information Systems Management	20.231	17,712
Commercial Driver License State Program Improvement Grant	20.232	33,560
Commercial Vehicle Information Systems and Networks	20.237	38,191
Fuel Tax Evasion-Intergovernmental Enforcement Effort	20.240	266,173
Federal Transit-Metropolitan Planning Grants	20.505	1,838
Formula Grants for Other Than Urbanized Areas	20.509ARRA	695,684
Formula Grants for Other Than Urbanized Areas	20.509	1,658,490
Public Transportation Research	20.514	9,173
Alcohol Open Container Requirements	20.607	4,218,280
Pipeline Safety Program Base Grants	20.700	45,000
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	218,892
Total Department of Transportation		783,382,682
Department of the Treasury		
Low Income Taxpayer Clinics	21.008	96,425
Office of Personnel Management		
Intergovernmental Personnel Act (IPA) Mobility Program	27.011	22,869
Equal Employment Opportunity Commission		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	358,944
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 3)	39.003	2,660
National Aeronautics and Space Administration		
Miscellaneous Programs	43.000	160,530
Aerospace Education Services Program	43.001	24,668
Total National Aeronautics and Space Administration		185,198
National Endowment for the Arts		
Promotion of the Arts-Partnership Agreements	45.025	646,525
National Endowment for the Humanities		
Promotion of the Humanities-Division of Preservation and Access	45.149	43,729
Promotion of the Humanities-Public Programs	45.164	2,500
Grants to States	45.310	1,848,465
Total National Endowment for the Humanities		1,894,694
Institute of Museum and Library Services		
National Leadership Grants	45.312	30,823
National Science Foundation		
Miscellaneous Programs	47.000	352,187
Mathematical and Physical Sciences	47.049	316,514
Geosciences	47.050	52,194
Biological Sciences	47.074	155,589
Education and Human Resources	47.076	1,394,503
Polar Programs	47.078	17,643
Trans-NSF Recovery Act Research Support	47.082ARRA	151,935
Total National Science Foundation		2,440,565

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Small Business Administration		
Miscellaneous Programs	59.000	220,868
Small Business Development Centers	59.037	711,140
Total Small Business Administration		932,008
Department Of Veterans Affairs		
Miscellaneous Programs	64.000	191,787
Grants to States for Construction of State Home Facilities	64.005	621,255
Grants to States for Construction of State Home Facilities	64.005ARRA	316,883
Veterans State Domiciliary Care	64.014	4,673,394
Veterans State Hospital Care	64.016	3,321,936
Burial Expenses Allowance for Veterans	64.101	108,300
All-Volunteer Force Educational Assistance	64.124	143,842
Total Department Of Veterans Affairs		9,377,397
Environmental Protection Agency		
Miscellaneous Programs	66.000	15,781
State Indoor Radon Grants	66.032	141,298
Ozone Transport Commission	66.033	14,716
Surveys Studies, Investigations Demonstrations and Special Purpose Activities-Clean Air Act	66.034	357,678
National Clean Diesel Emissions Reduction Program	66.039	36,937
State Clean Diesel Grant Program	66.040	30,800
State Clean Diesel Grant Program	66.040ARRA	196,554
Healthy Communities Grant Program	66.110	17,502
Congressionally Mandated Projects	66.202	74,813
State Public Water System Supervision	66.432	1,305,026
Surveys, Studies, Investigations, Demonstrations and Special Purpose Grants	66.436	91,290
Long Island Sound Program	66.437	1,480,681
Water Quality Management Planning	66.454	273,380
Water Quality Management Planning	66.454ARRA	91,365
Nonpoint Source Implementation Grants	66.460	1,313,093
Regional Wetland Program Development Grants	66.461	87,744
Capitalization Grants for Drinking Water State Revolving Funds	66.468	2,932,121
Capitalization Grants for Drinking Water State Revolving Funds	66.468ARRA	4,129,943
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	147,441
Beach Monitoring and Notification Program Implementation Grants	66.472	227,140
Water Protection Grants to the States	66.474	8,282
Performance Partnership Grants	66.605	8,071,682
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	121,009
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	315,889
Pollution Prevention Grants Program	66.708	19,174
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	208,239
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	284,872
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	787,042
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805ARRA	76,346
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	72,779
State and Tribal Response Program Grants	66.817	832,415
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	74,996
Total Environmental Protection Agency		23,838,027
Department of Energy		
National Energy Information Center	81.039	9,136
State Energy Program	81.041	350,762
State Energy Program	81.041ARRA	11,561,446
Weatherization Assistance for Low-Income Persons	81.042	2,274,582
Weatherization Assistance for Low-Income Persons	81.042ARRA	10,784,187
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training & Tech. Analysis	81.117	900
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122ARRA	45,773
Energy Efficient Appliance Rebate Program	81.127ARRA	2,920,635
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128ARRA	49,604
Total Department of Energy		27,997,026
Department of Education		
Special Education Cluster:		
Special Education-Grants to States	84.027	134,895,352
Special Education-Preschool Grants	84.173	4,706,207
Special Education Grants to States, Recovery Act	84.391ARRA	72,488,680
Special Education - Preschool Grants, Recovery Act	84.392ARRA	3,165,585
Total Special Education Cluster		215,255,823

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
TRIO Cluster:		
TRIO-Student Support Services	84.042	658,281
TRIO-Talent Search	84.044	331,889
TRIO-Upward Bound	84.047	442,203
Total TRIO Cluster		1,432,373
Title I, Part A Cluster:		
Title 1 Grants to Local Educational Agencies	84.010	121,933,129
Title I Grants to Local Educational Agencies, Recovery Act	84.389ARRA	43,920,883
Total Title I, Part A Cluster		165,854,012
Vocational Rehabilitation Cluster		
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	20,484,348
Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390ARRA	783,549
Total Vocational Rehabilitation Cluster		21,267,897
Early Intervention Services (IDEA) Cluster		
Special Education-Grants for Infants and Families	84.181	3,207,447
Special Education - Grants for Infants and Families, Recovery Act	84.393ARRA	4,559,747
Total Early Intervention Services Cluster		7,767,194
Educational Technology State Grants Cluster		
Education Technology State Grants (See Note 13)	84.318	2,339,658
Education Technology State Grants, Recovery Act	84.386ARRA	1,701,800
Total Educational Technology State Cluster		4,041,458
State Fiscal Stabilization Fund Cluster		
State Fiscal Stabilization Fund (SFSF) - Education State Grants Recovery Act	84.394ARRA	173,731,959
State Fiscal Stabilization Fund (SFSF) - Government Services Recovery Act	84.397ARRA	98,618,703
Total State Fiscal Stabilization Cluster		272,350,662
Miscellaneous Programs	84.000	59,942
Adult Education-Basic Grants to States	84.002	7,324,067
Title 1 Program for Neglected and Delinquent Children	84.013	1,006,873
Higher Education-Institutional Aid	84.031	560,794
Career and Technical Education -- Basic Grants to States	84.048	12,837,286
Leveraging Educational Assistance Partnership	84.069	930,656
Fund for the Improvement of Postsecondary Education	84.116	879,874
Rehabilitation Services_Client Assistance Program	84.161	120,069
Independent Living-State Grants	84.169	291,000
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	473,021
Safe and Drug-Free Schools and Communities -National Programs	84.184	153,491
Byrd Honors Scholarships	84.185	453,062
Safe and Drug-Free Schools and Communities-State Grants	84.186	2,758,969
Supported Employment Services for Individuals with Severe Disabilities	84.187	115,944
Bilingual Education	84.195	751,646
Education for Homeless Children and Youth	84.196	294,004
Graduate Assistance in Areas of National Need	84.200	57,904
Even Start-State Educational Agencies	84.213	449,248
Fund for the Improvement of Education	84.215	417,296
Assistive Technology	84.224	710,465
Program of Protection and Advocacy of Individual Rights	84.240	111,352
Tech-Prep Education	84.243	465,011
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	75,000
Charter Schools	84.282	589,695
Twenty-First Century Community Learning Centers	84.287	9,270,887
Foreign Language Assistance	84.293	150
State Grants for Innovative Programs	84.298	(13,732)
Special Education-State Personnel Development	84.323	1,069,259
Special Ed.-Technical Assistance and Dissemination to Improve Services for Children with Disabilities	84.326	389,125
Advanced Placement Program	84.330	1,117,651
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	319,084
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	4,612,911
Assistive Technology-State Grants for Protection and Advocacy	84.343	54,344
Early Childhood Educator Professional Development	84.349	(6,024)
Reading First State Grants	84.357	3,181,674
Early Reading First	84.359	1,272,194
English Language Acquisition Grants	84.365	5,656,307
Mathematics and Science Partnerships	84.366	711,002
Improving Teacher Quality State Grants	84.367	25,011,355
Grants for Enhanced Assessment Instruments	84.368	119,952
Grants for State Assessments and Related Activities	84.369	4,691,873
Statewide Data Systems	84.372	427,583

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Special Education_Technical Assistance on State Data Collection	84.373	238,582
School Improvement Grants	84.377	1,559,260
College Access Challenge Grant Program	84.378	403,298
Education for Homeless Children and Youth, Recovery Act	84.387ARRA	314,688
Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399ARRA	241,288
Impact Aid School Construction, Recovery Act	84.401ARRA	306,100
National Writing Project	84.928	59,294
Total Department of Education (See Also Student Financial Assistance Cluster)		780,864,193
National Archives and records Administration		
National Historical Publications and Records Grants	89.003	15,331
Elections Assistance Commission		
Help America Vote Act Requirements Payments	90.401	2,515,190
		2,515,190
Department of Health and Human Services		
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	778,258
State Survey and Certification of Health Care Providers and Suppliers	93.777	5,153,194
Medical Assistance Program	93.778	2,731,232,875
Medical Assistance Program	93.778ARRA	555,601,939
Total Medicaid Cluster		3,292,766,266
Child Care Cluster:		
Child Care and Development Block Grant	93.575	14,689,266
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	37,286,191
Child Care and Development Block Grant	93.713ARRA	1,371,179
Total Child Care Cluster		53,346,636
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	4,172,028
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	7,148,534
Nutrition Services Incentive Program	93.053	1,382,741
Aging Home-Delivered Nutrition Services for States	93.705ARRA	237,006
Aging Congregate Nutrition Services for States	93.707ARRA	447,826
Total Aging Cluster		13,388,134
Immunization Cluster:		
Immunization Grants (See Note 3)	93.268	36,303,910
ARRA - Immunization (See Note 3)	93.712ARRA	75,397
Total Immunization Cluster		36,379,307
Miscellaneous Programs	93.000	2,426,182
Public Health and Social Services Emergency Fund	93.003	102,042
Special Programs for the Aging-Title VII, Chapter 3-Prevention of Elder Abuse, Neglect and Exploit.	93.041	53,609
Special Programs for the Aging-Title III Part D-Disease Prevention and Health Promotion Services	93.043	246,139
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	93.048	951,139
National Family Caregiver Support, Title III, Part E	93.052	1,682,915
Laboratory Training, Evaluation, and Quality Assurance Programs	93.064	284,723
State Vital Statistics Improvement Program	93.066	99,547
Public Health Emergency Preparedness	93.069	25,589,748
Environmental Public Health and Emergency Response	93.070	249,336
Medicare Enrollment Assistance Program	93.071	28,407
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	1,041,277
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	60,000
Comprehensive Community Mental Health Services for Children with Serious Emotional Dist.	93.104	1,833,517
Maternal and Child Health Federal Consolidated Programs	93.110	1,491,359
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (See Note 3)	93.116	692,337
Emergency Medical Services for Children	93.127	110,161
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	117,162
Injury Prevention and Control Research and State and Community Based Programs	93.136	659,950
Protection and Advocacy for Individuals with Mental Illness	93.138	368,158
Projects for Assistance in Transition from Homelessness (PATH)	93.150	744,136
Grants to States for Loan Repayment Program	93.165	180,104
Childhood Lead Poisoning Prevention Projects and Surveillance of Blood Levels in Children	93.197	986,026
Consolidated Knowledge Development and Application (KD&A) Program	93.230	(55)
Traumatic Brain Injury State Demonstration Grant Program	93.234	49,332
State Capacity Building	93.240	543,688
Mental Health Research Grants	93.242	84,652
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	8,331,380

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Mental Health Clinical and AIDS Service-Related Training Grants	93.244	5,583
Universal Newborn Hearing Screening	93.251	212,107
Occupational Safety and Health Program	93.262	206,840
State Grants for Protection and Advocacy Services	93.267	67,305
Alcohol Research Programs	93.273	143,399
Substance Abuse and Mental Health Services-Access to Recovery	93.275	4,815,245
Drug-Free Communities Support Program Grants	93.276	18,008
Centers for Disease Control and Prevention-Investigations and Technical Assistance (See Note 3)	93.283	8,008,210
State Partnership Grant Program to Improve Minority Health	93.296	135,636
Advanced Education Nursing Traineeships	93.358	46,284
Nurse Education, Practice and Retention Grants	93.359	19,916
ARRA - Scholarships for Disadvantaged Students	93.407ARRA	31,925
ARRA - Nurse Faculty Loan Program	93.408ARRA	131,561
ARRA - State Primary Care Offices	93.414ARRA	17,320
Promoting Safe and Stable Families	93.556	2,470,948
Temporary Assistance for Needy Families	93.558	240,109,298
Temporary Assistance for Needy Families	93.558ARRA	2,621,316
Child Support Enforcement (See Note 10)	93.563	42,649,070
Child Support Enforcement (See Note 10)	93.563ARRA	8,541,176
Refugee and Entrant Assistance-State Administered Programs	93.566	1,300,691
Low-Income Home Energy Assistance	93.568	122,754,586
Community Services Block Grant	93.569	8,363,294
Community Services Block Grant	93.569ARRA	6,900,038
Refugee and Entrant Assistance-Discretionary Grants	93.576	473,826
State Court Improvement Program	93.586	435,010
Community-Based Child Abuse Prevention Grants	93.590	708,128
Grants to States for Access and Visitation Programs	93.597	76,569
Chafee Education and Training Vouchers Program (ETV)	93.599	572,904
Head Start	93.600	122,431
Adoption Incentive Payments	93.603	183,980
Voting Access for Individuals with Disabilities-Grants for Protect and Advocacy Systems	93.618	48,736
Developmental Disabilities Basic Support and Advocacy Grants	93.630	872,132
Children's Justice Grants to States	93.643	238,738
Child Welfare Services-State Grants	93.645	2,191,751
Social Services Research and Demonstration	93.647	222,175
Foster Care-Title IV-E	93.658	57,000,803
Foster Care-Title IV-E	93.658ARRA	3,384,123
Adoption Assistance	93.659	33,354,327
Adoption Assistance	93.659ARRA	2,786,199
Social Services Block Grant	93.667	48,250,008
Child Abuse and Neglect State Grants	93.669	407,612
Family Violence Prevention and Services/Grants for Battered Woman's Shelters Grants States, Ind. Tribes	93.671	1,270,764
Chafee Foster Care Independence Program	93.674	1,272,621
Trans-NIH Recovery Act Research Support	93.701ARRA	26,372
ARRA - Preventing Healthcare-Associated Infections	93.717ARRA	35,426
ARRA - State Grants to Promote Health Information Technology	93.719ARRA	223,861
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection	93.720ARRA	30,960
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723ARRA	85,780
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725ARRA	590
State Children's Insurance Program	93.767	22,733,613
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	4,329,748
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	764,480
Money Follows the Person Rebalancing Demonstration	93.791	3,642,537
Medicaid Transformation Grants	93.793	1,629,710
Population Research	93.864	83,245
National Bioterrorism Hospital Preparedness Program	93.889	5,358,023
Alcohol Research Center Grants	93.891	179,963
Rural Health Care Services Outreach and Rural Health Network Dev. Program	93.912	(1,493)
Grants to States for Operation of Offices of Rural Health	93.913	166,289
HIV Care Formula Grants (See Note 11)	93.917	24,249,510
Healthy Start Initiative	93.926	451,343
Cooperative Agreements to Support School Health Educ. to Prevent AIDS	93.938	793,361
HIV Prevention Activities-Health Department Based	93.940	6,309,737
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	857,221
Assistance Programs for Chronic Disease Prevention and Control	93.945	40,871
Block Grants for Community Mental Health Services	93.958	4,389,423
Block Grants for Prevention and Treatment of Substance Abuse	93.959	18,453,668

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
National All Schedules Prescription Electronic Reporting Grant	93.975	48,999
Preventive Health Services-Sexually Transmitted Diseases Control Grants (See Note 3)	93.977	850,808
Cooperative Agreements for State-Based Diabetes Control Programs (See Note 3)	93.988	(10,957)
Preventive Health and Health Services Block Grant	93.991	1,530,474
Maternal and Child Health Services Block Grant to the States	93.994	5,225,014
Total Department of Health and Human Services (See Student Financial Assistance Cluster)		4,150,808,483
Corporation for National and Community Service		
State Commissions	94.003	230,701
Learn and Serve America-School and Community Based Programs	94.004	167,065
AmeriCorps	94.006	977,346
AmeriCorps	94.006ARRA	257,567
Planning and Program Development Grants	94.007	602
Training and Technical Assistance	94.009	27,868
Total Corporation for National and Community Service		1,661,150
Social Security Administration		
Miscellaneous Programs	96.000	196,433
Social Security-Disability Insurance	96.001	20,206,878
Social Security-Work Incentives Planning and Assistance Program	96.008	181,202
Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	96.009	129,529
Total Social Security Administration		20,714,041
Department of Homeland Security		
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	28,253
Homeland Security Grant Program	97.067	9,471,755
Total Homeland Security Cluster		9,500,008
Earmarked Projects	97.001	102,792
Urban Areas Security Initiative	97.008	198,750
Boating Safety Financial Assistance	97.012	944,557
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	98,444
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	276,863
Flood Mitigation Assistance	97.029	69,563
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	228,029
Hazard Mitigation Grant	97.039	424,837
National Dam Safety Program	97.041	3,887
Emergency Management Performance Grants	97.042	3,145,860
Assistance to Firefighters Grant	97.044	47,119
Emergency Operations Centers	97.052	17,858
Port Security Grant Program	97.056	432,145
Competitive Training Grants	97.068	236,069
National Explosives Detection Canine Team Program	97.072	187,406
Rail and Transit Security Grant Program	97.075	942,315
Buffer Zone Protection Plan (BZPP)	97.078	91,718
Real ID Program	97.089	240,221
Disaster Housing Assistance Grant	97.109	54,821
Citizenship Education and Training	97.110	5,668
Total Department of Homeland Security		17,248,930
United States Agency For International Development		
Miscellaneous Programs	98.000	15,732
Miscellaneous Programs		
Other Federal Assistance	99.125	286,643
Oil Company Overcharge Recoveries	99.136	619,899
		906,542
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
Department of Education		
Federal Supplemental Educational Opportunity Grants	84.007	2,425,326
Federal Family Education Loans (See Note 6)	84.032	132,313,590
Federal Work-Study Program	84.033	3,644,458
Federal Work-Study Program	84.033ARRA	131,721
Federal Perkins Loan Program-Federal Capital Contributions (See Note 4)	84.038	28,146,640
Federal Pell Grant Program	84.063	103,153,534
Federal Pell Grant Program	84.063ARRA	2,283,780
Federal Direct Student Loans	84.268	198,410,824
Academic Competitiveness Grant	84.375	2,081,686
National Science and Mathematics Access to Retain Talent Grant	84.376	1,051,634

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Teacher Education Assistance for College and Higher Education Grants	84.379	60,384
Total Department of Education		473,703,577
Department of Health and Human Services		
Nurse Faculty Loan Program (See Note 5)	93.264	15,900
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantage (See Note 5)	93.342	1,089,247
Nursing Student Loans	93.364	19,503
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	72,590
Total Department of Health and Human Services		1,197,240
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		474,900,816
TOTAL NON RESEARCH AND DEVELOPMENT GRANTS		**10,116,451,775**
RESEARCH AND DEVELOPMENT CLUSTER:		
Department of Agriculture		
Miscellaneous Program	10.000	1,491
Agricultural Research-Basic and Applied Research	10.001	2,176,725
Plant and Animal Disease, Pest Control, and Animal Care	10.025	247,408
Specialty Crop Block Grant Program - Farm Bill	10.170	36,465
Grants for Agricultural Research, Special Research Grants	10.200	646,527
Cooperative Forestry Research	10.202	204,091
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	1,811,807
Grants for Agricultural Research_Competitive Research Grants	10.206	932,583
Animal Health and Disease Research	10.207	4,293
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210	80,029
Small Business Innovation Research	10.212	66,517
Sustainable Agriculture Research and Education	10.215	44,248
Higher Education Challenge Grants	10.217	26,688
Biotechnology Risk Assessment Research	10.219	163,282
Integrated Programs	10.303	397,314
Homeland Security-Agricultural	10.304	51,945
Agriculture and Food Research Initiative	10.310	86,421
Cooperative Extension Service	10.500	416,425
Technical Assistance for Specialty Crops Program	10.604	1,144
Forest Stewardship Program	10.678	(364)
Forest Health Protection	10.680	424,660
Scientific Cooperation and Research	10.961	7,468
Total Department of Agriculture		7,827,166
Department of Commerce		
Miscellaneous Program	11.000	102,286
Sea Grant Support	11.417	1,173,853
Coastal Zone Management Administration Awards	11.419	26,690
Fisheries Development and Utilization Research and Development Grants	11.427	23,492
Undersea Research	11.430	359,084
Climate and Atmospheric Research	11.431	254,339
National Oceanic and Atmospheric Adm. Cooperative Institutes	11.432	46,578
Special Oceanic and Atmospheric Projects	11.460	20,432
Applied Meteorological Research	11.468	283
Unallied Science Program	11.472	7,093
Coastal Services Center	11.473	614,009
Center for Sponsored Coastal Ocean Research Program	11.478	287,549
Measurement and Engineering Research and Standards	11.609	115,378
Total Department of Commerce		3,031,066
Department of Defense		
Miscellaneous Programs	12.000	1,715,133
Miscellaneous Programs	12.000ARRA	5,076
Basic and Applied Scientific Research	12.300	1,934,433
Department of Defense HIV/AIDS Prevention Program	12.350	322,998
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351	51,775
Military Medical Research and Development	12.420	2,725,295
Basic Scientific Research	12.431	1,585,938
Basic, Applied, and Advanced Research in Science & Engineering	12.630	164,412
Air Force Defense Research Sciences Program	12.800	1,056,807
Mathematical Sciences Grants Program	12.901	15,496
Research and Technology Development	12.910	33,081
Total Department of Defense		9,610,444

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Department of Housing and Urban Development		
Healthy Homes Production Grant Program	14.913ARRA	32,586
Department of the Interior		
Miscellaneous Programs	15.000	116,469
Assistance to State Water Resources Research Institutes	15.805	96,509
U.S. Geological Survey - Research and Data Collection	15.808	90,455
Total Department of Interior		303,433
Department of Justice		
Combined DNA Index System	16.307ARRA	117,524
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	258,449
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	46,529
Crime Laboratory Improvement _Combined Offender DNA Index System	16.564	2,733
Corrections_Research and Evaluation and Policy Formulation	16.602	29,815
Congressionally Recommended Awards	16.753	96,136
Total Department of Justice		551,186
Department of Labor		
Workforce Investment Act	17.255	803
WIA Adult Program	17.258	34,275
Total Department of Labor		35,079
Department of State		
Miscellaneous Programs	19.000	4,325
Department of Transportation		
Miscellaneous Programs	20.000	285,286
Highway Planning and Construction	20.205	112,747
Highway Training and Education	20.215	13,000
Railroad Development	20.314	113,182
University Transportation Centers Program	20.701	441,330
Total Department of Transportation		965,545
Library of Congress		
Miscellaneous Programs	42.000	53,918
National Aeronautics and Space Administration		
Miscellaneous Programs	43.000	1,583,349
Miscellaneous Programs	43.000ARRA	3,229
Total National Aeronautics and Space Administration		1,586,578
National Endowment for the Humanities		
Promotion of the Humanities-Fellowships and Stipends	45.160	203,950
National Science Foundation		
Engineering Grants	47.041	3,740,728
Mathematical and Physical Sciences	47.049	2,176,923
Geosciences	47.050	1,645,552
Computer and Information Science and Engineering	47.070	2,176,868
Biological Sciences	47.074	4,319,282
Social, Behavioral, and Economic Sciences	47.075	867,920
Education and Human Resources	47.076	1,333,880
Polar Programs	47.078	25,119
International Science and Engineering	47.079	226,207
Trans-NSF Recovery Act Research Support	47.082ARRA	1,863,694
Total National Science Foundation		18,376,173
Small Business Administration		
Miscellaneous Programs	59.000	98,223
Department of Veterans Affairs		
Miscellaneous Programs	64.000	13,577
Environmental Protection Agency		
Miscellaneous Programs	66.000	141,590
Healthy Communities Grant Program	66.110	5,798
Congressionally Mandate Projects	66.202	(4,191)
Long Island Sound Program	66.437	292,479
Science To Achieve Results (STAR) Research Program	66.509	174,728

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Science To Achieve Results (STAR) Fellowship Program	66.514	17,005
Performance Partnership Grants	66.605	30,761
Environmental Policy and Innovation Grants	66.611	8,401
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	40,950
Pesticide Environmental Stewardship Regional Grants	66.714	34
Total Environmental Protection Agency		707,554
Department of Energy		
Miscellaneous Programs	81.000	410,258
Office of Science Financial Assistance Program	81.049	1,689,850
University Coal Research	81.057	28,984
Regional Biomass Energy Programs	81.079	108,964
Renewable Energy Research and Development	81.087	934,442
Fossil Energy Research and Development	81.089	78,789
Energy Efficiency and Renewable Energy Info. Dissemination Outreach, Training	81.117	116,517
Advanced Research and Projects Agency – Energy Financial Assistance	81.135ARRA	65,096
Total Department of Energy		3,432,899
Department of Education		
Fund for the Improvement of Postsecondary Education	84.116	16,884
Magnet Schools Assistance	84.165	21,566
Safe and Drug-Free Schools and Communities_National Programs	84.184	73,937
Graduate Assistance in Areas of National Need	84.200	246,678
Javits Gifted and Talented Students Education Grant Program	84.206	685,495
Centers for International Business Education	84.220	357,190
Education Research, Development and Dissemination	84.305	2,759,119
Research in Special Education	84.324	872,303
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325	(4,308)
Special Education-Technical Assistance and Dissemination to Improve Services and Results	84.326	73,962
Special Education Technology and Media Services for Individuals with Disabilities	84.327	1,162
Demonstration Projects to Support Postsecondary Faculty Staff, and Administrations in Educating	84.333	316,320
Independent Living Services for Older Individuals Who are Blind	84.399ARRA	7,358
Total Department of Education		5,427,665
Department of Health and Human Services		
Miscellaneous Programs	93.000	1,305,342
Public Health and Social Services Emergency Fund	93.003	(27,927)
Innovations in Applied Public Health Research	93.061	673,959
Global AIDS	93.067	38,629
Public Health Emergency Preparedness	93.069	119,389
Bilingual/Bicultural Service Demonstration Grants	93.105	(58)
Area Health Education Centers Point of Service Maint. & Enhancement	93.107	396,232
Maternal and Child Health Federal Consolidated Programs	93.110	963,169
Environmental Health	93.113	1,451,090
Oral Diseases and Disorders Research	93.121	2,902,416
Emergency Medical Services for Children	93.127	28,584
Injury Prevention, Control Research, State and Community Based	93.136	93,499
NIEHS Superfund Hazardous Substances_Basic Research & Education	93.143	79,376
AIDS Education and Training Centers	93.145	12,402
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	109,781
Human Genome Research	93.172	751,100
Research Related to Deafness and Communication Disorders	93.173	3,078,910
Research and Training in Complementary and Alternative Medicine	93.213	116,159
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	(34)
Mental Health Research Grants	93.242	6,880,966
Substance Abuse and Mental Health Services_Projects of Reg & Nat.	93.243	673,324
Poison Center Support and Enhancement Grant Program	93.253	298,478
Occupational Safety and Health Program	93.262	2,203,811
Alcohol Research Programs	93.273	5,692,707
Drug Abuse and Addiction Research Programs	93.279	6,766,572
Mental Health Research Career/Scientist Development Awards	93.281	141,071
Mental Health National Research Service Awards for Research Training	93.282	198,676
Centers for Disease Control, Prevention_Investigations and Technical Assist	93.283	323,636
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	862,415
Minority Health and Health Disparities Research	93.307	1,547,490
Trans-NIH Research Support	93.310	74,004
Nursing Research	93.361	16,647
Biomedical Research Technology	93.371	1,976
National Center for Research Resources	93.389	3,988,119
Cancer Cause and Prevention Research	93.393	1,654,432
Cancer Detection and Diagnosis Research	93.394	407,886

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
Cancer Treatment Research	93.395	9,188
Cancer Biology Research	93.396	589,874
Cancer Centers Support Grants	93.397	15,042
Cancer Control	93.399	291,343
Food Safety and Security Monitoring Project	93.448	422,115
Promoting Safe and Stable Families	93.556	259,044
Nursing Research	93.610	23,709
Mentoring Children of Prisoners	93.616	41,049
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	478,064
Trans-NIH Recovery Act Research Support	93.701ARRA	7,388,680
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	129,725
Centers for Medicare and Medicaid Services (CMS) Research Demonstrations and Evaluations	93.779	7,460
Cardiovascular Diseases Research	93.837	3,263,403
Lung Diseases Research	93.838	299,227
Blood Diseases and Resources Research	93.839	33,510
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	4,535,216
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	2,352,846
Digestive Diseases and Nutrition Research	93.848	109,511
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5,198,830
Allergy, Immunology and Transplantation Research	93.855	7,331,447
Microbiology and Infectious Diseases Research	93.856	3,526
Biomedical Research and Research Training	93.859	4,610,567
Population Research	93.864	35,543
Child Health and Human Development Extramural Research	93.865	3,788,218
Aging Research	93.866	2,263,047
Vision Research	93.867	1,573,464
Medical Library Assistance	93.879	120,526
Grants for Training in Primary Care Medicine and Dentistry	93.884	74,336
National Bioterrorism Hospital Preparedness Program	93.889	72,384
HIV Emergency Relief Project Grants	93.914	466,583
HIV Prevention Activities_Health Department Based	93.940	268,925
Research, Treatment and Education Programs on Lyme Disease in U. S.	93.942	257,903
National Health Promotion	93.990	130
Maternal and Child Health Services Block Grant to the States	93.994	28,346
Total Department of Health and Human Services		90,167,007
Social Security Administration		
Social Security-Research and Demonstration	96.007	1,528
Department of Homeland Security		
Miscellaneous Programs	97.000	46,565
Centers for Homeland Security	97.061	783,314
Homeland Security, Research Testing, Evaluation, and Demo. of Tech.	97.108	73,535
Total Department of Homeland Security		903,414
United States Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	170,999
USAID Development Partnerships for University Cooperation and Dev.	98.012	157,063
Total United States Agency for International Development		328,062
Unidentified Program	99.000	24,182
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		**143,685,560**
TOTAL FEDERAL ASSISTANCE		**10,260,137,335**

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2009, the Connecticut Housing Finance Authority expended $65,677,660 and $1,049,517 in federal awards under CFDA #14.856 and CFDA #14.103, respectively. The State of Connecticut expended $10,380,764 and $15,594,671 in federal awards under CFDA #66.458 and CFDA #66.458 ARRA respectively, and the State expended $4,491,247 and $7,203,909 in federal awards under CFDA #66.468 and #66.468 ARRA respectively during the fiscal year ended June 30, 2010.

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), Supportive Housing for Persons with Disabilities, (CFDA # 14.181, *Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation* (CFDA #14.856), Section 8 Housing Assistance Payments Program-Special Allocation (CFDA #14.195), 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 and the Connecticut Agricultural Experiment Station

Federally funded research programs at the University of Connecticut and its Health Center and Connecticut Agricultural Experiment Station 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:

Supplemental Nutrition Assistance Program (10.551) (10.551 ARRA)	$545,267,779
National School Lunch Program - Food Donation (10.555)	10,933,560

Department of Health and Human Services:	
Immunization Grants (93.268)	32,106,835
Public Health Emergency Preparedness (H1N1) (93.069)	9,987,265
Preventive Health Services - Sexually Transmitted Diseases Control Grants (93.977)	98,057
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)	115,894
General Services Administration:	
Donation of Federal Surplus Personal Property (39.003) *	2,660

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

Note 4 – Federal Perkins Loan Program

The total presented for the U.S. Department of Education's Perkins Loan Program (84.038) represents the federal contributions to the loan pool, administrative cost allowances and loans outstanding. Total loans outstanding at June 30, 2010, were $28,146,639.

Note 5 – Health Professions Student Loans and Nurse Faculty Loan Program

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, 2010, were $1,088,854.

Nurse faculty Loan Program
New loans issued and outstanding at June 30, 2010 of $15,900 were made to faculty at University of Connecticut under the U.S. Department of Health and Human Services' Nurse Faculty Loan Program (93.264).

Note 6 – Federal Family Education Loan Program

New loans made to students at the state colleges and universities under the U.S. Department of Education's Federal *Family Education Loan Program (FFELP)* (84.032) during the fiscal year ended June 30, 2010, totaled $132,313,590.

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 $13,165,092 on the sales of formula and cereal to participants in the *U.S. Department of Agriculture's WIC program* (10.557). Rebate contracts with infant formula manufacturers are authorized by Title 7 Code of Federal Regulations Section 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 $15,941 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.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

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 $228,100 cash and investment balance in the RLF at the end of the fiscal year in the amount of $744,251 and administrative expenses paid out were $(23,068). The negative expenditure figure is due to a large prior period adjustment that impacted expenditures for the current fiscal year.

Note 9 – State Unemployment Insurance Funds

State unemployment taxes and the government and non-profit contributions in lieu of state taxes must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State Unemployment law. In accordance with OMB Circular A-133 Compliance Supplement, state Unemployment Insurance Funds, as well as federal funds, shall be included in the Schedule of Expenditures of Federal Awards with CFDA Number 17.225. The state funds expended from the Federal Unemployment Trust Fund amounted to $1,221,210,373. Total expenditures from the federal portion of the Unemployment Trust Fund equaled $1,284,814,450 which includes $854,859,405 of ARRA funds. An additional $194,905,185 of ARRA funds was also expended for benefits and was received directly from the federal government. The $71,255,790 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, 2010, the Department of Social Services expended a total of $51,190,245 (federal share) to accomplish the goals of the *Child Support Enforcement Program* (93.563). However, the State received $16,255,476 of the $51,190,245 through withholding of a portion of various collections received by the state through the process of implementing the Child Support Enforcement Program. The other $34,934,769 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, 2010, the State expended a total of $24,249,510 for the *HIV Care Formula Grants* (93.917). This included $13,153,389 in HIV 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- ARRA – American Recovery and Reinvestment Act

Under the provisions of the American Recovery and Reinvestment act of 2010, recovery expenditures were separately identified by (ARRA) along with the CFDA number. During the year ended June 30, 2010, a grand total of $2,240,229,526 was expended. This includes $2,230,746,283 of non-research grants and $9,483,243 research grants.

Note 13 – Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2010.

The amounts reported under Supplemental Nutrition Assistance Program (CFDA # 10.551) and Supplemental Nutrition Assistance Program (CFDA # 10.551 ARRA) were provided with non-cash assistance.

Note 14- 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, 2010

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Note 14 - Pass-through Grants:				
NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS				
Department of Agriculture				
National Institute of Food and Agriculture				
10.206	UOC	New Mexico State University	Q01382	765
10.303	UOC	University of Rhode Island	081605/0000826	22,486
10.500	UOC	Auburn University	08-HHP-374648-0004	6,030
10.500	UOC	University of Delaware	17034	6,774
10.500	UOC	University of Delaware	SUBAWARD 19710	22,573
10.500	UOC	University of Hawaii	2007-46887-03988	14,061
10.500	UOC	University of Vermont	SNE08-17	4,039
10.500	UOC	University of Vermont	SNE08-17	26,552
10.500	UOC	University of Vermont	SNE09-01	24,146
10.500	UOC	University of Vermont	SARE COORDINATOR 09	89,683
10.500	UOC	Kansas State University	S09036	27,098
10.500	UOC	Kansas State University	S09036.01	40,022
10.500	UOC	Kansas State University	S10081	8,956
10.500	UOC	Cornell University	54647-8569	4,571
10.500	UOC	Cornell University	54647-8569	2,437
10.500	UOC	University of Vermont	PDP07-001	(58)
Total National Institute of Food and Agriculture				
Total Department of Agriculture				300,135
Department of Commerce				
Economic Development Administration				
11.313	CCSU	New England Trade Adjustment Assistance Center, Inc.	#99-26-07658-01	3,100
National Oceanic and Atmospheric Administration				
11.419	UOC	University of New Hampshire	SUBAWARD NO. 08-041	69,916
11.469	UOC	Project Oceanology	AG080908	15,762
11.478	UOC	Woods Hole Oceanographic Institution	PO M212152	(1)
Total National Oceanic and Atmospheric Administration				85,677
Miscellaneous Programs				
11.000	UOC	Oak Management Inc	PO#4500-124-02	1,832
11.000	UOC	Woods Hole Oceanographic Institution	PO#M213341	18,204
11.000	UOC	Woods Hole Oceanographic Institution	PO#M213351	16,131
11.000	UOC	Woods Hole Oceanographic Institution	PO#M213479	16,131
11.000	UOC	Woods Hole Oceanographic Institution	PO#M213515	3,404
11.000	UOC	Woods Hole Oceanographic Institution	PO#M212997	18,956
11.000	UOC	Woods Hole Oceanographic Institution	PO#10-0033	13,746
11.000	UOC	Woods Hole Oceanographic Institution	PO#M213753	12,136
11.000	UOC	Woods Hole Oceanographic Institution	PO#M213812	22,199
11.000	UOC	Woods Hole Oceanographic Institution	PO#10-0037	14,366
Total Miscellaneous Programs				137,105
Total Department of Commerce				225,882

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
Department of Defense					
Defense Logistic Agency					
12.002		CCSU	Southeastern Connecticut Enterprise Region	N/A	11,913
Miscellaneous Programs					
12.000		UOC	Woods Hole Oceanographic Institution	PO#M213381	16,840
12.000		UOC	Woods Hole Oceanographic Institution	PO#M213583	12,136
Total Department of Defense					40,889
Department of the Interior					
Miscellaneous Programs					
15.000		UOC	Environmental Concern Inc.	AG080466	942
Department of Justice					
Bureau Of Justice Statistics					
16.734		CCSU	Justice Research and Statistics Association	CT23-2009-001	20,612
Department of Labor					
Employment and Training Administration					
17.255		CCC	Northwest Regional Investment Board	ISY-08-001	3,069
17.255		CCC	Northwest Regional Investment Board	ISY-08-001	135,313
17.255		CCC	Northwest Regional Investment Board	OSY-07-001	418
17.259		CCSU	Consolidated School District of New Britain	N/A	31,294
17.259		CCSU	Opportunity Industrialization Center of New Britain, Inc	N/A	24,788
17.259		CCC	Northwest Regional Investment Board	OSY-08-003	15,672
17.259	ARRA	CCC	Northwest Regional Workforce Investment Board	OSY-08-001	50,318
17.259	ARRA	CCC	Eastern Workforce Investment Board	MOA-12-16-09	33,095
17.259	ARRA	CCC	Eastern Workforce Investment Board	MOA-12-23-09	27,782
17.259	ARRA	CCC	Capital Workforce Partners	WI-23200-12098	35,354
17.259	ARRA	CCC	Workforce Alliance	MOA-12-09-09	21,404
17.259		CCC	Northwest Regional Investment Board	ISY-09-001	265,288
17.260	ARRA	CCC	Workforce Alliance	MOA-2-23-10	9,347
17.261		CCC	The Workplace Inc.	MOA-2-10-10	39,745
17.261		CCC	The Workplace Inc.	AGR 3-19-07	292,403
17.261		CCC	The Workplace Inc.	X297-4-9-7-W/DRG	5,310
17.261		CCC	The Workplace Inc.	X297-4-9-8-W3/PCT	181,512
17.261		CCC	The Workplace Inc.	Ltr 7-19-09	15,521
17.261		CCC	The Workplace Inc.	Ltr 7-19-09	6,994
17.261		CCC	Eastern Workforce Investment Board	AGR-8-19-08	17,022
17.267		CCC	Eastern Workforce Investment Board	Ltr 9-29-08	43,675
17.268		CCC	CT Business & Industry Association	AGR 3-25-08	211,663
17.268		CCC	CT Business & Industry Association	AGR 4-28-08	62,508
Total Department of Labor					1,529,495
National Aeronautics and Space Administration					
43.001		CCSU	University of Hartford	Fund # 303116	8,170
43.001		CCSU	University of Hartford	NNX06AC32H	2,126
43.000		UOC	Dryden Flight Research Center	PO NND08AD84P	15,442
43.001		CCC	University of Hartford	AGR 1-15-08	14,500

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
43.001	SCSU	University of Hartford	NGT5-40093	(128)
Total National Aeronautics and Space Administration				40,110
National Endowment for the Humanities				
45.149	SCSU	Voices of Sept 11th	NA	43,729
Institute of Museum & Library Services				
45.312	UOC	Harvard University	137263-04	7,447
National Science Foundation				
47.000	UOC	Woods Hole Oceanographic Institution	PO#M213577	5,620
47.000	UOC	Woods Hole Oceanographic Institution	PO#M213578	18,204
47.000	UOC	Woods Hole Oceanographic Institution	PO#M213570	5,620
47.049	SCSU	Yale University	N/A	220,940
47.074	UOC	New York State Museum Institute	AG050672	62,491
47.076	CCSU	New England Board of Higher Education	NSF AWARD #DUE-0903051	6,332
47.076	UOC	University of Massachusetts	UM# 05-003146 B 04	197,766
47.076	UOC	University of Massachusetts	06-003554-A 01	40,754
47.076	UOC	University of Massachusetts	06-003554-A 01	14,669
Total National Science Foundation				572,396
Department of Education				
Office of Vocational and Adult Education				
84.002	CCC	Education Connection	LTR 8-25-08	22,500
Office of Special Education and Rehabilitative Services				
84.326	UOC	University of S. Florida	5830-1242-00-A	(33,008)
84.326	UOC	University of Oregon	223561A	280,079
84.326	UOC	University of North Carolina	5-54490	141,958
84.326	UOC	University of Oregon	PREAWARD	96
84.391	UOC	Providence Rhode Island Public School	PO#2102582	25,926
Total Office of Special Education and Rehabilitative Services				415,051
Office of Elementary & Secondary Education				
84.215	CCSU	Newington Public Schools	U215X050260	50,425
84.215	CCSU	Cromwell Public Schools	U215X090637	143,013
Total Office of Elementary & Secondary Education				193,438
Office of Post Secondary Education				
84.116	CCC	LaGuardia Community College	46285L	4,000
84.116	CCSU	Bridgewater State College	N/A	22,917
84.116	ECSU	FIPSE	P116Z080237	392
84.116	ECSU	FIPSE	P116Z090120	71,786
Total Office of Post Secondary Education				99,095
Miscellaneous Programs				
84.000	CCSU	National Writing Project Corporation	U928A050001	9,891
84.000	UOC	National Writing Project Corporation	92-CT01	49,403
Total Miscellaneous Programs				59,294
Total Department of Education				789,378

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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	07 MHA2210AA	15,711
93.243			ECSU	CT Youth Suicide Prevention	07 MHA1139-01	9,213
93.243			UOC	Wheeler Clinic	SO1255CH	(264)
93.276			CCSU	Clinton Youth & Family Service Bureau	2SP1213004	8,774
93.276			CCSU	Town of Southington	1H79SP015686-01	9,233
Total Substance Abuse and Mental Health Services Administration						42,667
National Institutes of Health						
93.242			CCSU	University of Pittsburgh	N/A	25,251
93.242			UOC	Yale University	A05779	(19,742)
93.273			CCSU	Yale University	1R01AA016599-01A2	143,399
93.701	ARRA		SCSU	Yale University	N/A	24,665
93.701	ARRA		SCSU	Yale University	N/A	1,707
Total National Institutes of Health						175,280
Miscellaneous						
93.000			SCSU	Wheeler Clinic		5,583
Total Department of Health and Human Services						223,530
Corporation for National and Community Service						
94.006			UOC	Jump Start Inc.	830200	(69)
94.006			UOC	Jump Start Inc.	830200	4,143
94.006			UOC	Jump Start Inc.	830200	54,243
Total Corporation for National and Community Service						58,317
United States Agency for International Development						
98.000			UOC	American Council On Education	AEG-A-00-05-00007-00	15,732
TOTAL NON RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS						**3,868,594**
RESEARCH AND DEVELOPMENT PASS-THROUGH GRANTS: (SEE NOTE 2)						
Department of Agriculture						
National Institute of Food and Agriculture						
10.200		RD	UOC	Cornell University	59257-9133	200
10.200		RD	AES	Cornell University	56340-8755	3,119
10.200		RD	AES	Cornell University	56563-8901	22
10.200		RD	UOC	N. Eastern Regional Aquaculture Ctr	Z520303	38,949
10.200		RD	UOC	N. Eastern Regional Aquaculture Ctr	Z514703	21,022
10.200		RD	AES	Cornell University	46709-8780	6,671
10.206		RD	UOC	Yale University	M00081(M06M00477)	17,450
10.206		RD	AES	Virginia Tech	19756-428382	54,461
10.212		RD	UOC	Csrees-Freunds Farm, Inc.	AG070604	37,238
10.212		RD	UOC	Geremia Greenhouse	AG050015-01	11,160
10.212		RD	UOC	Evergren Biotechnologies, Inc	AG060623	18,119
10.215		RD	UOC	University of Vermont	ONE08-080	2,595
10.215		RD	UOC	University of Vermont	LNE09-281	13,502
10.303		RD	UOC	University of Maine	UM-S703	7,461

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
10.303	RD	UOC	University of Maine	UM-S703	10,047
10.303	RD	AES	Pennsylvania State University	3848-CAES-USDA-8446	7,070
10.303	RD	UOC	University of New Hampshire	PZ07020	15,158
10.303	RD	UOC	University of Rhode Island	100605/0000516-A	7,969
10.303	RD	UOC	University of Rhode Island	101408/0001946	77,793
10.303	RD	UOC	University of Rhode Island	121707/0001542	11,679
10.304	RD	UOC	Cornell University	54039-8584	36,430
10.304	RD	AES	Cornell University	54039-8576	15,514
10.310	RD	AES	University of Georgia	RC293-365/4693928	9,770
10.500	RD	UOC	University of Vermont	Coordinator 07	21,512
10.500	RD	AES	Cornell University	52632-8489	5,781
10.500	RD	UOC	University of Vermont	Coordinator 08	22,520
Total National Institute of Food and Agriculture					473,212
Forest Service					
10.678	RD	UOC	Yale University	Y-07-0002	(364)
Miscellaneous Programs					
10.000	RD	UOC	University of Florida	00075865	1,491
Total Department of Agriculture					474,339
Department of Commerce					
National Oceanic and Atmospheric Administration					
11.419	RD	UOC	University of New Hampshire	08-048	26,690
11.431	RD	UOC	Univ Corporation for Atmospheric Research	Subaward # S08-67963	166,177
11.432	RD	UOC	Woods Hole Ocean Graphic Institution	A100567	46,578
11.460	RD	UOC	University of Louisiana	Subcontract #07-0397	20,432
11.472	RD	UOC	University of Rhode Island	011807/0001224	7,093
11.473	RD	UOC	Rutgers - State University of New Jersey	S952046	183,154
11.473	RD	UOC	Woods Hole Ocean Graphic Institution	A100555	430,855
11.478	RD	UOC	University of Rhode Island	012606/0000848	92,118
Total National Oceanic and Atmospheric Administration					973,097
Miscellaneous Programs					
11.000	RD	UOC	University of Massachusetts	05-003280 A 00	41
11.000	RD	UOC	Skidaway Institution of Oceanography	469/0000300030	102,244
Total Miscellaneous Programs					102,285
			Total Department of Commerce		1,075,382
Department of Defense					
Office of the Secretary of Defense					
12.351	RD	UOC	Rensselaer Polytech	A12049	44,241
12.351	RD	UHC	Penn State University	4106-UCHC-DTRA-0004	7,535
Total Office of the Secretary of Defense					51,776
Department of the Air Force, Materiel Command					
12.800	RD	UOC	Connecticut Center for Advanced Technology Inc	07-N04	12,850
12.800	RD	UOC	Dartmouth College	221	2,427
12.800	RD	UOC	University of Michigan	3000989534	48,704
12.800	RD	UOC	Princeton University	00001666	13,483

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY		GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
12.800		RD	UOC	Princeton University	00001684	140,628
Total Department of the Air Force, Materiel Command						218,092
Advanced Research Agency						
12.910		RD	UOC	HRL Laboratories, LLC	000708-DS	16,745
12.910		RD	UHC	DVBIO, INC.	W31P4Q07C0202	16,337
Total Advanced Research Agency						33,082
Department of the Navy, Office Of the Chief Of Naval Research						
12.300		RD	UOC	Naval Postgraduate School	N00244-08-1-0032	8,317
12.300		RD	UOC	National Security Innovations, Inc.	N0014-09-C-0566	55,596
12.300		RD	UOC	ONR-APTIMA INC	0565-1494	69,627
12.300		RD	UOC	University of Texas-Austin	UTA09-000725	83,920
Total Department of the Navy						217,460
U.S. Army Materiel Command						
12.431		RD	UHC	Eastern Carolina University	002923-2004-0407OSU	11,974
12.431		RD	UOC	University of California-Santa Barbara	KK1016	477
Total U. S. Army Materiel Command						12,451
Miscellaneous Programs						
12.000		RD	UOC	Agiltron, Inc	AF083-085	15,386
12.000		RD	UOC	Agiltron, Inc	AG080169	5,554
12.000		RD	UOC	Alcatel-Lucent	LGS071021G	(600)
12.000		RD	UOC	Alcatel-Lucent	PO GOV0005274	10,962
12.000		RD	UOC	Aptima, Inc.	0510-1440	6,165
12.000		RD	UOC	Aptima, Inc.	0464-1412	75,427
12.000		RD	UOC	Aptima, Inc.	0464-1412	10,645
12.000		RD	UOC	Aptima, Inc.	0173-1128	(156)
12.000		RD	UOC	Connecticut Center for Advanced Technology, Inc.	07-N05	25,438
12.000		RD	UOC	Connecticut Center for Advanced Technology, Inc.	07-N07	5,730
12.000		RD	UOC	Connecticut Center for Advanced Technology, Inc.	08-N02	(58)
12.000		RD	UOC	Connecticut Center for Advanced Technology, Inc.	08-N02	14,921
12.000		RD	UOC	Cornell University	46668-8659	57,067
12.000		RD	UOC	D-Star Engineering Corporation	AG100049	4,954
12.000		RD	UOC	Ensign-Bickford Industries Inc.	AG070085-01	(50)
12.000		RD	UOC	Giner, Inc.	AG-091010	17,294
12.000		RD	UOC	ISSI	SB01609	37,516
12.000		RD	UOC	Lockheed Martin	PO# 906900S	61,626
12.000		RD	UOC	Lynntech, Inc	2010-AF114-0001	902
12.000		RD	UOC	Magiq Technologies Inc	AG090974	16,980
12.000		RD	UOC	Milsys Technologies, LLC	MILSYS-07-0116	(751)
12.000		RD	UOC	ODIS, Inc	AG100397	1,093
12.000		RD	UOC	Pratt & Whitney	21153 TASK #56	36,606
12.000		RD	UOC	Qualtech Systems, Inc	QSI-DSC-09-002	46,444
12.000		RD	UOC	Raytheon Company	4400234029	290,081
12.000		RD	UOC	RTI	SUB 11-321-0210294	2,284
12.000		RD	UOC	Science Applications International Co.	PO10020144	28,522
12.000		RD	UOC	Southwest Sciences	AG060539	2,775
12.000		RD	UOC	Structured Materials Industries, Inc.	PO 41752-092508-01	110,654
12.000		RD	UOC	Technology Service Corporation	TSC 1002 38210	152,039
12.000	ARRA	RD	UOC	United Tech Research CTR	1163930	5,076

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.			STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
12.000		RD	UOC	Universal Technology Corporation	08-S568-0011-C2	8,177
12.000		RD	UOC	University of Hartford	P00087470	6,127
12.000		RD	UOC	Vectraxx, Inc	A-009	70,935
12.000		RD	UOC	VeroModo Inc.	AG-050876	3,762
12.000		RD	UOC	VeroModo Inc.	AG-070852	13,685
12.000		RD	UOC	Yardney Technical Products, Inc.	0586281	(2,127)
12.000		RD	UOC	Yardney Technical Products, Inc.	PO#0889235	2,270
Total Miscellaneous Programs						1,143,355
Total Department of Defense						1,676,216
Department of Housing and Urban Development						
14.913	ARRA	RD	UHC	Connecticut Childrens Medical Center	CTLHH0174-08	32,586
Department of the Interior						
U.S. Geological Survey						
15.808		RD	UOC	The Polistes Foundation	AG080455	9,795
Miscellaneous Programs						
15.000		RD	UOC	Heritage Corridor, Inc	GV1 Uconn 09	116,469
Total Department of the Interior						126,264
Department of Justice						
National Institute of Justice						
16.560		RD	UOC	Pennsylvania Coalition Against Domestic Violence	AG100118	57,946
Department of Labor						
17.258		RD	UOC	WA - State Workforce Train & Ed	IAA-724-07	34,275
Miscellaneous Programs						
17.000		RD	UOC	WA - State Workforce Train & Ed	020 PXG (033)	803
Total Department of Labor						35,078
U. S. Department of State						
19.000		RD	UOC	University of Delaware	S-LMAQM-09-GR-043	4,325
Department of Transportation						
Federal Highway Administration						
20.205		RD	UOC	New England Transportation Consortium	MOU-N0401P2-2-2009-8	13,053
20.205		RD	UOC	New England Transportation Consortium	MOU-N0603-0-2008-2	68,116
20.205		RD	UOC	New England Transportation Consortium	MOU-N0206P2-0-2008-4	31,577
Total Federal Highway Administration						112,746
Research and Special Program Administration						
20.701		RD	UOC	Massachusetts Institute of Tech	5710002122	2,258
20.701		RD	UOC	N. E. University Transportation Center	5710002468	3,952
20.701		RD	UOC	Massachusetts Institute of Technology	5710002594	75,700
20.701		RD	UOC	Massachusetts Institute of Tech	5710002615	2,900
20.701		RD	UOC	Massachusetts Institute of Tech	5710002724	1,100

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY		GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
20.701		RD	UOC	Massachusetts Institute of Tech	5710002725	24,114
Total Research and Special Program Administration						110,024
Miscellaneous Programs						
20.000		RD	UOC	University of Vermont	PREAWARD	307
20.000		RD	UOC	Connecticut Academy of Science and Engineering	AG090614	25,674
20.000		RD	UOC	Connecticut Academy of Science and Engineering	AG090956	16,363
20.000		RD	UOC	Connecticut Academy of Science and Engineering	AG090959	18,476
20.000		RD	UOC	Transportation Research Board	NCHRP-141	57,413
20.000		RD	UOC	Transportation Research Board	SHRP-R-06(B)	121,224
20.000		RD	UOC	Transportation Research Board	SHRP-R-06(B)	45,785
Total Miscellaneous Programs						285,242
Total Department of Transportation						508,012
Library of Congress						
Miscellaneous Programs						
42.000		RD	UOC	University of Michigan	F012178	21,723
42.000		RD	UOC	University of Michigan	3001208391	32,196
Total Library of Congress						53,918
National Aeronautics and Space Administration						
43.000		RD	UOC	Ciencia, Inc.	141205	1,214
43.000		RD	UOC	Honeybee Robotics Spacecraft Mechanisms Corp	219.SubCon.001	18,529
43.000		RD	UOC	Marine Biological Laboratory	35640	7,279
43.000		RD	UOC	Marine Biological Laboratory	35640	60,499
43.000	ARRA	RD	UOC	Plasma Processes, Inc.	6006-006-ASH-021210	3,229
43.000		RD	UOC	United Technologies- Pratt & Whitney	21153 Task #53	80,212
43.000		RD	UOC	United Technologies- Pratt & Whitney	21154 Task #71	8,580
43.000		RD	UOC	California Institute of Technology	SUBCONT NO. 139506	2,542
43.000		RD	UOC	University of Hartford	303116	12,390
43.000		RD	UOC	University of Hartford	303116	5,996
43.000		RD	UOC	University of Hartford	303200	14,195
43.000		RD	UOC	University of Hartford	NNX06AC32H	2,546
43.000		RD	UOC	University of Illinois	2009-00783-01/A3327	94,296
43.000		RD	UOC	Wet Labs, Inc.	AG070872	6,232
43.000		RD	UOC	Case Western Reserve University	RES504568	33,974
43.000		RD	UOC	Yardney Technical Products, Inc	PO# 0989568	2,000
43.000		RD	UOC	University of Florida	UF09186	5,279
Total National Aeronautics and Space Administration						358,992
National Endowment for the Humanities						
45.160		RD	UOC	Institute for Advanced Study in Princeton	AG100013	97,792
National Science Foundation						
47.041		RD	UOC	Innovative Technology Inc.	P.O.#2650-C	637
47.041		RD	UOC	University of Massachusetts	08-004807 A 00	30,105
47.041		RD	UOC	University of Massachusetts	S52100000001079	6,486
47.041		RD	UOC	Washington University, St. Louis	WU-HT-09-07/2905086N	8,069
47.041		RD	UOC	Purdue University	4101-33905	16,929
47.041		RD	UOC	Sustainable Innovations	AG091291	19,529

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY		GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
47.041		RD	UOC	Texas A&M University	AG091082	7,804
47.041		RD	UOC	University of Akron	534622/CMMI 1032201	6,557
47.041		RD	UHC	University of New Hampshire	10-017	25,371
47.049		RD	UOC	Rensselaer Polytechnic Institute	A12111	3,480
47.049		RD	UOC	National Science Foundation	DMS-1001056	1,064
47.049		RD	UOC	University of Missouri	C00021585-1	10,374
47.050		RD	UOC	Consortium for Ocean Leadership	Task Order T319A29	26,480
47.050		RD	UOC	Woods Hole Oceanographic Institute	A100424	25,947
47.070		RD	UOC	Massachusetts Institute of Technology	5710002196	36,255
47.074		RD	AES	North Carolina State University	2006-0820-04	11,090
47.074		RD	UOC	California State University	S-4790-UOC	1,803
47.074		RD	UOC	University of Maryland	Z479501	48,034
47.074		RD	UOC	University of Massachusetts	07-004407 A02	27,112
47.074		RD	UOC	Florida State University	R00283	7,544
47.074		RD	UOC	University of Puerto Rico	534042	50,313
47.074		RD	UOC	University of Puerto Rico	AG-060505	39,109
47.075		RD	UOC	University of California at Riverside	S-00000154	27,464
47.076		RD	UOC	Washington University, St. Louis	PO#29510P	20,074
47.076		RD	UOC	American Educational Research Association	AG090091	23,911
47.082	ARRA	RD	UOC	Selah Technologies, LLC	IIP-0930494	63,833
Total National Science Foundation						545,374
Department of Environmental Protection						
Office of Water						
66.437		RD	UOC	National Fish and Wildlife Foundation	2009-0061-016	8,991
Office of The Administrator						
66.611		RD	UOC	Congress for the New Urbanism	AG091079	8,401
Miscellaneous Programs						
66.000		RD	UHC	Cadmus Group, Inc.	IED096UCONNHC	87,741
66.000		RD	UOC	Fuss & O'Neill, Inc.	AG-080963	41,815
66.000		RD	UOC	National Fish and Wildlife Foundation	AG090817	12,034
66.000		RD	UOC	University of Massachusetts	06-003268 E 04	(4,191)
Total Miscellaneous						137,399
Total Department of Environmental Protection						154,791
Department of Energy						
81.049		RD	UOC	Princeton University	00001700	85,444
81.049		RD	UOC	North Carolina State University	2008-1923-02	167,194
81.049		RD	UOC	University of Florida	UF-EIES-0909026-CON	63,040
81.049		RD	UOC	University of South Carolina	10-1721	42,266
81.079		RD	UOC	University of South Dakota	3TA155/YULIA KUZOVKI	18,997
						442,037
Miscellaneous Programs						
81.000		RD	UOC	Battelle Memorial Institute	84049	22,531
81.000		RD	UOC	Battelle Memorial Institute	87944	44,824
81.000		RD	UOC	Battelle Memorial Institute	84750	23,760
81.000		RD	UOC	Battelle Memorial Institute	91881	70,134
81.000		RD	UOC	Battelle Memorial Institute	00097907	8,509

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
81.000	RD	UOC	Rolls Royce Fuel Cell Systems Inc	AG091277	86,493
Total Miscellaneous					256,251
Total Department of Energy					698,288
Department of Education					
Institute of Education Sciences					
84.305	RD	UOC	Center for Implied Linguistics	AG070063	199,369
84.324	RD	UHC	SRI International	51-000498	(299)
84.324	RD	UOC	Texas A&M Research Foundation	S060054	91,060
Total Institute of Education Sciences					290,130
Office of Special Education and Rehabilitation Services					
84.326	RD	UOC	University of Oregon	222841J	73,962
84.327	RD	UOC	University of Oregon	223651A	1,162
Total Special Education and Rehabilitation Services					75,124
Office of Innovation and Improvement					
84.165	RD	UOC	Area Cooperative Educational Services	AG070924	21,566
Total Department of Education					386,820
Department of Health and Human Services					
Center For Disease Control and Prevention					
93.061	RD	UOC	Family Planning Council	RSH11001	41,375
93.067	RD	UOC	Caprisa	AG100483	38,629
93.262	RD	UHC	Mary Imogene Bassett Hospital	MIBH 383	21,072
93.262	RD	UHC	Mary Imogene Bassett Hospital	MIBH 383	7,277
93.262	RD	UHC	Mary Imogene Bassett Hospital	MIBH 383	6,716
93.262	RD	UOC	UMASS at Lowell	S51130000012247	95,138
93.262	RD	UOC	UMASS at Lowell	S51130000012375	60,993
93.262	RD	UHC	UMASS at Lowell	S5111000012247	282,331
93.262	RD	UHC	UMASS at Lowell	S51130000012375	16,830
93.283	RD	UOC	APTR	AG080794	63,171
93.283	RD	UOC	Association for Prevention, Teaching and Research	TS-1402	21,411
Total Center For Disease Control					654,943
Centers for Medicare and Medicaid Services					
93.779	RD	UHC	University of Massachusetts	6100365/900041	4,007
93.779	RD	UHC	University of Massachusetts	611365/900171	3,452
Total Centers for Medicare and Medicaid Services					7,459
National Institutes of Health					
93.113	RD	UOC	Wadsworth Center	3269-02	6,942
93.113	RD	UOC	Wadsworth Center	3269-03	202,803
93.113	RD	UOC	Wadsworth Center	PREAWARD	5,781
93.121	RD	UHC	Cyberconnect EZ, LLC	1R43DE019601-01	53,065
93.121	RD	UHC	SUNY-Bufalo	R263976	10
93.121	RD	UHC	University of Florida	UF06034	(5,710)
93.121	RD	UHC	University of Pennsylvania	551082	111,429
93.121	RD	UHC	University Of Rochester	413332-G	24,242
93.121	RD	UOC	Yale University	A07780 (M10A10821)	6,582

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.	STATE AGENCY		GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.143	RD	UOC	Dartmouth College	461	79,376
93.172	RD	UHC	University of California	6823740	751,100
93.173	RD	UOC	Baylor College of Medicine	PO# 5600508391	7,901
93.173	RD	UOC	Sensimetrics Corporation	AG080490	21,455
93.173	RD	UOC	University of Chicago	30180	37,403
93.173	RD	UOC	University of Florida	UF05104	57,410
93.173	RD	UOC	University of Florida	UF08115	7,416
93.242	RD	UOC	Mount Sinai School of Medicine	0255-7432-4609	20,060
93.242	RD	UHC	Northwestern University	60025890	6,764
93.242	RD	UHC	University of Illinois	MH68455	47,517
93.242	RD	UHC	University of Illinois	E5210	5,963
93.242	RD	UOC	University of Mississippi	67351-01	3,600
93.242	RD	UOC	University of Mississippi	67352-UC02	34,313
93.242	RD	UOC	University of North Carolina	P.O. #82315	4,247
93.242	RD	UOC	University of North Carolina	UNC-CH 5-50176	16,504
93.242	RD	UOC	Yale University	A07355(M09A10153)	780
93.242	RD	UOC	Yale University	A07617(M09A10153)	8,974
93.242	RD	UHC	Yale University	A06212	8,276
93.273	RD	UHC	SUNY-Brooklyn	1009189/52238	626,975
93.273	RD	UHC	SUNY-Brooklyn	4794-4009189	111,457
93.273	RD	UHC	University of Georgia	RR274-346/3503278	(104)
93.273	RD	UHC	Yale University	A07432	71,663
93.273	RD	UHC	Yale University	A07432	31,478
93.273	RD	UHC	Yale University	AA11197-10	59,027
93.273	RD	UHC	Yale University	A07754(M10A10610)	12,674
93.273	RD	UHC	Yale University	A07470M09A10250	38,287
93.279	RD	UOC	Brandeis University	4-01349	29,097
93.279	RD	UOC	Fordham University	AG080334	5,749
93.279	RD	UOC	Northeastern University	PREAWARD	70,567
93.279	RD	UHC	University of South Carolina	DHHS R01DA19708	286,792
93.279	RD	UOC	Yale University	A07466 (M08A10247)	43,130
93.279	RD	UHC	Yale University	A06106	198,675
93.279	RD	UHC	Yale University	A06123	2,448
93.279	RD	UHC	Yale University	A06469	61,546
93.279	RD	UHC	Yale University	A07592M10A10351	383,696
93.279	RD	UHC	Yale University	A07228-M05A0241	(51,545)
93.286	RD	UOC	NIBIB-Biorasis, Inc.	AG091073	26,559
93.310	RD	UHC	New York University	0255-3761-4609	39,761
93.361	RD	UHC	Arizona State University	10-348	16,647
93.371	RD	UOC	Evergen Biotechnologies, Inc	AG070447	1,976
93.389	RD	UOC	Massachusetts General Hospital	R24RR018934/207916	94,520
93.389	RD	UOC	Radiation Monitoring Devices, Inc.	AG090251	86
93.389	RD	UOC	University of South Carolina	08-1546/PO#82337	155
93.393	RD	UOC	University of Massachusetts	PO# 0001254189	149,727
93.393	RD	UHC	University of New Jersey	DHHS R01CA116399	7,963
93.393	RD	UOC	University of North Carolina	UNC-CH 5-50114	5,966
93.393	RD	UHC	University of Utah	2302132	(1,283)
93.393	RD	UHC	Vanderbuilt University	VUMC30617-R	(152)
93.393	RD	UHC	Vanderbuilt University	VUMC30617-R	(3,035)
93.393	RD	UHC	Vanderbuilt University	VUMC35870	39,033
93.393	RD	UHC	University of Southern California	H37982	(1,672)
93.394	RD	UHC	Nanoprobes Inc.	R44CA124190-01	77,192

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY		GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.394		RD	UHC	Nanoprobes Inc.	1 R43CA134074-01	11,271
93.394		RD	UHC	Nanoprobes Inc.	51-000498	19,555
93.394		RD	UHC	University of Wisconsin	158K502	97,009
93.395		RD	UHC	Nanoprobes Inc.	1R44CA130225-01A2	12,691
93.397		RD	UHC	John Hopkins University	200796724	15,042
93.399		RD	UHC	Children's Trust Fund	20394-28217-52742	105,682
93.399		RD	UHC	Tufts University	595-010-010	44
93.701	ARRA	RD	UHC	CT Children's Medical Center	10179194-01	37,179
93.701	ARRA	RD	UHC	George Mason University	E20014A	33,906
93.701	ARRA	RD	UHC	Maine Medical Center	0992-001	23,172
93.701	ARRA	RD	UHC	Nanoprobes Inc.	63.3S1-MMN	34,791
93.701	ARRA	RD	UHC	Scripps Research Institute	5-21433	45,268
93.701	ARRA	RD	UOC	University of North Carolina	5-30092	32,489
93.837		RD	UHC	Case Western Reserve University	RES502603	733
93.837		RD	UOC	Hartford Hospital	123249	80,218
93.839		RD	UHC	Worcester Memorial Hospital	RFS700070	9,517
93.839		RD	UHC	Worcester Memorial Hospital	RFS900138	23,993
93.846		RD	UHC	Arizona State University	09-104	14,793
93.846		RD	UHC	Cyberconnect EZ, LLC	1R43AR057272-01	33,390
93.846		RD	UHC	Jackson Lab	DHHS 5R01AR53853-02	(10,733)
93.846		RD	UHC	Maine Medical Center	0942-003	171,503
93.846		RD	UHC	University of Pennsylvania	552410	59,265
93.846		RD	UHC	Yale University	A06601-M08A0800	33,963
93.846		RD	UHC	Yale University	A06916	12,858
93.846		RD	UOC	Yale University	A06534 (M07A00648)	61,943
93.846		RD	UHC	Yale University	A06534	167,944
93.847		RD	UOC	Ciencia, Inc	733102-UCONN	28,056
93.847		RD	UHC	CT Children's Medical Center	06-179136-01	74
93.847		RD	UHC	Mercer University	420610-01	64,287
93.847		RD	UHC	Mercer University	420610-01	196,944
93.847		RD	UHC	Nanoprobes Inc.	1 R43DK000522-01A1	14,195
93.847		RD	UHC	University of Massachusetts	N01DK2326	20,930
93.853		RD	UOC	State University of New York College	580-45702	(12,275)
93.855		RD	UOC	Ciencia, Inc	733102-UCONN	15,610
93.855		RD	UHC	CT Children's Medical Center	08-179194-02	31,360
93.855		RD	UHC	University of Massachusetts	6108879/RFS900116	104,156
93.855		RD	UHC	University of Texas	109043	84,958
93.856		RD	UHC	LAVAX	1R43AI068528-01A2	3,598
93.856		RD	UOC	Promiliad Biopharma, Inc	AG060409	(73)
93.859		RD	UHC	California Institute of Technology	102-1083874	66,716
93.859		RD	UOC	Ciencia, Inc	723205	17,828
93.859		RD	UOC	Duke University	08-SC-NIH-1089	27,804
93.859		RD	UHC	Glycosan Biosystems	7668890	24,485
93.859		RD	UHC	Harvard University	148239.1706	340,024
93.859		RD	UHC	John Hopkins University	2000-10327	24,667
93.859		RD	UOC	UNC-CH#5-34143	UNC-CH#5-34143	55,166
93.859		RD	UOC	University of Nevada	10-697Y-00	44,522
93.859		RD	UHC	University of New Mexico	048826874E	22,473
93.859		RD	UHC	University of Virginia	GC11893.133558	185,126
93.859		RD	UHC	University of Virginia	GC11729.131108	5,359
93.859		RD	UHC	University of Wisconsin	644F770	2,784
93.864		RD	UOC	Brown University	00000220 PO # 256295	35,543

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.865	RD	UOC	Haskins Laboratories	AG091002	16,294
93.865	RD	UOC	Iowa State University	430-21-03	11,586
93.865	RD	UOC	University of Colorado	1544069 SPO#00064218	27,246
93.865	RD	UHC	University of Massachusetts	RFS500079	(2,668)
93.865	RD	UOC	University of Minnesota	Q6437295102	(44)
93.865	RD	UOC	University of Minnesota	N643751402	49,709
93.865	RD	UOC	Yale University	A06516 (MO7A00231)	32,528
93.865	RD	UOC	Yale University	A07701 (M10A10446)	9,741
93.865	RD	UHC	Yale University	A07751-M10A10768	21,199
93.865	RD	UOC	Beth Israel Deaconess Medical Center	1P01HD057853-01A2 PR	83,509
93.865	RD	UOC	Beth Israel Deaconess Medical Center	1P01HD057853-01A2 PR	73,021
93.865	RD	UOC	Beth Israel Deaconess Medical Center	5P01HD057853-02	59,292
93.866	RD	UHC	Arizona State University	09-196	19,573
93.866	RD	UOC	Yale University	A07296 (M09A10181)	51,371
93.879	RD	UHC	University of Massachusetts	RFS700042	41,129
Total National Institute of Health					6,984,547
Health Resources and Services Administration					
93.110	RD	UHC	University of Massachusetts	RFS800060	(3,050)
93.110	RD	UHC	University of Massachusetts	MCHB PROJECT	34,482
93.110	RD	UHC	Family Voices Inc.	2009122	22,396
93.145	RD	UHC	University of Massachusetts	6100059/ETC-13	1,672
93.145	RD	UHC	University of Massachusetts	6113846/ETC-13	10,730
93.153	RD	UHC	CT Primary Care Assoc	CPCA RWIV FY08-09	29,930
93.153	RD	UHC	Community Health Center	HRSA-09-202	79,851
93.914	RD	UHC	City of Hartford	HHS0027R	12,531
93.914	RD	UHC	City of Hartford	HHS8020R	16,468
93.914	RD	UHC	City of Hartford	HHS9066R	146,029
93.914	RD	UHC	City of Hartford	HHS9066Q	110,066
93.914	RD	UHC	City of Hartford	HHS9066Q	93,684
93.914	RD	UHC	City of Hartford	HHS9066Q	37,520
93.914	RD	UHC	City of Hartford	HHS9066Q	50,284
Total Health Resources and Services Administration					642,593
Substance Abuse and Mental Health Services Administration					
93.243	RD	UHC	Child Health & Development Institute of CT	08DCF6431AA	117,627
93.243	RD	UHC	RTI International	11-312-0210700	60,360
93.243	RD	UOC	Community Mental Health Affiliates, Inc.	AG091064	42,131
Total Substance Abuse and Mental Health Services Administration					220,118
Miscellaneous Programs					
93.000	RD	UOC	Afasci	AG-090341	4,664
93.000	RD	UOC	NIAID-Family Health International	812/0080.0056	47,496
93.000	RD	UOC	Makscientific, LLC	1R43DA023737-01	(985)
93.000	RD	UOC	National Institute for Pharmaceutical Tech and Educ.	AG090025	10,776
93.000	RD	UOC	National Institute for Pharmaceutical Tech and Educ.	UC0002	7,810
93.000	RD	UOC	National Institute for Pharmaceutical Tech and Educ.	UC0003	11,171
93.000	RD	UOC	National Institute for Pharmaceutical Tech and Educ.	UC0004	34
93.000	RD	UOC	Northshore University Health System	EH06-201	46,459
93.000	RD	UOC	Northshore University Health System	EH06-201	26,851
93.000	RD	UOC	Physical Sciences, Inc	SC49706-1657	72,541

STATE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

CFDA NO.		STATE AGENCY	GRANTOR	GRANTOR ID #	AMOUNT EXPENDED
93.000	RD	UOC	Ciencia, Inc.	752202	20
93.000	RD	UHC	The Forsyth Institute	1R21DE018310	(960)
Total Miscellaneous Programs					225,877
Total Department of Health and Human Services					8,735,540
Department of Homeland Security					
97.061	RD	UOC	University of North Carolina	UNC-CH #5-36441	133,330
97.000	RD	UOC	Sonalysts, Inc.	07OEM0375	46,565
Total Department of Homeland Security					179,894
United States Agency for International Development					
98.001	RD	UOC	Oregon State University	RD011G-E	169,124
98.001	RD	UOC	University of Missouri	C00018393-1	1,338
98.001	RD	UOC	University of Missouri	C00023238-11	537
98.012	RD	UOC	University of Georgia	RC710-025/3842128	118,433
Total United States Agency for International Development					289,432
TOTAL RESEARCH PASS-THROUGH RESEARCH GRANTS					**15,490,989**
TOTAL PASS-THROUGH GRANTS					**19,359,583**

	Identification of State Agencies:
AES	Agricultural Experiment Station
UOC	University of Connecticut
UHC	University of Connecticut Health Center
CCSU	Central Connecticut State University
ECSU	Eastern Connecticut State University
SCSU	Southern Connecticut State University
CCC	Connecticut Community Colleges

Schedule of Findings and Questioned Costs

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2010
INDEX OF SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATUS

A. Material instances of non-compliance with Federal requirements
B. Significant deficiencies in 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.

STATE OF CONNECTICUT
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2010
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 weakness(es) identified?	No
Reportable condition(s) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified opinion on all major programs except for *Social Services Block Grant* (CFDA #93.667) which is qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 and 10.561	SNAP Cluster (Includes ARRA)
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
17.225	Unemployment Insurance (Includes ARRA)
17.258, 17.259 and 17.260	WIA Cluster (Includes ARRA)
20.205 and 20.219	Highway Planning and Construction Cluster (Includes ARRA)
20.500 and 20.507	Federal Transit Cluster (Includes ARRA)
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376, 84.379, 93.264, 93.342, 93.364, and 93.925	Student Financial Assistance Cluster (Includes ARRA)
84.010 and 84.389	Title 1 Grants to Local Educational Agencies (Includes ARRA)
84.027, 84.173, 84.391, and 84.392	Special Education Cluster (Includes ARRA)
84.394 and 84.397	State Fiscal Stabilization Fund (Includes ARRA)
93.268 and 93.712	Immunization Grants (Includes ARRA)
93.558	Temporary Assistance for Needy Families (Includes ARRA)
93.563	Child Support Enforcement (Includes ARRA)
93.568	Low-Income Home Energy Assistance
93.575, 93.596 and 93.713	Child Care Cluster (Includes ARRA)
93.658	Foster Care-Title IV-E (Includes ARRA)
93.659	Adoption Assistance (Includes ARRA)
93.667	Social Services Block Grant
93.778, 93.775 and 93.777	Medicaid Cluster (Includes ARRA)
N/A	Research and Development Cluster (Includes ARRA)

Dollar threshold used to distinguish between Type A and Type B programs: $30,000,000

Auditee qualified as a low risk auditee? No

SECTION II

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

There were no financial statement related findings required to be reported in accordance with *Government Auditing Standards*.

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SECTION III

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. DEPARTMENT OF SOCIAL SERVICES

III.A.1. Special Tests and Provisions – 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: There are four main Automatic Data Processing (ADP) installations used to administer Health and Human Service (HHS) programs at the Department of Social Services. The Eligibility Management System (EMS) provides automated eligibility determinations for the Medicaid program, issues benefit and service payments to clients and providers, and provides management support for program administration. The Medicaid Management Information System (MMIS) is used to process payments for medical services and provides other critical administrative functions in the operation of the Medicaid program. The 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.

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

Criteria: Title 45 Code of Federal Regulations Part 95 Section 621 specifies that the State 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 shall maintain reports of their biennial ADP system security reviews.

Condition: The Department has not performed ADP system security reviews for the EMS or MMIS 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 EMS and MMIS installations.

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. CMS has certified the new MMIS "Interchange" system. The Department will initiate evaluation of the most effective method to perform the required security 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

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 of the Certification of MEQC System Payment Error Rate disclosed the following.

- The Certification of MEQC System Payment Error Rate was submitted in July 2009 for the six-month review period October 2007 – March 2008. The Department should have submitted the report in December 2008.

- The Certification of MEQC System Payment Error Rate was submitted in September 2010 for the six-month review period April 2008 – September 2008. The Department should have submitted the report in June 2009.

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 Quality Control Division has reallocated its staffing resources to improve the timeliness of the Medicaid eligibility reviews. This enhanced effort will lead to the timely filing of required reports.”

III.A.3. 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

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, 2009. 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.

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

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State’s Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

During the fiscal year ended June 30, 2010, the Department incurred SBCHP costs of $131,556,017, of which $65,778,009 and $15,247,342 were claimed for federal reimbursement at the Medicaid 50 percent and the ARRA-Medicaid 11.59 percent rates, 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. The OMB Circular A-87 also states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

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

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

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

- The Department did not have adequate documentation to support the indirect cost rate 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 is in the process of finalizing the approval of new rates with CMS. However, as of December 2010, the new rates have not been approved.

Recommendation: The Department of Social Services should continue its negotiations with the Centers of Medicare and Medicaid Services to have new rates approved for claiming school-based health costs under the Medicaid program.

Agency Response: "The Department agrees with the finding. On February 10, 2010, the Department received clarification from the Centers for Medicare and Medicaid Services (CMS) with regard to required changes to SBCH rate setting methods and cost settlements. CMS requested that the Department sunset the current bundled rate method by a mutually agreed upon date of October 1, 2010. It was agreed that Connecticut would adopt a per unit (fee-for-service) rate system with a cost settlement. On August 20, 2010, the Department submitted State Plan Amendment 10-018 (SPA 10-018) to CMS. SPA 10-018 fully modifies the SBCH rate-setting and payment methodology effective October 1, 20l0, in accordance with CMS federal reimbursement claiming requirements.

The Department implemented changes to Medicaid fee-for-service billing systems that now includes twenty-five (25) SBCH service categories. The Department also developed and submitted to CMS for review SBCH cost reports, quarterly time studies, training materials and instruction manuals. The Department developed and issued SBCH program specific statewide fee-for-service interim rates for SBCH services for dates of service starting October 1, 2010. The final cost settlement of the actual Medicaid-allowable expenditures will be based upon annual certified cost reports filed by participating school districts and cost allocations based upon quarterly time studies of staff hours supporting SBCH services. The Department responded to a CMS Request for Additional Information concerning SPA 10-018 on November 14, 2010, and it is anticipated that the state plan will be approved by April 1, 2011."

III.A.4. 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-10905CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: The Department provided us with a detailed listing of fee-for-service benefit payments made during the fiscal year ended June 30, 2010. This data included the clients' names and Social Security Numbers (SSNs). The total payments made on behalf of these clients totaled $4,306,376,177.

We used audit software to extract all clients who did not have SSNs listed. Clients under the age of three were excluded from our review to account for any time delay that would occur while obtaining a SSN for a newborn. Our review disclosed that a SSN was not listed for 9,157 clients. The total payments made on behalf of these 9,157 clients were $32,926,311. We selected 25 clients to determine whether the SSNs were included in EMS as a verification of the file obtained from the Department. The total payments made on behalf of these 25 clients were $66,843.

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

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, the Social Security Administration (SSA), 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 SSA.

Title 42 Code of Federal Regulations Part 435 Section 910(g) provides that the Department must verify each SSN of each applicant and recipient with SSA to insure that each SSN furnished was issued to that individual and to determine whether any others were issued.

Condition: Our review disclosed that the SSN was not entered into the Department's Eligibility Management System (EMS) in 20 of the 25 cases tested. However, 13 of the clients were non-qualified aliens who are allowed to receive emergency medical services per Section 3211.10 of the State Medicaid Manual issued by the Centers of Medicare and Medicaid Services. Further review of the case files of the seven clients in which a SSN was not entered into EMS did disclose that SSNs were included in the hardcopy case files for three clients. In addition, we noted that there was no indication that the SSN was verified with SSA in the field set up in EMS for that purpose in two of the five clients in which a SSN was included in EMS.

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 obtain the Social Security Numbers of all Medicaid clients and enter the Social Security Numbers into its Eligibility Management System.

Agency Response: "The Department agrees with the finding and will remind staff via e-mails and through ongoing training sessions to enter Social Security Numbers."

III.A.5. 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

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 432,607 unique client identification numbers. The Department assigns each client an identification number at the 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 101 such clients in which managed care payments totaled $261,903. Each of these 101 clients had at least two different client identification numbers. Further review was performed on five clients in which managed care payments totaled $6,532.

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

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, 2010, included duplicate payments totaling $895. These duplicate payments were claimed under Medicaid and ARRA-Medicaid.

The Department was aware of these duplicate clients. However, the Department did not credit the federal government for these overpayments.

Effect: Based on the Medicaid 50 percent and the ARRA-Medicaid 11.59 percent federal financial participation rates, our sample had questioned costs totaling $551 of which $104 was attributable to ARRA-Medicaid.

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 Recipient Report to the regional offices on a monthly basis. The report is used to identify when a duplicate Client ID is assigned to the same client. In addition, the Department is currently developing a data query that compares managed care encounter data with fee for service claims data. The purpose of this query will be to identify duplicate payments and initiation of the recoupment process. The Department will make an appropriate adjustment to our federal claim to remove costs associated with these duplicate payments in the next claim submission for the quarter ending March 31, 2011, which should be filed no later than early May 2011."

III.A.6. Special Tests and Provisions –Hospitals and Long-Term Care 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 05-0905CTARRA and 05-1005CTARRA

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 a 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.

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

Condition: The Department did not obtain audited cost reports for inpatient hospitals during the audited period. The last audited reports received were for the 2004-2005 fiscal year.

We noted that the Department does not perform field audits of all LTCFs. The Department performs field audits of LTCFs based on risk. However, our audit disclosed instances in which field audits of some facilities have not been done for over ten years.

Based on the Department's procedures, a plan of the LTCFs to be reviewed is developed each fiscal year. The Department is not completing the audits included in its plan in a timely manner. During the 2009-2010 fiscal year, the Department's plan included auditing 123 LTCFs, of which 57 were carried forward from its 2008-2009 fiscal year plan, because the audits for those facilities were not completed prior to the fiscal year end. During the 2009-2010 fiscal year, only 57 field audits were completed, of which 51 were carried forward from the 2008-2009 fiscal year plan.

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 and the Department has lessened its assurance that appropriate rates are used to pay for long term care services.

Cause: The Department did not consider the need to obtain audited cost reports.

We were informed that there are not enough audit hours available 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 obtain audited cost reports of inpatient hospital providers. In addition, the Department should comply with, or amend, the auditing procedures for Long-Term Care Facilities in the State Plan.

Agency Response: "The Department agrees and disagrees with this finding. With regard to hospital audits, the Department received CMS approval of Medicaid State Plan 09-021 (SPA 09-021) on August 18, 2010. SPA 09-021 included inpatient rate audit procedures consistent with the recommendation of the Auditors of Public Accounts. The Department is currently working with the hospitals to obtain the latest version of the Medicare cost reports for fiscal years 2005 through 2009, inclusive. This process will culminate in the calculation of a final Medicaid settlement amount to be paid to or collected from the hospital as appropriate.

With regard to long term care facility audits, Attachment 4.19 D of the Medicaid State Plan states that, "Facilities shall generally be audited on a biennial basis." However, it further states that, "This audit cycle may be changed based upon audit experience." The facility audit selection process that the Department employs for long term care facilities is consistent with the plan.

With the passage of Public Act 91-8 the payment system was converted to a prospective payment using base cost years to set the rates for at least two but no more than four future rate years. For instance, the 1996 cost report was used to set rate for the SFY99-SFY01 periods. The next base year utilized to set rates was the 2000 cost year. The cost years in between, 1997-1999, were not utilized for rate setting purposes and therefore did not require an audit. Additionally, yearly rate constraints put in plan by the legislature further limited the need to substantiate the costs included in the cost report filings. This payment system is varied slightly for nursing facilities who receive interim rate relief.

The Department carefully reviews the status of each nursing facility annually to determine the potential for Medicaid overpayments and focuses the audit hours available towards these providers. Additionally, the Department requires new owners with no previous audit history with the State of Connecticut to be audited in a timely fashion. While this process has allowed some facilities to go unaudited for a number of years, a detailed audit assessment is generally performed on a regular basis in accordance with the state plan provisions.

The general timeline for an audit to be completed is eight to ten months. This is the result of several notification requirements contained in Public Act 05-195, the scope and detail involved in the audit procedures and the managerial review necessary to ensure the audits are completed in accordance with applicable statutes and regulations. This time line results in audit starting in one fiscal year being completed in the following fiscal year. The Department monitors each open audit through the use of the Annual Plan. It also should be noted that the Annual Plan includes audit hours associated with Management Companies, Residential Care Homes and Group Homes."

Auditors' Concluding Comments:

As indicated in the condition, our audit disclosed instances in which field audits of some facilities have not been done for over ten years. As the time between audits increases, the results of the last audit are less likely to reflect current conditions. This results in increased risk that cost information is not complete, accurate and reasonable.

III.A.7. Allowable Costs/Cost Principles - Overpayments

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 05-0905CTARRA and 05-1005CTARRA

Background: We sampled 150 fee-for-service payments totaling $60,341 made to providers. The total amount of fee-for-service payments made during the fiscal year ending June 30, 2010, totaled $3,293,804,679. We separated the total population into six strata and randomly selected 25 transactions from each of the six different strata as follows:

Strata Amount	Population Amount	Sample Amount
Pharmaceuticals	$ 441,975,036	$ 1,631
Medical Durable Goods	43,043,812	2,482
Home Care	128,084,391	2,177
Home Health	281,811,227	16,519
School-Based	131,556,017	23,043
All Other	2,267,334,196	14,489
Total	$ 3,293,804,679	$ 60,341

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

Criteria: The Office of Management and Budget (OMB) Circular A-87 requires that costs charged to federal programs should be necessary and reasonable.
The Individuals with Disabilities Education Act (IDEA) authorized federal funding to states for programs that impact Medicaid payment for services provided in schools. Under Part B of IDEA, school districts must prepare an Individualized Education Plan (IEP) for each child, which specifies all special education and "related services" needed by the child. The Medicaid program will pay for some of the "health related services" included in the IEP, if they are among the services specified in Medicaid law and included in the State's Medicaid Plan.

The Department's Medicaid State Plan includes School Based Child Health (SBCH) services and allows for reimbursement of these services that are provided by or through a Local Education Agency (LEA) to students with special needs pursuant to the IEP. The IDEA specifies that once the child's special education needs are identified, the LEAs are required to review each child's IEP at least annually and revise it as appropriate.

Condition: Our review disclosed one error totaling $51 related to the Home Health stratum and five errors totaling $5,075 related to the School Based stratum:

Home Health:

- One provider billed the Department on two separate occasions for an hour of nursing care in the home by a registered nurse. However, the provider's records indicate that only a half an hour of services was provided on both the occasions. This resulted in a $51 overpayment.

School Based:

- Five LEAs were unable to provide us with IEPs that cover $5,075 of SBCH services that were billed to the Department and claimed under Medicaid.

Effect: Home Health:
Our sample had errors in one claim totaling $51. Based on the Medicaid 50 percent and the ARRA-Medicaid 11.59 percent federal financial participation rates, our sample had questioned costs totaling $31 of which $6 was attributable to ARRA-Medicaid.

School Based:
Our sample had errors in five claims totaling $5,075. Based on the Medicaid 50 percent and the ARRA-Medicaid 11.59 percent federal financial participation rates, our sample had questioned costs totaling $3,126 of which $588 was attributable to ARRA-Medicaid.

Cause: Home Health:
The Department does not have a procedure code available for providers to use to bill for nursing care in the home by a registered nurse for time periods that are less than an hour.

School Based:
The LEAs did not prepare an IEP or were unable to locate the IEP that covered the service periods in our sample.

Recommendation: The Department of Social Services should recoup the improper payment made to the Medicaid providers and should consider performing quality reviews to determine whether errors noted were isolated instances or the result of significant deficiencies. In addition, the Department should ensure that procedure codes are available so providers are able to only bill for services provided.

Agency Response: "The Department agrees with this finding. The Department will insure that the federal financial participation of each identified overpayment is appropriately reimbursed. In addition, the Department continues to emphasize the auditing of payments to providers. The new RAC contractor will be under contract by June 1, 2011 and this will further enhance the audit oversight capabilities."

III.A.8. Reporting

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0805CT5028 and 05-0905CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: 05-0905CTARRA

Background: Title 42 Code of Federal Regulations Part 457 Section 630 provides that the Centers for Medicare and Medicaid Services (CMS) makes quarterly grant awards to the State to cover the federal share of expenditures for services, training, and administration. The amount of the quarterly grant is determined on the basis of information submitted by the State agency (in quarterly estimate and quarterly expenditure reports) and other pertinent documents.

The federal financial participation rates for allowable medical expenditures under the Medicaid program are 50 percent, 65 percent or 90 percent depending on the type of expenditure. The 65 percent and 90 percent rates are used for specific types of expenditures. For example, breast and cervical cancer expenditures are reimbursed at 65 percent and family planning is reimbursed at 90 percent. The 50 percent rate, which is used for the majority of the expenditures, is for all other activities.

In addition, the provisions of Section 5001 of the American Recovery and Investment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the Medicaid federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate was increased by 11.59 percent.

The Medicaid Management System (MMIS) is used to process medical claims for providers of medical care and services furnished to clients under the Medicaid program. MMIS is also used to process medical claims for State funded medical programs. The Department uses the monthly and quarterly medical expenditures reports generated by MMIS to prepare the quarterly federal claims.

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

Condition: We reviewed the Form CMS-64 for the quarter ended September 30, 2009, and December 31, 2009, and noted the following.

- The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet for the quarter ended September 30, 2009, was $1,271,390,737. The correct amount is $1,268,419,999. This resulted in an overstatement of $2,970,738. Based on the applicable Medicaid and ARRA-Medicaid federal financial participation rates, federal funds were overclaimed by $1,836,047 of which $341,710 was attributed to ARRA-Medicaid.

- The gross amount reported as *State and Local Administration* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet for the quarter ended September 30, 2009, was $27,897,256. The correct amount is $27,916,615. This resulted in an understatement of $19,359. Based on the applicable Medicaid federal financial participation rates, federal funds were underclaimed by $39,232.

- The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet for the quarter ended December 31, 2009, was $1,422,225,610. The correct amount is $1,419,240,162. This resulted in an overstatement of $2,985,448. Based on the applicable Medicaid and ARRA-Medicaid federal financial participation rates, federal funds were overclaimed by $1,845,139 of which $343,402 was attributed to ARRA-Medicaid.

- The gross amount reported as *State and Local Administration* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet for the quarter ended December 31, 2009, was $33,518,135. The correct amount is $33,242,538. This resulted in an overstatement of $275,597. Based on the Medicaid 50 percent federal financial participation rate, federal funds were overclaimed by $137,799.

Our review of the claims submitted for the quarter ended September 30, 2009, and December 31, 2009, also disclosed deficiencies in the reports used to prepare the CMS-64. The Department reconciles disbursements made from its localized checking account to the MMIS FIN-PY13 reports. The Department uses the MMIS FIN-PY04 reports to report the expenditure amounts on the various lines on the CMS-64 report. However, we noted that the gross amounts of all paid federal and State medical services reported on the on MMIS FIN-PY13 report did not agree with the amounts reported on the MMIS FIN-PY04. At the time the Medicaid claim for quarters ended September 30, 2009, and December 31, 2009, were prepared and submitted to the federal government, the total amount reported for all federal and State medical programs administered by the Department was $1,279,033,861 and $1,304,199,309 on the MMIS FIN-PY13, respectively; however, the total amount reported on the MMIS FIN-PY04 was $1,290,939,353 and $1,314,409,486, respectively.

In addition, the following errors were noted on the Form CMS-64 for quarters ended March 31, 2010, and June 30, 2010, during performance of other audit tests.

- The gross amount reported as *Medical Assistance Payments* on Line 9D "Collections: Other" of the Form CMS-64 Summary Sheet for the quarter ended March 31, 2010, was ($22,248,844). The correct amount is ($28,457,844). This resulted in an overstatement of $6,209,000. Based on the applicable Medicaid and ARRA-Medicaid federal financial participation rates, federal funds were overclaimed by $3,824,123 of which $719,623 was attributed to ARRA-Medicaid.

- The gross amount reported as *Medical Assistance Payments* on Line 6 "Expenditures in this Quarter" of the Form CMS-64 Summary Sheet for the quarter ended June 30, 2010, was $1,432,945,148. The correct amount is $1,433,935,949. This resulted in an underclaim of $990,801 ($611,066 at the applicable federal financial participation rates).

Effect: The federal financial reports prepared for the Medicaid program are not adequately supported. As a result, CMS could be incorrectly computing the grant award, which authorizes the State to draw federal funds as needed to pay its federal share of Medicaid disbursements. Our review disclosed that the total cost of medical services provided under the Medicaid program was overstated on the CMS-64 report by $11,430,623. Based on the various federal participation rates, the Department overclaimed $6,992,810 in federal reimbursement of which $1,290,241 was attributable to ARRA-Medicaid.

Cause: The MMIS is not providing reliable information at the time the federal claims are prepared for the Medicaid program and there were no subsequent adjustments being made as a result of new expenditure information. In addition, some of the differences noted were clerical errors.

Recommendation: The Department of Social Services should ensure that the claims submitted for federal reimbursement under Medicaid Program are supported by actual expenditures.

Agency Response: "The Department agrees with this finding. Revised PY01-PY04 reports and Cost Allocation reports are the basis of the findings for Form CMS-64 for the quarters ending September 30, 2009 and December 31, 2009. These reports have been revised since the audit and continue to be revised to address reporting issues. The CMS-64 reports were prepared based upon the reports available at the time. The Department is in the process of completing the necessary prior period corrections and intends to have them completed before the end of the year.

The Department intends to make a prior period adjustment for the overstatement of $6,209,000 in the CMS-64 for the quarter ending March 31, 2011. A correction for the understatement of $990,801 was made in the CMS-64 for the quarter ending September 30, 2010."

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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

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 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.

In order to receive Medicaid payments, providers of medical services must be licensed in accordance with federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR Sections 431.107 and 447.10; and Section 1902(a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR Part 455, Subpart B (Sections 455.100 through 455.106)).

Condition: We separated the population of fees-for-services into nine strata and randomly selected 15 transactions from each of the nine strata. Of these 225 transactions, we selected 15 transactions to determine whether the required provider information was obtained from these 15 providers to be eligible to provide services under Medicaid. Our review disclosed the following:

- The Department of Social Services claims for federal reimbursement services provided by the Department of Developmental Services (DDS) provided under the DDS Waiver. The Department did not request applicable providers of the DDS Waiver to disclose all information that is required under Title 42 CFR Section 455 Subpart B prior to enrolling them to participate in the Medicaid Program.

- We also noted that provider information available in the Medicaid Management Information System had various deficiencies. For example, reenrollment dates that did not match between data screens, provider reenrollment dates set to year 2299, Medicare certification date not listed, and licensing information not being entered into the System.

- There are no controls in the system that would prevent payments from being made to unlicensed providers or providers who did not properly enroll in the Medicaid program.

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

Cause: The Department does not require DDS Waiver providers to re-enroll. Therefore, the only documentation on hand for such providers is from the providers' initial enrollments and these forms do not always include the necessary disclosures and information needed to comply with federal requirements. In addition, the Department has not established adequate controls for ensuring information in the Medicaid Management Information System is up to date and ensuring the all providers are reenrolled to provide services under Medicaid in a timely manner.

Recommendation: The Department of Social Services should ensure that all required disclosures are obtained from providers providing services under the Medicaid program.

Agency Response: "The Department does not agree with this finding. The providers in question are State agencies and not-for-profit entities. State agencies do not have owners, so there is no way to solicit ownership information. The same holds for not-for-profit entities; under the law they do not have any "owners." Therefore the cited questions pertaining to names and addresses of persons with ownership or controlling interests, etc. are not applicable."

Auditors' Concluding Comments: The federal regulations do not provide an exclusion to which providers are waived from the regulation identified in the above criteria. Although there are no owners of State agencies and not-for-profit entities, the required applicable information included in the regulations could be obtained from a managing employee of the State agency or not-for-profit entity that is providing medical services.

III.A.10. Activities Allowed or Unallowed – Non-qualified Aliens

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008 2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: Our audit population of fee-for-service payments disclosed that a Social Security Number was not listed for 9,157 clients who were over three years old. The total payments made on behalf of these 9,157 clients were $32,926,311. We selected 25 clients that did not have Social Security Numbers. The total payments made on behalf of these 25 clients were $66,843. Of these 25 clients, there were 13 clients who were non-qualified aliens in which there were payments totaling $45,009 that were made for medical services.

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

Criteria: Section 3211.11 of the State Medicaid Manual issued by the Centers for Medicare and Medicaid Services provides that aliens who meet certain requirements will be eligible for Medicaid only for treatment of medical conditions as follows:

- Such care and services are necessary for the treatment of an emergency medical condition of the alien, provided such care and services are not related to either an organ transplant procedure or routine prenatal or postpartum care.

- The alien has, after sudden onset, a medical condition (including emergency labor and delivery) manifesting itself by acute symptoms of sufficient severity (including severe pain) such that the absence of immediate medical attention could reasonably be expected to result in:

- Placing the patient's health in serious jeopardy,
- Serious impairment to bodily functions, or
- Serious dysfunction of any bodily organ or part.

Condition: Client eligibility information is entered into the Department's Eligibility Management System (EMS). The Department utilizes the Medicaid Management Information System (MMIS) to process Medicaid claims. The MMIS claim information is downloaded to EMS. The EMS is used to generate payments to providers. Our review disclosed a lack of controls concerning non-emergency services provided to non-qualified aliens.

We reviewed services provided to 13 non-qualified aliens to determine whether the payments were for only emergency medical services as defined in the State Medicaid Manual. Our review disclosed payments totaling $1,978 that appear to have been paid on behalf of five non-qualified aliens for services that do not meet the medical condition description defined in the State Medicaid Manual. The services paid for were for routine prenatal care.

Our review of the Department's internal control process disclosed that if a non-qualified alien receives emergency services, the client would be entered into EMS as being Medicaid eligible at the time the service was provided so that a payment could be made to the hospital for that service. However, EMS allows the client to be Medicaid eligible for the remainder of the month. Our review also disclosed that there are no controls in MMIS to prevent the processing of Medicaid claims for non-emergency services provided to non-qualified aliens.

Effect: Payments totaling $1,978 were made for services provided to nonqualified aliens for a medical condition that does not meet the description defined in the State Medicaid Manual. Based on the Medicaid 50 percent and the ARRA–Medicaid 11.59 percent federal financial participation rates, our sample had questioned costs totaling $1,218 of which $229 was attributable to ARRA-Medicaid.

Cause: The EMS or MMIS do not have adequate controls in place to prevent the claiming of federal reimbursement for non-emergency medical services provided to non-qualified aliens.

Recommendation: The Department of Social Services should establish procedures to ensure that payments made for non-emergency medical services provided to nonqualified aliens are not claimed for federal reimbursement under the Medicaid program.

Agency Response: "The Department agrees with this finding. The Department submitted a work request in December 2010 to our Information Technology division requesting modification of EMS to address this issue."

III.A.11. Eligibility – Lack of Redeterminations

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: Eligible recipients are 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 redetermination form is 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.

The provisions of Section 5001 of the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate generally was increased by 11.59 percent from 50 percent to 61.59 percent.

Criteria: 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.

Condition: During fiscal year ended June 30, 2010, the Department claimed for federal reimbursement a total of $5,068,842,170. We randomly selected 60 payments totaling $15,807. Our review of these payments disclosed that in three cases, the required eligibility redeterminations were not performed within the previous 12 months of the benefit payments sampled. There was no indication in EMS that a redetermination was done and there was no redetermination form in the clients' case files.

Effect: As a condition of Medicaid eligibility, the State is required to redetermine the eligibility of Medicaid recipients with respect to circumstances that may change, at least every 12 months. We noted that three of the 60 payments tested were not eligible for Medicaid reimbursement because there was no indication that a redetermination was completed within 12 months of the service period of the tested transactions. As a result, our sample had errors in three payments totaling $472. Based on the Medicaid 50 percent and the ARRA-Medicaid 11.59 percent federal financial participation rates, our sample had question costs totaling $291 in which $55 was attributable to ARRA-Medicaid.

Cause: The Department could not explain why these redeterminations were not completed.

Recommendation: The Department of Social Services should ensure that annual redeterminations are documented properly and are performed in a timely manner.

Agency Response: "The Department agrees with this finding and will remind staff via e-mails and through ongoing training sessions to complete redeterminations."

III.A.12. 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: The provisions of Section 5001 of the American Recovery and Investment Act (ARRA) of 2009 (Public Law 111-5), authorize a temporary increase in the Medicaid federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate was increased by 11.59 percent.

Criteria: In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR

Sections 431.107 and 447.10; and Section 1902(a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR Part 455, Subpart B (Sections 455.100 through 455.106)).

Condition: We separated the population of fees-for-services into nine strata and randomly selected 25 transactions from each of the nine strata. We determined whether the providers of five of these nine strata were properly licensed per the State Department of Public Health. Our review disclosed one home health provider was not properly licensed. The payment made to this provider was $2,742. The total sample size of this one stratum was $16,519 and the total population payments made to home health providers was $281,811,227.

Effect: Based on the Medicaid 50 percent and the ARRA-Medicaid 11.59 percent federal financial participation rates, our sample had question costs totaling $1,689 in which $318 was attributable to ARRA-Medicaid.

Cause: There are no controls in the Medicaid Management Information System to stop payments from being made to providers that do not have the required license information entered into the System.

Recommendation: The Department of Social Services should establish controls in the Medicaid Management Information System that would prevent payments from being made to providers who are not properly licensed.

Agency Response: "The Department agrees with this finding. The Department is in the process of developing an interface with the Department of Public Health to electronically transmit licensure information on enrolled medical providers to the MMIS on a monthly basis. This interface will help identify instances of medical providers who lack valid licensure in the system. We anticipate this interface will be functional at some point in the next few months. In addition, the Department will examine the feasibility of adding field edits to the Interchange MMIS' Provider Application Base Information panel to require input of licensure data if required for the provider type and specialty selected on the panel for the enrolling/reenrolling provider."

III.A.13. Special Tests and Provisions – Monitoring Provider Complaints

Medical Assistance Program – Title XIX (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

Background: States may obtain a waiver of statutory requirements under Sections 1115 and 1915 of the Social Security Act. This allows states to develop a system such as Managed Care that more effectively addresses the health care needs of their population. Such a waiver would be included in a State plan. The Department of Social Services contracts with three Managed Care Organizations (MCOs) to offer comprehensive health coverage through provider networks in each region of the State. The MCO is expected to furnish adequate access and quality health care through a group of contracted providers.

Criteria: As required by a waiver included in the State Plan, the Department must have a system in place to handle provider complaints of not receiving payments for services provided to Medicaid recipients. In addition, the State should have a system to handle beneficiary complaints of not receiving necessary care. This system, at a minimum, should include sufficient information documenting the basis of the complaint, actions taken by the Department regarding the complaint, and information regarding the resolution.

Condition: We reviewed 15 of the 489 beneficiary complaints, 15 of the 412 provider complaints, 7 out of 28 fair hearings, 10 out of 335 canceled hearings. Our review disclosed that a hardcopy case file could not be located for one of the canceled hearings tested and two beneficiary complaints tested. In addition, two cases files did not have adequate documentation.

Effect: Without having the case files on hand there is no assurance that these complaints were properly investigated.

Cause: The cause of missing case files was not determined.

Recommendation: The Department of Social Services should ensure that case files related to Medicaid managed care complaints are maintained for auditing purposes.

Agency Response: "The Department agrees with this finding. The Department's Administrative Hearings Unit will be more vigilant, going forward, in maintaining case files by filing all files chronologically in designated areas. In addition, we will ensure that we keep more accurate records of all archived case files."

III.A.14. Allowable Costs - Department of Mental Health and Addiction Services

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: The provisions of Section 5001 of the American Recovery and Investment Act (ARRA) of 2009 (Public Law 111-5) authorize a temporary increase in the Medicaid federal medical assistance percentage to fund the State's Medicaid program in federal fiscal year 2009-2010. The Medicaid federal medical assistance rate was increased by 11.59 percent.

Criteria: The Office of Management and Budget (OMB) Circular A-87, *General Principles for Determining Allowable Costs*, requires that costs charged to federal programs should be necessary and reasonable.

Condition: A review of 18 Medicaid medical service billings totaling $2,887 and processed by the Department of Mental Health and Addiction Services disclosed one exception. This Medicaid billing included three services totaling $25. Two of the services totaling $18 were actually provided to a different client who was ineligible for Medicaid at the time of services. A subsequent review conducted by the Agency disclosed four additional services totaling $353 for the ineligible client that had also been improperly billed to the Medicaid account number.

Effect: Medicaid was over billed a total of $371. The Agency submitted an adjustment to the Department of Administrative Services to reimburse Medicaid for the overpayment.

Cause: Medicaid was improperly billed as a result of using an incorrect client identification number which was one digit off from the client's actual identification number.

Recommendation: The Department of Mental Health and Addiction Services should ensure that Medicaid services billings are processed using accurate client identification numbers.

Agency Response: Response provided by the Department of Mental Health and Addiction Services:
"We agree with this finding. The finding noted was the result of isolated data entry errors. In order to prevent recurrence, random audits are now conducted, on a regular basis, to ensure that correct client identification numbers are properly documented prior to submitting claims to the Department of Administrative Services for Medicaid reimbursement."

Response provided by the Department of Social Services:
"The Department agrees with this finding. Corrective action instituted by DMHAS will be reviewed and any necessary input will be provided."

III.A.15. Reporting – TANF ACF 196 Report

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

Criteria: Title 45 Code of Federal Regulations Part 265 Section 3 requires that the State must file quarterly expenditure data on the State's use of federal TANF funds, State TANF expenditures, and State expenditures of maintenance of effort (MOE) funds in separate State programs. The instructions for the preparation of the TANF ACF-196 Financial Report require that all amounts reported must be actual expenditures or obligations made in accordance with all applicable statutes or regulations.

Condition: We audited the TANF ACF-196 Financial Reports submitted for quarters ended September 30, 2009, and December 31, 2009. Our audit disclosed that the sum of the amount reported under the federal TANF Expenditures (Column A) on Line 5a – "Basic Assistance" for the quarter ended December 31, 2009, was $23,012,605 but should have been $23,010,877 for a difference of $1,728.

In addition, the following errors were noted on the TANF ACF-196 Financial Reports for quarters ended March 31, 2010, and June 30, 2010, during performance of other audit tests.

- The sum of the amount reported under the federal TANF Expenditures (Column A) on Line 6m-"Other Non-Assistance" for the quarter ended March 31, 2010, was $1,838,337 but should have been $662,428 for a difference of $1,175,909.

- The sum of the amount reported under the federal TANF Expenditures (Column A) on Line 6b-"Child Care" for the quarter ended June 30, 2010, was $581,391 but should not have been claimed under TANF.

Effect: The Department overstated the amounts reported on Lines 5a, 6b, and 6m by a total of $1,759,028.

Cause: The overstatements were due to clerical errors made during the calculation of the claim.

Recommendation: The Department of Social Services should ensure that the amounts claimed on the TANF Financial Report are reported correctly.

Agency Response: "The Department agrees with this finding. The noted errors were corrected and submitted with the quarter ended March 31, 2010 report filed December 10, 2010."

III.A.16. Eligibility – Felons

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

Criteria: Title 42 United States Code Section 608(a)(9)(A) provides that the State may not provide Temporary Assistance to Needy Families (TANF) to any individual who is fleeing to avoid prosecution, custody or confinement after conviction, for a felony or an attempt to commit a felony (i.e. fleeing felons), or who is violating a condition of probation or parole imposed under federal or State law.

Title 21 United States Code Section 862a provides that an individual convicted under federal or State law of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance is ineligible for TANF if the conviction was based on conduct occurring after August 22, 1996. A State shall require each individual applying for TANF to state in writing whether the individual or any member of their household has been convicted of such a felony involving a controlled substance. However, the State may, by law enacted after August 22, 1996, exempt any or all individuals from this prohibition or limit the time period that this prohibition applies to any or all individuals.

Section 8540.20 of the Department's Uniform Policy Manual provides that, a person who has been convicted of any drug-related felony under federal or State law on or after August 22, 1996, is disqualified from TANF until such person, either: (a) has completed a sentence imposed by any court of competent jurisdiction, (b) is satisfactorily serving a sentence of probation, or (c) is in the process of completing, or has completed, a court sentence of mandatory participation in a substance abuse treatment or testing program.

Condition: The current monthly Fleeing Felon Match with the State Judicial Department does not identify individuals who are probation or parole violators, or individuals convicted of drug-related felonies who are not complying with the Department's applicable requirements for eligibility. The Department submitted a work request to modify this process to include such information. However, as of December 2010, it has not been completed.

Effect: Ineligible individuals may be receiving benefits.

Cause: Law enforcement information is self-declared by applicants on either the Department's Eligibility Application or Redetermination document or on the Law Enforcement Information Form W-1129, which contain a series of questions for the applicants to respond to related to the law enforcement requirements. A monthly match is performed by the Department against the Judicial Department's record of outstanding warrants for a failure to appear. However, violators of probation, parole and other requirements are not considered.

Recommendation: The Department of Social Services should establish a procedure to verify that Temporary Assistance for Needy Families recipients are not fleeing felons or in violation of probation, parole and other requirements and therefore ineligible for any assistance.

Agency Response: "The Department agrees with the finding. The Department submitted a work request to our Information Technology division requesting expansion of the existing fleeing felon download to include individuals in violation of their parole. In the interim, the Department has expanded the manual review of public court information."

III.A.17. 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 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

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 the Temporary Assistance for Needy Families Program (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 Alternative Incarceration (AIC), Multisystemic Therapy (MST), and Court Based Juvenile Assessments (CBJA) are responsible for compiling TANF eligibility information on 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 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 eligibility rates and submit the information to DSS for reimbursement purposes.

Criteria: Per Subsection (f) of Section 210 of the Office of Management and Budget Circular A-133, the auditee is responsible for ensuring program 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: Our review consisted of six providers responsible for compiling TANF eligibility information on clients recommended to them by the Judicial Department. We noted that six of the six providers tested were not monitored by the Judicial Department for TANF eligibility determination. The Department only confirms that the calculated rates submitted to them are correct, and does not verify the TANF eligibility determinations made by the providers.

Effect: Inaccurate determinations of TANF eligibility may result in the amount submitted for federal reimbursement being overclaimed or underclaimed.

Cause: The Judicial Department feels that per their Memorandum of Agreement with the Department of Social Services, they are not responsible for monitoring the TANF eligibility determinations made by their providers. Therefore, the Department does not review TANF eligibility determinations for accuracy.

Recommendation: The Judicial Department should establish policies and procedures to assist in the monitoring of providers' TANF eligibility determinations.

Agency Response: Response provided by the Judicial Department:
"We do not agree with this finding. As was indicated in the response to a

similar finding for FY 09/10 the verification of TANF eligibility is specifically the responsibility of DSS in accordance with the provisions of a Memorandum of Agreement between the Judicial Branch/CSSD and DSS dated March, 2005.

However, the Judicial Branch/CSSD is continuing to work with DSS to develop a system that would provide for eligibility verification. The goal is by the beginning of fiscal year 11/12, CSSD will provide DSS with an automated list of all clients screened for TANF eligibility. DSS will in turn compare this list to their eligibility criteria to confirm that all clients that have been listed by CSSD as eligible meet the required standards."

Response provided by the Department of Social Services:
"The Department agrees that the Judicial Department should establish policies and procedures."

III.A.18. Allowable Costs/Cost Principles – Department of Correction

Temporary Assistance for Needy Families (TANF) (CFDA # 93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

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 the Temporary Assistance for Needy Families Program (TANF).

As part of the operations of the State's Department of Correction (DOC), costs incurred for Educational, Addiction and Community Services programs were determined to be eligible for federal TANF reimbursement.

Criteria: The Federal Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement*, Part 3 defines improper payments to include any payments for ineligible services and duplicate payments

OMB's Circular A-87, *General Principles for Determining Allowable Costs*, Attachment B, item 8 section h, requires that support of service costs charged to federal awards be based on payrolls documented in accordance with generally accepted practices of the governmental unit.

Condition: A review of TANF quarterly reports sent by the Department of Correction to the Department of Social Services noted the following exceptions:

1. Fringe benefit costs were not reported on the same basis as salary charges. Fringe benefit costs included a one to two payroll period difference in reporting during each quarter of the State fiscal year ended June 30, 2010. Reporting of a second payroll period of fringe benefits had occurred on two different quarters and resulted in the duplicate reporting of the same fringe benefit costs on the following quarterly report.

2. Two employees were inappropriately charged and reported as working for education services. One employee worked as a secretary for a deputy warden and the second as an office assistant working in the Program and Classification Unit.

Effect:

1. The reporting of an incorrect cutoff period for fringe benefits for one pay period appears for the most part to create offsetting errors and be self correcting over time. Duplicate reporting of fringe benefit costs occurred on two quarters and resulted in over reporting TANF reimbursable costs of $196,919.

2. Salary charges for the two employees, excluding fringe benefit costs, resulted in the over reporting of $6,290 in TANF reimbursable costs for the State fiscal year ended June 30, 2010.

Cause:

1. The Agency included incorrect pay period dates when retrieving information from database records used to compile fringe benefit costs for quarterly reports.

2. Coding errors to the wrong cost centers resulted in the employee's salary costs being charged to an education services department in error.

Recommendation: The Department of Correction should ensure that fringe benefit costs are properly reported for federal reimbursement and that all employee salary charges reported are allowable program costs.

Agency Response: Response provided by the Department of Correction:
The Agency agrees with the finding and will implement the following procedures to ensure proper reporting of information. The Core-CT EPM query created for the fringe benefit costs will be revised to ensure that the reporting period criteria matches the query for salary charges. Account coding has been corrected for the two employees incorrectly charged to the Education Services cost center; and expenses for these two staff will not be included in any outstanding quarterly reports.

Research and reporting procedures have been reinforced, and an independent review of reports will be conducted prior to future submissions to the Department of Social Services.

Response provided by the Department of Social Services:
"The Department agrees with this finding. The Department has requested revised quarterly reports from the DOC and revisions to the quarter ended September 30, 2010 report will be filed with the next quarterly report."

III.A.19. Eligibility – Department of Mental Health and Addiction Services

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

Background: The Department of Social Services (DSS) has been designated as Connecticut's single State agency to administer the Temporary Assistance for Needy Families Program (TANF). As part of the operations of the State's Department of Mental Health and Addiction Services (DMHAS), certain services provided to clients are reported to the DSS to be claimed for federal reimbursement under TANF Purpose 3, which is to reduce and prevent the incidence of out-of-wedlock pregnancies. A percentage of the DMHAS' Special Population Program costs were included for TANF reimbursements on the basis that the program assists young adults with special mental health issues, which in turn could reduce the incidences of out-of-wedlock pregnancies for clients determined to be at risk for an out-of-wedlock pregnancy. Quarterly, DMHAS calculates the percentage of eligible Special Populations program clients, which is included in a larger calculation to determine the TANF eligible reimbursement amount.

Criteria: Upon intake, and quarterly thereafter, DMHAS staff determines if clients in the Special Populations program are at risk for out-of-wedlock pregnancy. This determination is recorded in DMHAS' Client Database and supporting documentation is to be retained in the client file.

Condition: A test check of 40 client files disclosed that seven client files did not include appropriate documentation to support that the client was eligible for TANF reimbursement.

Effect: The Agency was unable to document the eligibility of seven clients reported for TANF reimbursement.

Cause: The Special Populations program operates out of several different DMHAS facilities located throughout the State. Criteria for determining TANF eligibility and documentation methods varied among these separate facilities. A lack of defined criteria and documentation methodologies has contributed to the noted instances of inadequate documentation of eligibility.

Recommendation: The Department should establish criteria and documentation methods to be used consistently on a Department-wide basis for TANF reimbursement.

Agency Response: Response provided by the Department of Mental Health and Addiction Services:

"We agree with this finding. All DMHAS services within each of the state-operated programs provide assessment and services to address this risk factor. Commencing in the first quarter of calendar year 2011, DMHAS will perform an audit of clinical records that clearly identifies those clients within the young adult population that are at risk for pregnancy-out-of wedlock by performing individualized clinical assessment, offering appropriate services, and providing the documentation in the clinical records to determine the correct amount to claim under TANF. The final results for these reviews are anticipated to be complete by March 31, 2011."

Response provided by the Department of Social Services:

"The Department agrees with the finding and the response from DMHAS. The Department will begin a process to update all memorandums of understanding, including DMHAS."

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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 05-0905CTARRA and 05-1005CTARRA

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

Supplemental Nutrition Assistance Program (SNAP) (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 4CT400400

ARRA-Supplemental Nutrition Assistance Program (SNAP) (CFDA #10.551)
Federal Award Agency: United States Department of Agriculture (USDA)
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 4CT400400

Criteria: Title 42 United States Code (USC) Section 1320b-7 requires that the State have in effect an Income and Eligibility Verification System (IEVS) for the Medicaid, TANF and SNAP 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 October 26, 2010, 6,840 alerts for the Medicaid, TANF and SNAP programs that were generated during the quarter ended September 30, 2009, have not been dispositioned (investigated, resolved and removed as appropriate). The dates these alerts were due to be dispositioned ranged from July 14, 2009 to November 13, 2009. Each alert is assigned a specific due date generated by the system. It should be noted that the report dated October 26, 2010, that was provided to us only includes those alerts that were originally generated during the quarter ended September 30, 2009, and 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 October 5, 2009, that was provided to us, the total number of alerts generated during the quarter ended September 30, 2009, was at least 37,581.

Our review of 25 alerts generated during the quarter ended September 30, 2009, that have not been dispositioned as of October 26, 2010, 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 the finding and will remind workers to review IEVS alerts and process accordingly."

III.A.21. 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 2008-2009 and 2009-2010
Federal Award Numbers: G-0901CTTANF and G-1001CTTANF

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA #93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTCCDF and G1001CTCCDF

Social Services Block Grant (SSBG) (CFDA #93.667)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G-0901CTCOSR and G-1001CTSOSR

Low-Income Home Energy Assistance (LIHEAP) (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G09B1CTLIEA and G10B1CTLIEA

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 disclosed the following:

<u>SSBG program:</u>

- Nine out of the 24 SSBG subrecipients tested were not provided with all the required federal information. 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.

- Some financial status, programmatic and statistical, or monitoring reports, required by the contracts, were not on file for 16 out of 24 subrecipients tested.

- Required audit reports for two of the 24 subrecipients tested were not on hand and written requests to obtain the reports from the subrecipients were not made.

- A desk review was not performed on one of the audit reports received.

- The audit reporting package was not received within nine months of the end of the subrecipients' fiscal years for five of the 22 audit reports received

- A management decision was not issued in a timely manner for one of the audit reports received.

<u>TANF program:</u>

- The required audit report for one of the four subrecipients tested was not on hand and a written request to obtain the report from the subrecipient was not made.

- Desk reviews of the three audit reports received were not performed.

<u>Child Care program:</u>
We tested six subrecipients. Of these six subrecipients, three also received SSBG funds and were included in the sample of the test of the receipt of audit reports under the SSBG program. In one of these three cases, we noted that the audit reporting package was not received within nine months of the end of the subrecipient's fiscal year. There were no reportable errors in the three recipients that did not receive SSBG funds.

<u>LIHEAP program:</u>

- The Department's review of clients' case files at Community Action Agencies (CAA) was performed too 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 CAAs sampled was done in April and June when most program activity and related payments had ended for the program year. DSS noted exceptions in three of the four CAAs, one of which involved overpayment of benefits.

- Two audit report packages submitted by two subrecipients did not contain a Corrective Action Plan to address findings included in the audit reports. Moreover, the Department did not issue management decisions within 6 months after receipt of both audit reports in response to the audit findings.

Effect: The Department is not meeting its responsibility for monitoring subrecipients who receive federal funds. In addition, the Department's monitoring procedures do not provide reasonable assurance that federal funds are used for allowable activities.

Cause: The Department does not have procedures in place to include the federal award information in all the contracts for which SSBG funds are provided. Further, the Department did not obtain and review audit reports for all the aforementioned programs listed in the condition.

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 and disagrees with the finding. Regarding the SSBG program, the Department is now including the federal award information with all executed contacts. Increased efforts will be made to ensure that monitoring, programmatic and financial reports are filed on a timely basis. A tracking document is being developed to ensure that all program documents are recorded and placed in the contract files.

The Department disagrees with the finding that the Department's review of clients' case files at Community Action Agencies (CAA) was performed too late in the program year for the monitoring activity to be effective in preventing the disbursement of Federal funds on behalf of ineligible clients. During the 2009/2010 program year, a total of 83 monitoring visits were conducted by staff from the Department's Community, Energy & Refugee Services Division to the State's 12 Community Action Agencies (CAA's). Each of these field visits included reviews of client case files and/or a review of billing procedures used by CAA's to administer the Connecticut Energy Assistance Program. Any findings or issues that emerged during the visits were immediately communicated to appropriate CAA staff and were resolved in real time.

The Department continues to improve its oversight to ensure that subrecipients expending $500,000 or more in federal awards have met the audit requirements and that the required management decisions on audit findings are issued timely."

Auditors' Concluding Comments: As indicated in the condition of this finding, our audit disclosed that the Department's site visit for one of the four CAAs tested was performed in April and June, which is after the winter season has been completed. Performing a site visit after the majority of the funds are expended does not provided reasonable assurance that errors would be detected and corrected in a timely manner.

III.A.22. 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 2008-2009 and 2009-2010
Federal Award Numbers: G-0901CTCOSR and G-1001CTSOSR

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, 2010, the Department drew down TANF funds totaling $28,813,796 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 was 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 did not perform any analysis to determine whether the TANF funds transferred to the SSBG program were used for programs and services for 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 for children or their families whose income is less than 200 percent of the official poverty guideline.

Agency Response: "The Department agrees with this finding. The Department has revised the reporting tool to include the collection of data on the numbers of families with children whose income is less than 200 percent of FPL. In addition the Department has begun the collection of data on the number of children and families (TANF funded) from our homeless service contractors (HMIS)."

III.A.23. 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 2008-2009 and 2009-2010
Federal Award Numbers: G-0901CTCOSR and G-1001CTSOSR

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: The Department of Social Services provides a majority of its SSBG funding to subrecipients. Our review disclosed that the Department normally advances SSBG funds to subrecipients on a quarterly basis. As a result, subrecipients of SSBG funds could have excess cash on hand on various occasions throughout the year that exceeded their average weekly disbursements. Our review of 21 of the 25 subrecipients tested in which financial reports were received disclosed that 15 subrecipients had excess cash on hand.

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 has not established adequate internal controls to minimize the subrecipients' cash on hand.

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 Social Services Block Grant program.

Agency Response: "The Department agrees with this finding. The Department will review the contractor's financial reports prior to the issuance of a payment to ensure that obligations are encumbered prior to issuance."

III.A.24. Eligibility

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA #93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTCCDF and G1001CTCCDF

Background: The Department of Social Services has been designated the Lead Agency to administer the Child Care and Development Fund (CCDF) in accordance with Title 45 Code of Federal Regulations Part 98, Section 10. The Department of Social Services entered into a contract with a vendor to determine client eligibility and calculate the amount of benefit payments paid to child care providers.

During the fiscal year ended June 30, 2010, child care payments totaled $87,973,607. 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 $87,973,607, $44,235,944 (or 50.3 percent) was claimed as direct federal expenditures and $43,737,663 (or 49.7 percent) was provided with State expenditures. The $44,235,944 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 13 provides that the Department submit a CCDF Plan.

Title 45 CFR Part 98 Section 42 states that the Department should 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 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.

Title 45 CFR Part 98 Section 20 provides that in order to be eligible for child care services, a child should reside with a family whose income does not exceed 85 percent of the State's Median Income (SMI) for a family of the same size. However, the CCDF plan allows States to use income eligibility that is lower than 85 percent of SMI. In accordance with the CCDF Plan, for new families to be initially eligible for the CCDF Program, their income should be less than 50 percent of the SMI. Families remain eligible for the Program until income reaches 75 percent of SMI.

Condition: We randomly sampled 60 child care payments totaling $18,356 made to child care providers from the total population. Our audit disclosed for following two errors:

- One of the 60 clients tested did not pay the correct family fees. The family fee was not calculated correctly because the family's income information was not properly entered into the Department's Child Care Management Information System (CCMIS). The client underpaid her share of the family fee by $6, as result, the State paid $6 in child care services that should have paid by the family ($3 based on the 50.3 percent of the total federal expenditures).

- One of the 60 clients tested was not eligible to receive benefits from the Child Care Program. The head of household worked two jobs, but only submitted pay stubs for one job. As the result, the correct family income was not entered into the CCMIS. Based on the additional income, the family's income exceeded the 75 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 $383 for the month reviewed ($193 based on the 50.3 percent of the total federal expenditures).

Effect: The Department expended funds for child care services on behalf of a client that was not eligible to be enrolled in the program because the head of household's income level exceeded the program's income threshold. This exception resulted in questioned costs totaling $383 ($193 based on the 50.3 percent of the total federal expenditures).
One client in the audit sample did not pay the correct family fees based on their income levels. The exception resulted in questioned costs in the amount of $6 (or $3 based on the 50.3 percent of 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 all the income information is accurately entered in the Child Care Management Information System.

Agency Response: "The Department agrees with the finding. The Department will notify its child care administrative vendor."

III.A.25. Activities Allowed or Unallowed – Lack of Monitoring

ARRA - Child Care and Development Block Grant (CFDA # 93.713)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2008-2009
Federal Award Numbers: G0901CTCCD7

Background: The Department of Social Services has been designated the Lead Agency to administer the Child Care and Development Fund (CCDF) in accordance with Title 45 Code of Federal Regulations Part 98, Section 10. The Program Instruction CCDF-ACF-PI-2009-03 provides guidance regarding Public Law 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA), which appropriated additional CCDF Discretionary funding to the Department of Social Services.

During the fiscal year ended June 30, 2010, $983,126 of CCDF-ARRA funds were paid to child care providers as a one-time funding for child care related services. Payments ranged from $300 for small family providers to more than $49,000 for a large child care center with 2009 Care4Kids revenue of over $767,000, most checks averaged $10,000-$15,000.

The Department of Social Services provides instructions to child care providers for using the CCDF-ARRA funds. The funds are to be used for child care-related services only, and providers were urged to use the funds to forgive and/or reimburse family fees for May and June, as well for purposes of staff recognition and retention, utility or energy enhancements, indoor and outdoor play area improvements, and purchase of literary supplies and equipment.

Criteria: CCDF-ACF-PI-2009-03 provides that supplemental CCDF-ARRA funds should be used in accordance with all existing requirements for CCDF Discretionary grant requirements.

Condition: The Department did not establish procedures to ensure that CCDF-ARRA funds granted to child care providers would be used in accordance with the requirements of CDDF-ACF-PI-2009-03.

Effect: The Department is not providing reasonable assurance that CCDF-ARRA funds were properly expended.

Cause: The Department did not consider the need to establish procedures that would ensure that CCDF-ARRA funds were properly expended.

Recommendation: The Department of Social Services should establish and implement procedures to ensure that child care providers use the CCDF-ARRA funds on provided child care related services.

Agency Response: "The Department disagrees with the finding. The CCDF-ARRA funding was allocated as a one-time funding opportunity with expedited target dates to allocate and expend the new funds. The Department is expected to follow the new CCDBG-ARRA allocation guidance and established controls currently in place as prescribed by CCDBG law. The Department has developed its own monitoring procedures for past CCDF funds and believes adequate procedures are currently in place."

Auditors' Concluding Comments: At the time of our review in January 2011, the Department made no site visits of any child care facilities to ensure that the Child Care ARRA funds that were provided in June 2010 were expended for purposes that meet the Child Care ARRA requirements.

III.A.26. Cash Management – Subrecipient Cash Balances

Low-Income Home Energy Assistance (CFDA #93.568)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G09B1CTLIEA and G10B1CTLIEA

Background: The Department of Social Services provides a majority of its LIHEAP funding to subrecipients. The subrecipients of the LIHEAP program report their cash balances for Program Services on a weekly basis, and their cash balances for administrative costs and Assurance 16 costs on a quarterly basis. 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:	The Department's procedures for advancing payments to subrecipients include transferring funds, usually monthly during the winter season, for utility payments made to utility companies on behalf of eligible LIHEAP clients. The subrecipients advance the funds to the utility companies based on the sum of each client's approved benefits. At the end of the program year, the utility companies would credit the amount of unused benefits that were advanced for each client to reflect the clients' actual usage. The subrecipients rely on the utility companies to maintain each client's account and to refund any unused benefit. There is a lack of segregation of duties in that requests for payments to subgrantees are prepared and approved by the same department staff member who calculates the advance amount. We tested 25 advances for Program Services made to ten of the Department's subrecipients that received LIHEAP funds. Additionally, we tested 25 advances for administrative costs and Assurance 16 costs made to 12 of the Department's subrecipients that received LIHEAP funds. We determined whether the advances caused the cash balances to exceed the weekly average of expenditures incurred by these subrecipients. Our review disclosed eight of 25 advances for Program Services and 25 of the 25 advances for administrative costs and Assurance 16 costs caused the LIHEAP subrecipients to have cash on hand in excess of their average weekly disbursements. There are no procedures in place to ensure that interest earned on excess cash advances is being reported to the Department.
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 does not have adequate procedures in place to ensure compliance with federal cash management requirements.
Recommendation:	The Department of Social Services should develop procedures to ensure that sound cash management is being used for advances made to subrecipients of the Low-Income Home Energy Assistance program.
Agency Response:	"The Department agrees with this finding. The Department has reviewed and addressed the issues regarding cash advances in the administrative and Assurance 16 accounts. The Departments traditional advance payments in

these accounts have been reduced from 50 percent to 33 percent. Subsequent payments are issued based on the contractor submitted quarterly financial reports.

Regarding the lack of segregation of duties, the Department has ensured for the past several months that all payment requisitions are now accompanied by a backup report detailing each contractor's funds received, funds expended and in-process vendor payments.

The Department will ensure that future contracts will state that funds will be placed in an interest bearing account and procedures followed as stated in CFR, Title 45 (Public Welfare), Part 74.22 (Payment)."

III.A.27. Special Tests and Provisions – Depository Agreements

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: ACC CT 901 VO

Criteria: Title 24 Code of Federal Regulations Part 982.156 requires Public Housing Authorities to enter into depository agreements with their financial institutions in the form required by the Department of Housing and Urban Development (HUD).

Condition: The Department of Social Services and its vendor did not have depository agreements with their financial institutions.

Effect: Federal funds may not be safeguarded and/or deposited in the manner required by HUD.

Cause: The Department of Social Services and its vendor were unaware they were required to enter into Depository Agreements with its financial institutions in the form required by HUD.

Recommendation: The Department of Social Services and its vendor should complete depository agreements with their financial institutions as required under 24 CFR 982.156.

Agency Response: "The Department agrees with the finding and will take corrective action."

III.A.28. Reporting – Federal Cash Transactions Report

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: 05-1005CTARRA

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: G1001CTTANF

Child Support Enforcement (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: 1004CT4004

ARRA-Child Support Enforcement (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: 1004CT4002

ARRA – Child Care and Development Block Grant (CFDA #93.713)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: G1001CTCCD7

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

DHHS Manual for Recipients Financed under the Payment Management System (PMS) provides recipients guidance and instructions for completing the required Federal Cash Transactions Reports. This Manual defines federal share of net disbursements as actual payments made to the program (i.e., checks, warrants, or cash payments). Also, the amounts reported should not exceed award authorizations which were in effect during the period.

Condition: Our review of the Department's PSC-272 Federal Cash Transactions Report filings for the quarters ended December 31, 2009, disclosed that the Department did not report the correct disbursement amount. Our review of the report filed for the quarter ended March 31, 2010, disclosed that the discrepancies noted in the December 31, 2009 filing were not resolved because the amounts reported by the Department continue to be based on drawdowns from the U.S. Treasury and not the federal share of net disbursements, which is defined as actual payments made to the program (i.e., checks, warrants, or cash payments).

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

Cause: The errors appear to be a misunderstanding of how to calculate the disbursement amount that should be reported on the financial reports.

Recommendation: The Department of Social Services should report the proper disbursement amount on the Federal Cash Transactions Reports (PSC 272).

Agency Response: "The Department disagrees with this finding. The awards are not SID based expenditures. They are part of our scheduled draws which are scheduled according to our CMIA agreement. Per the CMIA agreement there are specific percentages for each day that are drawn, scheduled over 31 days each month. Therefore, the amounts the Department reports on the PSC-272 are not based on actual expenditures through a SID.

The amount disbursed for the quarter is calculated by using actual expenditures through the previous quarter and the scheduled draw amount for the current quarter being reported. This is due to a timing issue related to the due dates of the federal reports. The expenditure reports for Medicaid Title XIX, ARRA Medicaid XIX, Child Support, and ARRA Child Support are due 30 days after the end of the quarter, and TANF and CCDF are due 45 days after the quarter end. It is not possible for the PSC-272 to be prepared using these expenditure reports in the same 30 day timeframe. The Department would need additional time to incorporate the current quarter actual expenditures into the PSC-272, which would then push the Department past the submission deadline. Please note that if the PSC-272 report is not filed by 30 days after the close of the quarter, the Department cannot draw any funds until it is filed. Therefore, in order to meet the PSC-272 filing deadline there is necessarily quarter lag in reporting actual expenditures for these programs on the PSC-272. The Department assumes the expenditures for the current quarter to be equal to the amount scheduled to draw.

When quarterly expenditure reports are finalized, an analysis is done to determine if the Department has overdrawn funds based on actual expenditures. If so, the Department reduces the amount scheduled for the current quarter by the amount overdrawn in the previous quarter. This leaves a balance in the grant that the federal government then takes back when they process the quarterly expenditure reports.

The Department believes the amounts reported on the PSC-272 are accurate for these awards to the best of our ability given the due dates for the expenditure reports and the PSC-272 report."

Auditors' Concluding Comments: As indicated in the instructions provided in the *DHHS Manual for Recipients Financed under the Payment Management System (PMS)*, the federal share of net disbursements is defined as actual payments made to the program (i.e., checks, warrants, or cash payments). The disbursement amount reported should be based on the federal expenditures incurred by the Department and not be based on the federal draws made by the Department.

III.A.29. 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA #93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTCCDF and G1001CTCCDF

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services

Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0904CT4004 and 1004CT4004

ARRA-Child Support Enforcement (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0904CT4002 and 1004CT4002

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 4CT400400

Section 8 Housing Choice Vouchers (CFDA #14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
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 2008-2009 and 2009-2010
Federal Award Numbers: G09B1CTLIEA and G10B1CTLIEA

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, 2009, 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. 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.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period.
- Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
- Be adequately documented.

Title 45 Code of Federal Regulations 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: Our review of the some of the allocation bases used in the Department's Cost Allocation Plan disclosed the following:

1) 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

could receive costs from the first unit listed in the hierarchy but would not receive costs from the unit listed third in the hierarchy. Our review disclosed that the hierarchy used in the Department's CAP did not provide an equitable basis for allocating costs to benefiting programs. Moreover, changes to the order of the hierarchy are being done without getting documented authorization from management.

3. The Department provided to us a report of the Random Moment Time Study conducted by the Department for the quarter ended September 30, 2008. This report consisted of 3,931 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 performed an analytical review to determine whether the program codes provided by the report were appropriate based on the comments provided by the employees. Our review disclosed six observations in which the program and/or activity code did not appear reasonable because the program and/or activity code did not coincide with the services received by the client.

Effect: Some costs are not being allocated to federal awards in accordance with the relative benefits received. The above errors did not have a significant effect to the gross expenditures made under the federal programs administered by the Department. The effect, for the most part, is a reassignment of costs from one federal program to another.

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

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

Agency Response: "The Department agrees and disagrees with this finding.

1. We are reviewing this funding further to determine appropriate action. Effective July 28, 2009, all Long Term Ombudsman were re-coded from Central Office to Regional Office. The Ombudsman unit employees working in the regions are being coded to the regional office elderly services department codes. As such, the expenditures coded to these departments are allocated via Random Moment System (RMS) results.

Based on information provided on the Quarterly Employee Coding Verification Survey and additional information provided by the management of the Bureau of Assistance Programs, it was determined that the Regional Office Ombudsman performs activities that benefit multiple programs and therefore should be included in the RMS sample of Regional Office workers. As follow up to this issue, the Department will survey the Bureau of Assistance Program management and the Regional Office Ombudsman to determine if the RMS Allocation Basis is still the appropriate method of allocation.

In regards to the Rehabilitation Services Unit; as a result of SSA/OIG Audits A-15-03-23041 and A-15-07-16034, the Department of Social Services does not allocate certain indirect costs to the Vocational Rehabilitation and Disability Determination Service Programs. Since costs relating to mailing and duplicating are direct charged to the Vocational Rehabilitation and Disability Determination Services Program, Central Office and Regional Office costs for Production Services, which include mailing and duplicating costs, System Planning, Actuarial Services and Conference Fees are allocated by the Department Allocation Modified Basis, excluding Vocational Rehabilitation and Disability Determination Services. The Rehab Services employees working in the regions are being coded to the regional office Voc Rehab MOE department code. As such, the expenditures coded to this department are allocated via regional allocation, which ensures that Rehab Services unit is picking up their fair share of costs. Indirect costs are allocated to these FTEs based on the Regional Office Allocation Basis and accumulated in the VR MOE Grantee Department.

2. The Department disagrees with this finding. The Department has reviewed this condition and has tested the cost allocation software to determine if a more equitable allocation of Department costs can be attained within the framework of the software. In doing so, the Department also addressed the hierarchy concerns by re-ordering Central Office Departments based on their recommendations. A comparative analysis was completed and forwarded to the State Auditors for their review on April 24, 2010. The Department did not see a material difference in allocations under the revised hierarchy.

   In addition, the Department disagrees with the statement that changes to the order of hierarchy are being made without management approval. The Department documents all MAXCARS changes and reviews with management prior to proceeding with any system changes. All changes are kept on file.

3. The Department agrees with this finding but would offer the following clarification. In the Public Assistance Cost Allocation Plan, the Department includes RMS procedures and added the following to Attachment C-1, Random Moment Sampling Operations:

   "Monthly reports identifying any inconsistencies between program/activity selections and comments, which are identified through the quality assurance process, will be shared with Regional Administrators for appropriate follow up." The intent for appropriate follow up is that through the Regional Administrators and their staff, the sample respondents receives any necessary supervision/training/ instruction to ensure that future inconsistent responses do not occur. The Department would also point out that the sample size of approximately 4,000 samples per quarter provides assurance that the RMS results are statistically valid. The Department does not believe that these six inconsistent responses would adversely impact sample validity or cost allocation."

Auditors' Concluding Comments: Our review of the hierarchy used for the quarter ended September 30, 2009, was different than the hierarchy that was provided to us on April 24, 2010, which was for the quarter ended June 30, 2009. With the Department changing the hierarchy from one quarter to the next, it is not possible to have a proper audit conclusion on the hierarchy.

III.A.30. 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 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTTANF and G1001CTTANF

Child Care and Development Block Grant (CFDA # 93.575)
Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CCDF) (CFDA #93.596)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G0901CTCCDF and G1001CTCCDF

ARRA - Child Care and Development Block Grant (CFDA # 93.713)
Federal Awarding Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2008-2009
Federal Award Numbers: G0901CTCCD7

Child Support Enforcement (Title IV-D) (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0904CT4004 and 1004CT4004

ARRA-Child Support Enforcement (CFDA #93.563)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0904CT4002 and 1004CT4002

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA # 10.561)
Federal Awarding Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 4CT400400

Section 8 Housing Choice Vouchers (CFDA# 14.871)
Federal Award Agency: U.S. Department of Housing and Urban Development
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
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 2008-2009 and 2009-2010
Federal Award Numbers: G09B1CTLIEA and G10B1CTLIEA

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

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

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

Condition: We sampled 60 non-payroll transactions totaling $392,395 and all 25 transactions that exceeded $1,000,000, which totaled $36,405,468. These samples were selected from expenditure transactions totaling $102,099,234 made during the fiscal year ended June 30, 2010. These payments were allocated to State and federal programs through the Department's Cost Allocation Plan. Our test of the 60 transactions disclosed the following:

1) Five expenditures totaling $2,640 for office supplies, security services, and janitorial services accumulated by some of the Department's Regional Offices 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.

2) One expenditure for $6,667 for rental costs of a Department sub-office was charged directly to Rehabilitation Services Unit. This sub-office is also occupied by the Ombudsman Unit. There were no rental costs related to this sub-office allocated to the Ombudsman Unit.

3) Our tests of the 25 transactions that exceeded $1,000,000 disclosed that the cost of one expenditure transaction for $2,441,544 was assigned to four expenditure codes based on the amounts budgeted to these codes and not based on relative benefits received. The costs would be subsequently allocated to federal and State programs based on the allocation bases assigned to the expenditure codes.

We also noted one transaction for $8,920 for services provided by a vendor to the Child Care-ARRA program and a State program. However, the costs of this transaction were charged only to the Child Care-ARRA program with no costs charged to State funds.

Effect: The Department's controls are not always providing reasonable assurance that allowable costs are being claimed under the proper federal programs. We cannot determine the amount of questioned costs because the Department has not identified an allocation basis that should be used for the conditions noted.

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

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

Agency Response: "The Department agrees with this finding. Payment requests should include appropriate documentation for each payment to insure the amount of the payment and coding is correct. The Division of Financial Management and Analysis reviews the purchase order, spending plan and available balances in each funding source prior to approving the purchase order for payment. The spending plan and purchase order, which includes the amounts to be paid, and coding strings, should be determined in accordance with the terms of the contract and services performed. The Department will review the contract of the vendor in item #3 by March 31, 2011, to determine the appropriate coding that best allocates costs to benefiting programs."

III.A.31. Procurement – Competitive Bidding

Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CT5028 and 05-1005CT5028

ARRA-Medical Assistance Program (Medicaid, Title XIX) (CFDA #93.778)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 05-0905CTARRA and 05-1005CTARRA

Background: The State Medicaid agency must provide for the periodic audits of financial and statistical records of inpatient hospitals and long-term care facilities participating in the Medicaid program. The specific audit requirements are established by the Medicaid State Plan. The Department of Social Services entered into a contract with a vendor to perform these audits.

Criteria: Title 45 Code of Federal Regulations (CFR) Part 92 includes Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments. Section 36 of this Part provides that when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-federal funds. Connecticut General Statutes Chapter 55a, Part II provides that all personal service agreements costing more than fifty thousand dollars or having a term of more than one year shall be based on competitive negotiations or competitive quotations.

Condition: The Department entered into a contract with a vendor for auditing financial and statistical records of inpatient hospitals and long-term care facilities participating in the Medicaid program without the result of a competitive procurement. The original contract service period with this vendor began on July 1, 2001. The Department has made subsequent amendments and extensions to this contract resulting in the contract to expire on June 30, 2009. At this time, the Department extended the ending service date of the contract from June 30, 2009, to June 30, 2012, without a competitive bidding process. The maximum value of the contract increased, as a result of this extension, by $11,146,466 from $25,387,822 (value as of June 30, 2009) to $36,534,288. Further, the contract allows for two additional one-year options, which would bring the ending date of this contract to June 30, 2014. The total cost of the two one-year options, if exercised by the Department, is to be negotiated at that time.

Effect: Since the contract was not the result of a competitive procurement, the Department might not be receiving services from the lowest cost vendor.

Cause: The cause was not determined.

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

Agency Response: “The Department disagrees with this finding. The State Auditors have correctly stated that Connecticut General Statute Chapter 55a, Part II provides that all personal service agreements costing more than fifty thousand dollars or having a term of more than one year shall be based on competitive negotiations or competitive quotations. In addition, the auditors statement of condition "…the Department extended the ending service date of the contract from June 30, 2009 to June 30, 2012, without a competitive bidding process" is also true. The Auditors' report does not, however, explain that the same statute which establishes the competitive bidding requirements also provides a process through which a State agency may pursue a waiver of such requirement and enter into a contract or amend an existing contract absent a competitive bidding process. Section 4-216 of the Connecticut General Statutes, "Personal service agreements having cost of more than fifty thousand dollars or term of more than one year" describes the process through which a State agency may apply for approval from the Secretary of OPM to enter into a contract absent a competitive bidding process.

Prior to the expiration of the contract term the Department applied to the Secretary of OPM, in accordance with Section 4-216 of the Connecticut General Statutes, requesting approval to enter into an amendment with the contractor in question to extend the term of their contract with the Department in exchange for a reduction in expenditures. The Department's request to OPM outlined the history of the Department's contract with the contractor in question including the expenditures incurred and the contractor's willingness to acknowledge the state of the economic picture and forego a rate increase and/or other cost of living adjustments that had, in the past, been applied to their rates on an annual basis. The request also outlined the contractor's willingness to accept a 3.4 percent reduction in their rates for Year One; to maintain the reduced rate for Year Two; accept a 2.3 percent increase in Year Three and to accept that the contractor could be granted two additional option years but such option years are to be exercised at the sole discretion of the Department.

Finally, the application described the additional administrative benefits to the Department if the application were approved including the continuation of necessary services with a proven contractor with the cost (in terms of manpower and time) of conducting a competitive bid; and the avoidance of transition costs and/or learning curve should a competitive procurement result in the selection of a different bidder.

Following their review OPM approved the application and authorized the Department to amend its contract with the contractor absent a competitive bidding process.

The audit report recommendation states that the "Department of Social Services should ensure that it complies with federal and State regulations concerning the procurement of administrative services." As the State law does provide for a process through which the Department may seek and obtain a waiver from competitive bidding and the Department followed the process, the Department has complied with State laws and regulations."

Auditors' Concluding Comments:

The State Statutes do allow State agencies to request a waiver from OPM from the competitive bid process if it is determined that a sole source purchase is required. The contractor mentioned in the above condition is not the only contractor who can provide the applicable auditing services. Therefore, the Department should not have submitted to OPM a request for a waiver of the competitive bid process. Without a competitive process for selecting the contractor, it cannot be determined whether the costs are reasonable for providing such auditing services. OMB Circular A-87 provides 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. In determining reasonableness of a given cost, consideration shall be given to the restraints or requirements imposed by such factors as sound business practices and arms length bargaining.

B. DEPARTMENT OF TRANSPORTATION

III.B.1. Allowable Costs/Cost Principles – Federal Billing for Unallowable Costs

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, 2009 and 2010
Federal Project Number: Various
State Project: Various

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.

Condition: A review of State Department of Transportation (DOT) project billings by the Federal Highway Administration disclosed a flaw in the functionality of the Core-CT system. The review found that the allocation of fringe benefit costs and employer payroll taxes charged to each project on the basis of employee wages does not reflect that certain non-wage costs paid as wages, such as travel reimbursements, are not attributable to the actual time the employee spent on the project. In addition, fringe benefits costs that are fixed to a standard full time work week, such as medical insurance, are allocated in excess when overtime hours are charged.

We included a recommendation in our State Comptroller Audit Report for the fiscal year ended June 30, 2009, that the Office of State Comptroller should address deficiencies in Core-CT system internal controls that affect the cost allocation applied to non-wage payroll payments.

DOT has been monitoring the work being done to correct the deficiencies and has been informing the FHWA accordingly.

Effect:	Costs that were fixed in relation to employee hours worked were erroneously allocated extra overhead costs that were billed to federal-aid projects. We note that this condition does not only affect the Department of Transportation, but may affect all State agencies using the Core-CT system to charge projects or programs with non-wage personal service costs. We do not have an estimate as to the total costs involved.
Cause:	The Core-CT system design did not allow for the proper cost allocation of miscellaneous payroll payments. It allocates payroll fringe benefits and employer payroll taxes to projects based on the employee hours charged to the project. Costs that are fixed in relation to employee hours worked such as travel, and medical and life insurance costs are included in the same allocation.
Recommendation:	The Department of Transportation should continue monitoring the status of the Core-CT deficiencies in the system internal controls that affect the cost allocation applied to non-wage payroll payments and keep the FHWA informed of the matter.
Agency Response:	"The Department of Transportation (Department) agrees with this finding.

The Department has been following up on Finding No. III.1 with both the Office of the State Comptroller (OSC) and the State's Enterprise Resource Planning System (Core-CT). The Department provides quarterly updates to the U.S. Department of Transportation Federal Highway Administration (FHWA). The following progress and actions that have been taken with respect to this finding:

- The U.S. Department of Health and Human Services (HHS), Division of Cost Allocation, the cognizant federal agency for the State of Connecticut, has supported the FHWA's findings with respect to the improper distribution of fringe benefits on non-reportable reimbursements. The State continues to pursue that fix from Oracle that would not put an undue burden on either agency or central users.

  Oracle has provided Core-CT three suggested system fixes that they recommend to eliminate the improper distribution of fringe benefits on non-reportable reimbursements. Core-CT's Human Resources Unit has tested the first two and deemed them unsuccessful. Oracle continues to work with Core-CT to find a viable workaround, and this week Core-CT has been offered a third option to test. Oracle is preparing the documentation to enable testing to begin. Meanwhile, Core-CT continues to lobby for a "developed" solution rather than the "workarounds" that are recommended. Core-CT has not been able to reach an agreement with Oracle on this approach.

- On the second part of FHWA Finding No. III.1, HHS concurs with the State's position that fringe benefits are appropriately distributed based on extra hours such as overtime. For group life and medical/dental insurance, HHS has historically used a single salary and wage base which includes overtime and excludes non-reportable costs. This method has not been shown to result in a significant inequity to federal programs and complies with the Cost Allocation Agreement with the State of Connecticut. In June we had requested a dialogue between FHWA and HHS to reach closure on the disposition of Finding 2. To date, the Department is not aware of the results of discussions that may have been held, and so we have refrained from acting further in the absence of this information."

III.B.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, 2010
Federal Project Number: H047(004), H109(001), and H161(002)
State Project: 63-628

Background: The State Department of Transportation (DOT) received funding for building an overpass walkway as part of the Adriaen's Landing project in Hartford, connecting the Science Center and the Convention Center. The State's Office of Policy and Management (OPM) was authorized to manage the project, with DOT oversight. The DOT entered into a Memorandum of Understanding (MOU) with OPM that allows OPM to process invoices through the DOT accounts, which in turn results in generating bills for federal reimbursement. This is an unusual arrangement that the DOT never used before. It is also being used on other Adriaen's Landing projects.

Criteria: Title 23 United States Code (USC) Section 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 analysis of the invoices processed and monies reimbursed by the FHWA regarding this project disclosed instances in which the federal government was billed at an incorrect rate. Federal aid agreement H047(004) allows 100 percent federal participation for a portion of the project and 80 percent for the rest. We noted several instances in which payments to vendors, totaling

$390,600, were billed at the 100 percent federal participation rate rather than the 80 percent rate.

Effect: The errors resulted in the federal government being overbilled by $78,120 during the fiscal year ended June 30, 2010.

Cause: The DOT did not review the documentation supporting the expenditure information that OPM entered into Core-CT.

Recommendation: The Department of Transportation should have procedures in place to review the transactions recorded in the records in instances in which the Department authorizes other State agencies to use its accounts.

Agency Response: "The Department of Transportation (Department) agrees with this finding. The Department met with the Office of Policy and Management (OPM) and began close coordination with the financial and project management staffs for the subject project. The results of these meetings have helped OPM understand more of the requirements for the acceptance and administration of federal funding and the unique challenges faced by the complicated funding of State Project DOT00630628CN. The meetings helped to clarify the changes required by this complex billing and how important the coding and payment of vouchers by OPM impacts how the Department bills FHWA, as well as what and how the corrections would be made to satisfy the Audit Finding.

OPM has made the adjustments and provided the State match necessary to fully use up the 80 percent federal funding, and the Department is in the process of making the final billing corrections to fully bill the 80 percent funding. A Spreadsheet Journal needs to be prepared for the purpose of moving expenditures billed to FHWA to fully bill the $19,338.67 in the remaining 80 percent funding on federal-aid agreement H109(001).

It was agreed that close coordination will continue on all of the projects going forward through project closeout and, for any future projects, the Memorandum of Understanding will be more detailed in the type and frequency of coordination between the Department and OPM."

III.B.3. Period of Availability – Printing Charges Allocated to Projects

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, 2010
Federal Project Number: Various
State Project: Various

Criteria: Employee timesheets should reflect the work that was actually performed during the time period covered by the timesheet.

Expenditure adjustments to properly allocate project charges should be made by approved spreadsheet journal adjustments (SSJ) to the General Ledger.

Federally participating projects should not be charged for expenditures that were incurred prior to the authorization dates of the various federal agreements.

Condition: Printing charges for advertising are allowable project costs that the State Department of Transportation (DOT) charges to federally participating projects through the hours worked by the DOT print shop employees as recorded on their timesheets. We were informed that the hours recorded on timesheets as work that was done for specific projects during a pay period was most likely done prior to the pay period in which the hours were entered, and that the timesheet entries are made so that the projects could be charged for the printing costs incurred. The print shop maintained records detailing the projects and the dates that the printing work was actually performed. Since the timesheets may not reflect accurately the work that was done by the print shop employees, we reviewed all federal billings for DOT printing charges for the period from January 1, 2009 through June 30, 2010, to identify projects that had costs incurred prior to the federal authorization date and for which the DOT billed the FWHA for reimbursement. This period was selected to ensure that all American Recovery and Reinvestment Act (ARRA) funded projects were covered. Our review disclosed that there were a total of 42 projects billed by the DOT during the period from January 1, 2009 through June 30, 2010. Using the print shop's records we determined that 18 of the 42 projects had erroneous timesheet entries which resulted in the DOT billing the FHWA for project expenditures that were incurred prior to the federal authorization dates. The DOT should not have billed for reimbursement of these expenditures, since they were incurred prior to obtaining federal authorization to charge them. Twelve of the 18 projects were funded with ARRA monies.

Effect: There was $5,127 in project expenditures incurred prior to the Period of Availability for which the DOT requested and received reimbursement from the FHWA. The FHWA should not have been charged for these costs. As indicated above, there were 12 projects which were ARRA funded. The ARRA funded projects made up $3,646 of the $5,127 overbilled amount.

Cause: The DOT allowed hours to be charged to the projects on employee timesheets for work which was not done during the period indicated on the timesheets. This resulted in charges being allocated through timesheets that presented the work as being performed during the Period of Availability, even though it was actually done prior.

Recommendation: The hours worked that are entered on the Department of Transportation employee timesheets should reflect the actual work that was done during the pay period in which the hours were entered.

Agency Response: "The Department of Transportation (Department) agrees with this finding.

During July 2010, the Department implemented changes to ensure that DOT Print Shop employees properly record their time related to the reproduction of construction project advertisement documents. In doing so, the Department took into account both the date that the printing work was actually performed and the federal authorization approval date of the related project.

The following procedure was implemented:

On the day that the printing work is performed, the Printing Services supervisor will check Core-CT to ensure that coding is available. If coding is available for their unit in Core-CT - with either a PE or CN extension for the project - the hours the employee worked on the project will be recorded utilizing one of the available codes (CN being the priority over PE). If no coding is available on the day that the work is performed, time will be recorded to overhead. If the appropriate Core-CTproject coding for the unit appears during the pay period, but was not originally available when the employee performed the work related to that project, the supervisor must contact Mr. Chris Davis to ensure that the federal aid agreement was approved when the work for that project was actually performed and that the hours can be appropriately charged to that project. The Printing Services supervisor must also contact Mr. Davis if there are any other questions or concerns regarding the validity of the available coding.

With regard to the noted discrepancies, the Department is currently processing an SSJ to remove all federal funding from those expenditures."

III.B.4. Matching Requirements - Federal Billing in Excess of the Authorized Participation Rate

Federal Transit Cluster (CFDA #20.500 and #20.507)
Federal Award Agency: Department of Transportation (Federal Transit Administration (FTA)
Federal Award Number: CT-90-0393 and others
State Project Number: DOT030100054CN and others
Award Year: Various

Criteria: The federal share of allowable costs for projects is established in the grant agreements between the State Department of Transportation (DOT) and the FTA.

Condition: During the audited period the DOT allocated the federal and State shares of certain project expenditures manually, even though the Core-CT computer system it uses has the capability of allocating the expenditures automatically. The FTA is billed based on the allocated federal share.

Our expenditure review of 46 transactions disclosed an instance in which the DOT did not properly allocate the State and federal shares, resulting in it billing the FTA for 100 percent of a project payment when the grant allowed for 80 percent. We reviewed the project payments for project number DOT03010054CN further and noted numerous other errors made in the manual allocations.

We also note that the manual process used since the inception of the Core-CT billing system has resulted in recording and billing errors for several projects. The DOT has been reviewing the federal/State allocations for all FTA funded projects dating back to the inception of the Core-CT projects module in the 2008 fiscal year, and has made adjustments to the records and the federal bills for several projects. We reviewed the procedures the DOT is following to calculate the adjustments and note that the DOT treats payments to Metro-North Railroad like payments to other contractors. Since federal reimbursements for payments made to Metro-North Railroad are not supposed to be based on the actual cash payments to Metro-North, the federal billed amounts relating to payments to Metro-North should also be considered in determining the adjustment amounts; however, these are not considered in the adjustment calculations. Our review of project number DOT03010054CN disclosed that the DOT billed the FTA $4,653,160 for cash advances, and that as of November 18, 2010, it has billed the FTA $2,654,049 more than the allowed reimbursable amount for Metro-North expenditures on the project. The DOT completed its adjustment calculation for this project in August 2010, and did not discover this error. A finding separate from this one, regarding Improper Payments, is included in this report.

It should be noted that effective in the 2011 State fiscal year, the DOT discontinued the manual allocation process and began using the Core-CT computer system to allocate the costs; with the exception of payments to Metro-North Railroad. We were told that as of November 18, 2010, the DOT has not determined how to treat these payments using the automated system. As a result, as of November 18, 2010, the DOT has not processed any federal reimbursement requests for Metro-North eligible project costs since May 2010.

Effect: The error we noted in our expenditure review resulted in the federal government being overbilled by $30,089. The overbilled amount was included in the adjustment the DOT made in August 2010, as part of its overall review of the project transactions. Numerous other recording and billing errors on other projects resulted from the manual process that was used. As previously indicated, the DOT is in the process of correcting them.

The effect of not considering payments to Metro-North Railroad differently than other contractors in the adjustment analysis cannot be determined without extensive review. However, for the project we reviewed, we noted that there were federal reimbursements made against the actual cash payments during the 2009 fiscal year, which resulted in federal reimbursements being received prior to the goods or services being received, and in federal reimbursements for project expenditures that were already reimbursed. As previously indicated in the "Condition" section of this finding, a separate finding regarding Improper Payments, is included in this report.

Cause: The manual process of allocating the federal share of FTA participating expenditures caused numerous errors. As previously indicated, effective with the 2011 fiscal year, the Core-CT system will be relied on for the allocations, eliminating the need to manually calculate the amounts.

Regarding the Metro-North exception, federal reimbursements are not considered in the adjustment calculations, thus any errors such as those noted for this project would not be discovered.

The federal reimbursement of the cash advances was caused by the DOT not entering in the computer system the required coding that prevents billing for cash advances.

Recommendation: The Department of Transportation should continue reviewing FTA funded project expenditures for errors made during the period in which the manual process was used to allocate the federal and State shares of project costs, and process the required adjustments. Also, as part of the adjustment calculation the Department should institute special procedures for reviewing payments to Metro-North Railroad and the related FTA reimbursements made. A review of the Metro-North transactions should be conducted for all of the projects for which the Department completed its adjustment analyses.

Agency Response: "The Department of Transportation (Department) agrees with this finding.

The Department has reviewed all the transactions associated with the Metro North advance payments federally billed under Project DOT03010054CN. The Department is currently preparing a SSJ to reverse the billable transactions and credit FTA accordingly.

The Department is beginning a review and reconciliation of all FTA funded projects that have Metro North advance payments from July 2007 to the present to ensure that FTA was not improperly billed for any other advance payments. If errors are found, they will be corrected in the same manner as the correction for Project DOT03010054CN.

Additionally, as of July 2010, the Department has instituted a detailed billing review process that looks at all potential FTA billable transactions prior to initiating an FTA billing. This review includes the verification of federal split percentages of all vendor payments, SSJ corrections, and payroll transactions. The review encompasses all actual and advance payment transactions involving Metro North."

III.B.5. Activities Allowed/Unallowed and Allowable Costs/Cost Principles - Improper Payments

Federal Transit Cluster (CFDA #20.500 and #20.507)
Federal Award Agency: Department of Transportation (Federal Transit Administration (FTA)
Federal Award Number: Various
State Project Number: Various
Award Year: Various

Background: The State Department of Transportation (DOT) uses Metro-North Railroad as a vendor on federally participating railroad capital projects. The payments the DOT makes to Metro-North for these projects are advance payments made with State funds. Metro-North subsequently submits invoices supporting the uses of the advances. After the invoices have been reviewed and approved by the DOT, federal reimbursement is sought for the eligible costs.

Criteria: Per Part 3 of the Compliance Supplement, improper payments mean: "…2. Any payment for an ineligible service, any duplicate payment, any payment for services not received, and any payment that does not account for credit for applicable discounts…."

Condition: As part of our review of FTA billing adjustments, we reviewed the project details for one project (State Project Number DOT03010054CN), and noted that the DOT accidently billed the FTA and subsequently received reimbursement for $4,653,160 that was paid to Metro-North in the form of cash advances. As a result, we performed a review for other such instances, and noted a total of 24 instances during the 2009 and 2010 fiscal years, totaling $6,919,300, that the DOT billed the FTA for cash advances made to Metro-North.

Effect: The DOT requested and received FTA reimbursements for services it did not receive, since the payments for which the DOT received reimbursement were cash advances. When the DOT subsequently reviewed and approved the invoices supporting the use of these cash advances, federal reimbursement was requested through the normal process and the DOT was reimbursed again.

Cause: The DOT did not enter the coding in the billing system that is required to prevent cash advances from being billed. The lack of an adequate procedure to review the federal reimbursements the DOT receives from the payments it makes to Metro-North appears to have contributed to the cause.

Recommendation: The Department of Transportation should improve internal controls over federal billing for the payments it makes to Metro-North Railroad to ensure that it does not bill the federal government for cash advance payments. The Department should also review every project for which it billed the federal government for cash advance payments to Metro-North, dating back to the inception of the Core-CT federal billing system that it uses, and return the federal reimbursements it received for those cash advances.

Agency Response: "The Department of Transportation (Department) agrees with this finding.

As of July 2010, the Department has instituted a detailed billing review process that looks at all potential FTA billable transactions prior to initiating an FTA billing. This review includes the verification of federal split percentages of all vendor payments, SSJ corrections and payroll transactions.

The review encompasses all actual and advance payment transactions involving Metro North.

The Department is beginning a review and reconciliation of all FTA funded projects that have Metro North advance payments from July 2007 to the present to ensure that FTA was not improperly billed for any other advance payments. If errors are found, they will be corrected in the same manner as the correction for Project DOT03010054CN.

The Department has reviewed all the transactions associated with the Metro North advance payments federally billed under Project DOT03010054CN. The Department is currently preparing an SSJ to reverse the billable transactions and credit FTA accordingly."

III.B.6. Reporting - American Recovery and Reinvestment Act (ARRA) Reporting

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 Years Ended June 30, 2009 and 2010

Criteria: Under Section 1512 of the American Recovery and Reinvestment Act (ARRA) of 2009, recipients of ARRA funds are required to report specific information regarding grant awards to the federal government which is in turn posted for public review on www.Recovery.gov.

Condition: The State Department of Transportation (DOT) received ARRA funding from the Federal Highway Administration, the Federal Transit Administration and the Federal Aviation Administration. We reviewed the information the DOT submitted for reporting for each federal agency for the quarter ended March 31, 2010, only for the following components; Award Number, Award Amount, Total Federal Amount ARRA Funds Received/Invoiced, and Total Federal Amount of ARRA Expenditures. Our review disclosed that for ARRA grants awarded by the FTA, there were instances in which the DOT did not include all of the grant expenditures and funds received in the reports posted on www.Recovery.gov. For one grant we noted that the DOT reported expenditures of $153,062, but that the expenditures per the records totaled $3,876,779. We also noted that there was an amendment of $237,778 made to a grant award. However, the reported information was not updated on www.Recovery.gov to reflect the amended amount. We also reviewed the June 30, 2010 reports and noted that these errors were not corrected on those reports. We informed DOT staff of the errors we noted prior to the September

30, 2010 reporting period, so that accurate information could be reported beginning with that reporting period. It should be noted that the reports we reviewed were not final submissions; however, these exceptions are considered internal control deficiencies in ARRA reporting because if they are not corrected then future reports will continue to include reporting errors and there is an increased risk that the final submissions may contain material reporting errors.

Effect: Expenditures and funds received that were reported on www.Recovery.gov, for the quarters ended March 31, 2010 and June 30, 2010, for certain FTA grants were understated because certain projects funded by the grants were not included in some of the amounts reported. There was also a reported grant award amount that was understated.

Cause: The Core-CT system that is used for the reporting information did not identify the specific grant awards for certain projects, thus the expenditures and funds received relating to those projects were not reported. Regarding the understated grant award amount, it appears that the amendment information was not provided to the staff assigned to the reporting function.

Recommendation: The Department of Transportation should review the information in the Core-CT system regarding ARRA funded Federal Transit Administration grants to ensure that reports generated from that system provide for accurate reporting. The Department should also review its internal controls regarding these grants to ensure that all of the required information is provided for reporting.

Agency Response: “The Department of Transportation (Department) agrees with the finding.

The referenced grant amendment information was not entered in a timely manner. The Department will ensure that all staff responsible for reporting is made aware of all grant activities including grant amendments.

The Department acknowledges the expenditures in the Core-CT system regarding ARRA funded Federal Transit Administration grants does not match the 1512 report information in www.Recovery.gov.

At any point in time, payments reflected in Core-CT will not match federal reimbursements in FTA’s TEAM system. There is a time lag between Core-CT and TEAM. Because federal funds are provided on a reimbursable basis, there will always be a discrepancy between the expenditure information in Core and the expenditure data in TEAM’s ECHO system.

In addition, during the reporting period reviewed, an invoice attestation process was imposed on the Department by FTA Region 2, further delaying the federal billing process and widening the gap between federal billing data and Core-CT expenditure data."

III.B.7. Allowable Costs/Cost Principles – Ineligible Costs

Highway Planning and Construction (CFDA #20.205)
Federal Award Agency: Department of Transportation (Federal Highway Administration (FHWA)
Award Year: Various
Federal Project Numbers: 0952(106), 0952(101), and 1092(119)
State Projects: 43-122, 92-533, and 92-569.

Criteria: Fraudulent expenditures are not eligible for federal reimbursement.

Condition: A federal investigation conducted by the Office of the Inspector General determined that the Connecticut DOT was being overcharged for leasing commercial office space at 160 Sargent Drive, New Haven. The property was used as the field office for the projects indicated above for approximately five years, and as such, the Connecticut DOT billed the FHWA at the federally participating rates for lease payments it made. It was found that documents concerning the lease were altered to conceal the fact of a kickback scheme concerning the rent associated with the property. The defendants in this matter entered guilty pleas on June 17, 2009, and the FHWA subsequently issued its final Federal-Aid Ineligibility Notification, dated January 13, 2010. The total ineligible costs for projects 43-122, 92-533 and 92-569 totaled $156,976, of which $136,569 was billed and required to be returned. We became aware of this matter as a result of the Connecticut DOT submitting a report of unauthorized, illegal, irregular or unsafe handling or expenditure of state funds, as required under Section 4-33a of the Connecticut General Statutes.

Effect: The FHWA was billed for ineligible costs totaling $136,569, which the Connecticut DOT returned during the 2010 fiscal year.

Cause: The cause is attributed to a fraud scheme involving a former Connecticut DOT employee and two others.

Conclusion: The Connecticut Department of Transportation returned the ineligible reimbursements to the FHWA during the fiscal year ended June 30, 2010. This matter is included in this report for disclosure purposes only.

C. DEPARTMENT OF LABOR

III.C.1. Subrecipient Monitoring

ARRA - Workforce Investment Act (WIA) Adult Program (CFDA #17.258)
WIA Youth Activities (CFDA #17.259)
WIA Dislocated Workers (CFDA #17.260)
Federal Award Agency: Department of Labor
Award Years: Federal Fiscal Year 2008-2009
Federal Award Number: AA-17112-08-55-A-9

Criteria: Title 2 Code of Federal Regulations (CFR) Section 176.50(c) requires that recipients and their first-tier recipients maintain current registrations in the Central Contractor Registration at all times during which they have active federal awards funded with Recovery Act funds.

Condition: The Department contracted with five Workforce Investment Boards that each maintained active federal awards funded with Recovery Act funds during the fiscal year ended June 30, 2010. Our review disclosed that one Workforce Investment Board was not registered in the federal Central Contractor Registration (CCR) system and that another Workforce Investment Board's CCR registration expired on April 4, 2009.

Effect: When the Workforce Investment Boards do not maintain current registrations in the CCR system, federal reporting of data about each entity may be inconsistent, thereby making the data less useful to the public.

Cause: Although the Department notified the Workforce Investment Boards of the mandatory requirement to establish and maintain active and current registrations in the federal CCR system via Memorandum dated June 18, 2009, the Department did not monitor the Workforce Investment Boards to ensure compliance.

Recommendation: The Department of Labor should monitor subrecipients to ensure they maintain current registrations in the CCR system in accordance with federal regulations.

Agency Response: **"**We agree with this finding. The WIA Administration Unit has assigned staff (Associate Accounts Examiner) to monitor the Workforce Investment Boards to ensure they maintain registration in the federal CCR data system. In addition, the WIA Administration Unit recently hired a Grants and Contracts Manager, which will enhance the Unit's ability to develop readable administrative policy for our varied customers, most notably, the State's five local Workforce Investment Boards. This new staff person also brings significant contract monitoring experience and will use this expertise to develop new monitoring and scheduling tools for on-site program monitoring."

III.C.2. Reporting – Section 1512 Reporting

ARRA - Workforce Investment Act (WIA) Adult Program (CFDA #17.258)
WIA Youth Activities (CFDA #17.259)
WIA Dislocated Workers (CFDA #17.260)
Federal Award Agency: Department of Labor
Award Years: Federal Fiscal Year 2008-2009
Federal Award Number: AA-17112-08-55-A-9

Criteria: The American Recovery and Reinvestment Act of 2009 (Public Law 111-5) (Recovery Act or ARRA) imposes new transparency and accountability requirements on federal awarding agencies and their recipients. Section 1512 of the ARRA requires that not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a federal agency shall submit a report to that agency that contains, among other information, the total amount of recovery funds received from that agency, the amount of recovery funds received that were expended or obligated to projects or activities, and an estimate of the number of jobs created and the number of jobs retained by the project or activity.

The Federal Office of Management and Budget (OMB) is responsible for issuing guidance for recipient reporting. OMB Memorandum 10-08, dated December 18, 2009, provided updated guidance which changed how the recipients report job estimates from a cumulative to a quarterly basis. The job estimate totals as of the quarter ended December 31, 2009, are calculated by dividing the hours worked in the reporting quarter by the hours in a full-time schedule in that quarter. Recipients are no longer required to sum across multiple quarters of data as part of the formula.

OMB Memorandum 10-08, Section 5.7, indicates that prime recipients are required to generate estimates of job impact by directly collecting specific data from sub-recipients and vendors on the total full-time equivalent resulting from a sub-award. To the maximum extent practicable, information should be collected from all sub-recipients and vendors in order to generate the most comprehensive and complete job impact numbers available.

OMB Memorandum 09-21 states that the prime recipient is ultimately responsible for the reporting of all data required by Section 1512 of the

Recovery Act. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.

Condition: Our review of the Department's ARRA Section 1512 Report for the WIA Cluster for the quarter ended December 31, 2009, disclosed that the Department relies on the number of jobs created and retained reported by its five workforce investment boards without performing procedures to verify the accuracy or reasonableness of the figures reported. Although the Department requires that sub-recipients retain source documentation to serve as an audit trail, the Department has not obtained or reviewed such documentation.

Effect: The number of jobs created or retained reported by the Department may be incomplete, inaccurate, or not calculated in accordance with federal instructions if detailed information supporting the number of jobs created or retained is not received from the sub-recipients and/or reviewed in a timely manner.

Cause: The Department does not have procedures in place to verify in a timely manner the detailed information supporting the number of jobs created and retained.

Recommendation: The Department of Labor should develop and implement procedures to ensure that the number of jobs created and retained as the result of the ARRA awards is complete, accurate and calculated in accordance with federal instructions.

Agency Response: "We agree with this finding. Due to the retirement of the previous WIA Program Manager, there has been a void in program and financial activities of the Unit, including the 1512 reporting requirements. A new WIA Program Manager has been hired and recently finalized his initial submittal of the ARRA Section 1512 Report for the WIA program. The transition in administration of the WIA program is the principal reason for a lack of procedures to verify the accuracy of jobs figures reported by the Workforce Investment Boards.

Prior to the ARRA Section 1512 reporting period, source documents from the Workforce Investment Boards are submitted to the WIA Administration Unit to review for compliance with federal and state mandates. If there are discrepancies in the report, the WIA Administration Unit staff collaborates with the local Workforce Investment Board representative to make necessary revisions. Following the in-house verification, the WIA Administration Unit staff forwards the ARRA Section 1512 reports to the Department of Labor's Business Management Unit for final submittal."

III.C.3. Allowable Costs

Unemployment Insurance (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Years: Federal Fiscal Years 2008-2009, 2009-2010
Federal Award Number: UI-18011-09-55-A-9, UI-19573-10-55-A-9

ARRA - Unemployment Insurance (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Years: Federal Fiscal Years 2008-2009, 2009-2010
Federal Award Number: UI-18011-09-55-A-9, UI-19573-10-55-A-9

Criteria: Office of Management and Budget Circular A-87 requires as a basic guideline, that for a cost to be an allowable charge to a federal program, that cost must be authorized or not prohibited under state laws and regulations.

For unionized employees, the State follows the provisions of collective bargaining contracts. Collective bargaining contracts P-2 (Article 18, Section 3) and P-4 (Article 17, Section 3) require that specified classes of employees are exempt from the payment of overtime. Instead those employees are eligible to receive compensatory time for overtime hours worked. When the appointing authority determines that the granting of compensatory time off would create a hardship on the Department, payment of straight time may be granted with the approval of the State's Secretary of Office of Policy and Management (OPM).

Condition: Our review of employee payroll expenditures disclosed that salaries and wages charged to the Unemployment Insurance Program did not conform to established collective bargaining contracts P-2 and P-4. For the period July 1, 2009 through September 30, 2009, the Department did not obtain OPM approval to pay $449,019 to P-2 and P-4 exempt employees for overtime payments in lieu of compensatory time. For the period October 1, 2009 through December 17, 2009, although the Department received approval from OPM to pay straight-time overtime, the Department paid overtime at the rate of time and a half, resulting in overpayments of $26,458.

Effect: The Unemployment Insurance Program was charged unallowable costs for employee overtime.

Cause: We were informed that the Department proceeded with its overtime plans in order to ensure the timely payment of Unemployment Insurance benefits. The Department did not submit requests to OPM for the approval of overtime for the period July 1, 2009 through September 30, 2009. The Department did not adhere to the OPM approval of straight overtime payments for the period October 1, 2009 through December 17, 2009.

Conclusion: The Department of Labor obtained multiple approvals from OPM to pay overtime in lieu of compensatory time from October 1, 2009 through June 30, 2010. Effective December 18, 2009, the Department ceased paying overtime at the rate of time and a half to exempt P-2 and P-4 employees.

III.C.4. Reporting – ETA 227

Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: UI-19573-10-55-A-9

ARRA - Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: UI-19573-10-55-A-9

Criteria: The UI Reports Handbook No. 401, 4th Edition, Section IV, General Reporting Instructions for the ETA 227 Overpayment Detection and Recovery Activities states that applicable data on the ETA 227 report should be traceable to the data regarding overpayments and recoveries in the State's financial accounting system.

The U.S. Department of Labor (DOL) Unemployment Insurance Program Letter (UIPL) No. 23-08, Attachment A, states that the Emergency Unemployment Compensation program reporting requirements for data items for the ETA 227 include Section A, lines 101 and 103, and Section C, all lines except 303-307.

The U.S. DOL UIPL No. 11-09 indicates that states are to report Federal Additional Compensation overpayments in the comments section of the ETA 227 report.

Condition: Our review of the ETA 227 Overpayment Detection/Recovery reports for the quarter ended June 30, 2010, disclosed that the Department was unable to provide detailed support to the amounts reported for all sections. Each quarter, the Department is required to submit an ETA 227 report for state and federal UI programs and a separate ETA 227 report for the Emergency Unemployment Program. For the ETA 227 report for state and federal UI programs, amounts reported in Sections A, B and C were supported only by summary reports and Section D was unsupported. In addition, as reported in previous audits, we were informed that amounts reported in Section E are still not accurately supported by agency records. For the ETA 227 report for the Emergency Unemployment Compensation program in which only certain lines of Section A and C are required to be reported, amounts were supported only by summary reports. We also noted that the Department did not report Federal Additional Compensation overpayments in the comment sections of the ETA 227 reports.

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

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

We were informed that due to the heavy workload of the Information Technology unit as the result of the various federal Unemployment Compensation extensions and other programming responsibilities, the Department is unable to provide us with the detailed support to the ETA 227 reports.

Recommendation: The Department of Labor's recordkeeping system should accurately account for, in detail, overpayment detection and recovery activity reported on the ETA 227 reports.

Agency Response: "We agree with this finding. Prior to 2008, the ETA-227 Report was under review by our Information Technology (IT) Unit to accurately reflect the statistical calculation of work completed in Benefit Payment Control (BPC) on a quarterly basis. However, our IT resources had to be reallocated to comply with federal extensions to the State's Unemployment Compensation system.

In October 2010, our IT Unit corrected a major (three-year) deficiency. The report incorrectly categorized Administrative Penalty weeks as a subtraction to the Unit's non-fraud overpayment amount. As a result of this correction, the recovery/reconciliation (section C) is now in full compliance."

III.C.5. Special Tests and Provisions – Separate Identification of ARRA Funds

ARRA - Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor

Award Years: Not Applicable
Federal Award Number: Not Applicable

Criteria: Title 2 Code of Federal Regulations (CFR) Section 176.210 states that to maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) (Recovery Act) as required by Congress, recipients agree to maintain records that identify adequately the source and application of Recovery Funds. For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures of federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) required by OMB Circular A-133.

Section 2005 of Title II (Assistance for Unemployed Workers and Struggling Families) of the Recovery Act provides that the federal government shall reimburse states for 100 percent of sharable benefits (Extended Benefits (EB)) for weeks of unemployment that meet certain conditions. Of these EB benefits paid, 50 percent are considered Recovery Act benefits since the Recovery Act caused the federal government to pay the 50 percent of EB benefits that the State would have paid.

Section 2001 of Title II of the Recovery Act increased the number of weeks of Emergency Unemployment Compensation that an individual may receive. There are various tiers of Emergency Unemployment Compensation benefits as defined in the Emergency Unemployment Compensation Act of 2008, Public Law 110-449 and Public Law 111-92. Not all Emergency Unemployment Compensation benefits are Recovery Act reportable. The Recovery Act funded one hundred percent of Emergency Unemployment Compensation program benefits for all First Tier and the first 13 weeks of Second Tier benefits paid for all claimants for weeks of unemployment beginning after August 27, 2009. The Recovery Act does not fund Second Tier Emergency Unemployment Compensation program benefits beyond the 13th week.

Condition: In preparing the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2010, the Department reported that extended benefits of $53,510,332 were funded by the Recovery Act. Of this amount, $2,386,425 was estimated by the Department because both ARRA and Non-ARRA extended benefits were paid during the June phase-out period and the Department did not separately track the extended benefits that were funded by the Recovery Act.

The Department also reported that Emergency Unemployment Compensation benefits of $801,349,073 were funded by the Recovery Act. We were informed that this amount included the 14th week of Tier 2 benefits, which is not reportable as Recovery Act funds. The Department is unable to determine by how much the ARRA-funded Emergency Unemployment Compensation benefits amount was misstated.

Effect: There is non-compliance with 2 CFR Section 176.210.

Cause: We were informed that the Department did not have automated reports in place to track the portion of extended benefits that were funded by Recovery Act funds. We were informed that the Department has been unable to make the necessary programming changes to properly account for the portion of Emergency Unemployment Compensation benefits that are funded by the Recovery Act.

Recommendation: The Department of Labor should make the necessary programming changes and develop automated reports to separately account for and report expenditures funded by the Recovery Act.

Agency Response: "We agree with this finding. The deficiency in Recovery Act reporting stems from the fact that our automated systems cannot produce accurate reports to our Fund Accounting Control Unit staff. As such, Tax Division staff have been preparing required reports using estimates of both ARRA and Non-ARRA activity. Information Technology resources have not been allocated to correct this problem due to current Agency priorities, namely the direct deposit and debit card initiative, the upcoming Special Assessment and the Call Center virtualization project.

Information Technology resources will be committed to making the necessary programming changes to properly account for the portion of Emergency Unemployment Compensation benefits that are funded by the Recovery Act starting in October 2011."

III.C.6. Special Tests and Provisions – Benefit Accuracy Measurement System

Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Years: Not Applicable
Federal Award Number: Not Applicable

Criteria: Title 20 Code of Federal Regulations (CFR) Sections 602.11 (d) and 602.21 require that each state shall establish and maintain a Quality Control program.

Each state shall complete prompt and in-depth case investigations in accordance with instructions issued by the U.S. Department of Labor (DOL).

The Employment and Training Administration (ET) Handbook No. 395, 5th edition, provides instructions for states in operating an Unemployment Insurance Benefit Accuracy Measurement (BAM) system. The ET Handbook No. 395, 5th edition and U.S. DOL Unemployment Insurance Program Letter 03-07 and 03-07 Change 1 require that, effective the week beginning December 30, 2007, BAM investigators must utilize the National Directory of New Hires as part of the audit of paid claims to detect and investigate claimant employment during the benefit year to determine its affect on the claimant's eligibility for Unemployment Insurance.

Condition: As of the fiscal year ended June 30, 2010, the Department has not implemented a process for cross-matching BAM paid claims investigations with the National Directory of New Hires (NDNH) database in accordance with federal instructions.

Effect: There is non-compliance with federal instructions. The Department has reduced ability to detect and prevent erroneous Unemployment Insurance benefit payments.

Cause: We were informed that Information Technology resources were allocated to programming and implementing Unemployment Compensation extensions and the on-going Unemployment Insurance modernization as a priority over the NDNH cross match.

Recommendation: The Department of Labor should implement the cross match of the National Directory of New Hires with Benefit Accuracy Measurement paid claims investigations as required by federal instructions.

Agency Response: "We agree with this finding. The Agency plans to implement a process to cross match BAM paid claim investigations with the National Directory of New Hires (NDNH) in accordance with federal instructions. An action plan has been drafted that sets forth the development and implementation of programs to meet the requirements detailed in Unemployment Insurance Program Letter 03-07."

III.C.7. Special Tests and Provisions – Employer Experience Rating

Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor

Award Years: Not Applicable
Federal Award Number: Not Applicable

Background: Certain benefits accrue to states and employers when the state has a federally approved experience-rated Unemployment Insurance (UI) tax system. All states currently have an approved system. For the purpose of the proper administration of the system, the State Workforce Agency maintains accounts, or subsidiary ledgers, on state UI taxes received or due from individual employers, and the Unemployment Compensation benefits charged to the employer.

Criteria: Title 29 Code of Federal Regulations (CFR) Section 97.42 requires that all records reasonably considered as pertinent to program regulations must be retained for a period of three years.

The Employment and Training Administration (ET) Handbook No. 407 states that whether the state system for recording tax receipts is automated or manual, an audit trail should lead from source documents to state accounting records of receipts.

Condition: Our review of a sample of twenty-one postings to employer accounts to documentation of taxes received during the fiscal year ended June 30, 2010, disclosed that for one transaction the Department could not provide us with the contribution return that was filed via the Internet. We were informed that the Department's system retains only the last quarter's Internet filings.

Effect: There is noncompliance with federal record retention requirements.

Cause: The Department does not require the vendor, who maintains the Internet filing database, to retain this information beyond the last quarter.

Recommendation: The Department of Labor should institute procedures to ensure that all unemployment contribution return records are retained in accordance with federal regulations.

Agency Response: "We agree with this finding. The deficiency in our electronic record retention stems from the fact that our Internet tax filing systems are not capable of storing data beyond the current calendar quarter. Due to contractual problems, the Agency no longer has vendor support for our Internet tax filing systems and, as such, cannot make the necessary changes to comply with federal record retention requirements.

Information Technology management is in the process of securing another vendor to provide long term support for our Internet systems. Once a new vendor is secured, they will be trained on our various Internet tax filing systems and be required to maintain and fix a variety of errors in these systems."

III.C.8. UI Eligibility

Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Years: Not Applicable
Federal Award Number: Not Applicable

ARRA - Unemployment Insurance (UI) (CFDA #17.225)
Federal Award Agency: Department of Labor
Award Years: Not Applicable
Federal Award Number: Not Applicable

Criteria: Title 20 Code of Federal Regulations (CFR) Section 601.2 provides that states may submit their unemployment compensation laws for approval. The Secretary of Labor determines whether the state law contains the provisions required by Section 3304(a) of the Internal Revenue Code of 1986. If the state law is approved, the Secretary notifies the Governor within 30 days of the submission of the law.

Title 20 CFR Section 604.3 requires that a state may pay Unemployment Compensation only to an individual who is able and available for work for the week for which Unemployment Compensation is claimed. Section 31-227(g) of the Connecticut General Statutes states that for any week with respect to which an individual is receiving a pension, which shall include a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment, under a plan maintained or contributed to by a base period employer, the weekly benefit rate payable to such individual for such week shall be reduced by the prorated weekly amount of the pension.

Title 20 CFR Section 603.2 states that claim information includes whether an individual has applied for unemployment compensation, whether the individual has refused an offer of work, and any other information contained in the records of the State Unemployment Compensation agency that is needed by the requesting agency to verify eligibility for, and the amount of, benefits.

Section 31-236 of the Connecticut General Statutes states that if the individual has left suitable work voluntarily and without good cause attributable to the employer or other limitations, the individual would be ineligible for benefits.

Title 20 CFR Section 603.23(b) states that the State Unemployment Compensation agency must crossmatch quarterly wage information with Unemployment Compensation payment information to the extent that such information is likely, as determined by the Secretary of Labor, to be productive in identifying ineligibility for benefits and preventing or discovering incorrect payments. Section 31-227(a) of the Connecticut General Statutes states that benefits shall be payable only to individuals who are unemployed and are eligible for benefits. Section 31-229 of the Connecticut General Statutes states that an eligible individual who is partially unemployed throughout a week shall be paid with respect to such week an amount equal to his benefit rate for total unemployment reduced by an amount equal to two-thirds of the total remuneration for services of any kind during such week.

Title 20 CFR Section 615.4 (a) states that an individual is entitled to extended benefits if the individual files a timely claim for extended benefits and satisfies the pertinent requirements of the applicable state law. Title 20 CFR Section 615.8(a)(1) states that for claim filing and reporting, the terms and conditions of the applicable state law which apply to claims for, and the payment of, regular compensation shall also apply to extended benefits.

Title 20 CFR Section 615.8(g) states that an individual who claims extended benefits shall be required to make a systematic and sustained effort to search for suitable work and furnish to the state agency, with each claim, tangible evidence of such efforts.

Condition: We reviewed a sample of 60 unemployment compensation benefit payments totaling $17,684 for compliance with federal eligibility requirements. Of this amount, $9,718 was state funded and $7,966 was federally funded. Our sample was randomly selected from an audit universe of 7,922,503 unemployment checks totaling $2,700,930,007 paid during the state fiscal year ended June 30, 2010.

Our review disclosed that for a total of 5 transactions, totaling $1,136, there were internal control deficiencies that resulted in one or more of the federal eligibility criteria being unsupported as follows:

- For three claimants, the Department's IBM system, which is used to record eligibility requirements, did not appropriately retain the claimants' weekly attestations to the eligibility requirements that included being able and available for work and reporting of pension amounts.

- For three claimants, the Department did not adequately verify and document the reason that the claimant separated from employment.

The Department performs quarterly cross matches of employer earnings records with unemployment benefits for claimants who meet certain criteria. For the claimants in our sample, we performed tests to determine whether cross matches were performed during the claimants' benefit years. Our review disclosed that there were four claimants with wages in the second quarter of 2009 that were not detected by the Department's data match process. We noted wages were detected for these claimants in the Department's data match process in subsequent quarters.

We also noted that in one instance, the Department's cross match of claimant benefits with employer earning records identified that the claimant had earnings during the quarter of the payment in our random sample. In accordance with the Department's automated process, letters were sent to the employer to identify the claimant's weekly earnings. Since the employer did not return the letters, no action was taken on the part of the Department. However, the presence of wages indicates that the claimant's benefits should have been reduced or ended at some point during the quarter reviewed and were not. The payment amount in our sample was $320.

The Department does not have an initial application process in place for claimants initially filing for extended benefits (EB). The Department also did not have a process in place to periodically obtain tangible evidence from claimants receiving extended benefits to verify that they are performing a systematic and sustained work search during the fiscal year ended June 30, 2010. The U.S. DOL also reported the same conditions with respect to extended benefits during a review performed at the DOL in April 2010. However, we were informed that subsequent to the audit period, the Department began performing a review of the work search requirement.

Effect: There is potential for unemployment compensation claimants to be inappropriately determined eligible which would result in the overpayment of benefits.

The Department's cross-matching system may not be operating as designed. There is non-compliance with Title 20 Code of Federal Regulations Section 603.23.

Cause: The Department's IBM system appears to have systematic problems which cause the system not to retain or detect certain information. The Department's Customer Service Representative did not appropriately follow procedures to verify claimants' employment separation reasons.

The Department could not determine why the cross-match did not identify the four claimants in our sample.

The Department had not developed or implemented processes for extended benefit claimants to file initial applications to ensure that they are eligible and for periodically obtaining tangible evidence of extended claimants' systematic and sustained effort to seek work.

Recommendation: The Department of Labor should develop, implement and/or strengthen procedures to ensure that the eligibility of all unemployment claimants is adequately documented, supported and in compliance with federal regulations.

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

Cross Matches

Four claimants were identified as having wages during the second quarter 2009 while receiving unemployment benefits during the same quarter. The finding concluded that our Department did not detect these four claimants in our data match process.

Information Technology will expand the file to allow accessibility for the past ten quarterly cross matches. This will allow the business expert to document all detected claimants under similar circumstances in future audits. However, we will continue to develop, implement, and strengthen our procedures to prevent and detect overpayments.

EB Work Search Review

Prior to complying with the federal regulations, our Agency was required to shift resources to process unemployment claims during the most unprecedented claim filing in history. This prohibited any potential opportunity to review and adjudicate eligibility issues arising under the EB Work Search. During the summer 2010, we worked diligently to meet our obligation to this federal requirement. We instituted a pilot program to review random work search efforts and then implemented a full review beginning November 29, 2010.

Data Retention Issue

For three claimants, the Department's IBM system, which is used to record eligibility requirements, did not appropriately retain the claimants' weekly attestations to the eligibility requirements that included being able and available for work and reporting of pension amounts.

The Department did encounter a data retention issue involving continued claims where the claim week ending date was greater than the Benefit Year ending date. All of these claims involved Emergency Unemployment Compensation claims.

Procedural Adherence Deficit

For three claimants, the Department did not adequately verify and document the reason that the claimant separated from employment. This appears to be an instance where Agency procedures were not followed.

Extended Benefits Application

The Department has not developed or implemented processes for Extended Benefits claimants to initial applications. The Department understands the importance of such an application and is committed to its implementation. Program staff has begun the process to develop business requirements for Internet and IVR [Interactive Voice Response] applications. The Department believes that improper payments resulting from a lack of a formal application is mitigated by several factors. The claimant has already answered the same questions that will be asked in the EB application during the EUC [Emergency Unemployment Compensation] application. EB payments immediately follow EUC payments with no break in filing sequence. Claimants who have breaks in filing between EUC and EB are required to follow the same validation process as other claimants who have a break in filing sequence."

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 Year: Federal Fiscal Year 2010- 2011
Federal Award Number: 4CT700700

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)
Federal Award Agency: United States Department of Agriculture
Award Year: Federal Fiscal Year 2009-2010
Contracting Award Number: 07DPH0113BB

Centers for Disease Control and Prevention_Investigations and Technical Assistance (CFDA #93.283) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2012, 2009-2014 and 2008-2013
Federal Award Numbers: 3U58DP000833-04W1, 3U58DP002006-01W1 and 5U58DP001398-02

Environmental Public Health and Emergency (CFDA #93.070) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2009-2014
Federal Award Number: 1U59EH000516-01

Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (CFDA #93.938) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2013
Federal Award Number: 1U87DP001193-01

State Survey and Certification of Health Care Providers and Suppliers (Medicaid) (CFDA #93.777)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2009-2010 and 2009-2010
Federal Award Numbers: 05-0605-CT-5000 and 05-0705-CT-5000

Public Health Emergency Preparedness (CFDA #93.069) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010 and 2011
Federal Award Number: 3U90TP116996-10W1

Criteria: Title 2 Code of Federal Regulations Part 225, Appendix A, Section C, requires that the costs charged to a federal award for the salaries and wages of employees working on multiple activities or cost objectives be necessary and reasonable to carry out the federal award and be based on a documented, after-the-fact distribution of charges. The Department of Public Health has established policies and procedures for such documentation.

Condition: Internal controls over payroll charges did not insure that only allowable costs are charged to federal awards. Our audit reviewed 25 payroll transactions from each of the WIC and IMM grants. In addition, we followed up on our prior audit's findings.

1) Supervisory approval of timesheets is considered a key control. A supervisor was found to have repeatedly approved an employee's timesheets without evidence of reconciling to leave request slips or reviewing the allocation of the employee's salary charges to various federal programs. Most of the employees in the affected Unit are split-funded, indicating that there may be other employees affected by this condition. As a result of the breakdown in this key control, charges to federal accounts that were approved by the supervisor may not be reliable. Below is a breakdown of the charges to various federal programs subject to this internal control weakness:

CFDA #	**Total Population**
10.557	$ 70,126
10.561	17,137
93.070	12,148
93.283	87,459
93.938	7,543
	$ 194,413

2) The Department has not established policies and procedures for the monitoring or payment of on-call time. In our sample of six federally-funded employees who received on-call pay, we noted that five of the employees received on-call payments that were not supported by the budget of the PHEP grant award. In addition, while three of the six employees reduced their on-call payments while on paid leave, three did not and one received on-call payments while on a reduced work schedule. Since the on-call payments were not supported by the federal awards' budgets, we question the on-call pay, along with the related fringe benefits and indirect costs as follows:

CFDA #	Population (On-Call)	#	Sample Amount	#	Questioned Costs
93.069	$ 33,603	6	$ 33,603	5	$ 41,604

3) We were unable to determine how much of a sampled employee's time and effort were ultimately charged to State Survey and Certification of Health Care Providers and Suppliers (Medicaid) (CFDA #93.777). Records within the Core-CT accounting system indicated that the employee was charged to the Program, but the Core-CT figures were not used in preparing the Federal Financial Status Report (FSR). However, a spreadsheet intended to provide a reconciliation between Core-CT and the FSR did not provide sufficient support to verify the changes that were made, and Core-CT was not adjusted to match the FSR.

Effect: When key controls regarding the supervisory review and approval of employee timesheets are not implemented, fraud and questioned costs may occur. Without sufficient oversight, on-call payments may be excessive and could be disallowed by the budget. Due to a lack of adequate supporting documentation for a financial report, we were unable to determine how much the federal grant was charged for an employee's time and effort. Total questioned payments to employees, along with the related fringe benefits and indirect costs, are disclosed above:

Cause: The IMM program management did not recognize the importance of coding to the correct project in Core-CT. A second supervisor did not thoroughly review employee timesheets before approving them. The Department has no policies and procedures over the monitoring or payment of on-call time.

A lack of oversight and understanding of cost principles has contributed to these conditions.

Recommendation: The Department of Public Health should comply with federal cost principles by only charging federal awards for necessary and reasonable costs that are included in the federal awards' budgets and are supported by properly approved periodic personnel activity reports.

Agency Response: "1) We agree with this finding. The employee in question was terminated and the supervisor was informed by the branch chief to reconcile all leave slips with the appropriate timesheets. The Supervisor has been instructed to properly review time sheets.

2) We agree in part with this finding. In November of 2010, the agency established written procedures for on-call pay. In addition, the lab has been instructed to provide the on-call schedule to the auditors. The budget from the PHEP award states that "Laboratory staff" must be made

available 24/7 to accept, process and analyze suspect biological and chemical samples…" Although it is listed as overtime in the budget document, some unions interpret this as "on-call" and we record as such in Core-CT. When a person is on-call, they take the phone with them for an assigned period of time. If a person falls ill during that time, or takes an unscheduled vacation day, for example, they still have the phone and the responsibility. If an emergency occurs within that time frame, their duty is to alert others to handle the situation, not necessarily for them to provide direct response. The CDC Office of Policy, Oversight and Evaluation, Division of Procurement and Grants Office has recently accepted the Department's response concerning on-call pay from prior audits. We consider this finding closed.

3) We agree with this finding. The financial reports are not based upon Core-CT records at this time. The Department has been working with the Department of Information Technology to adapt Core-CT for the time coding needs of this particular program. We expect this to be completed by the beginning cycle of their next grant period. The records have now been reconciled and adjustments to Core-CT have been made. Core-CT reports now match the financial reports.

Auditors' Concluding Comments:

2) Each union contract is different and some have on-call in the same section as overtime. However, this does not mean that they would be treated the same or that those employees should be on-call. In addition, the 2010 budget for the PHEP award only states that one individual must be on call 24/7 365 days of the year. Separate from the specific reference to the need for one individual to be on-call, $35,000 is allocated for overtime to actually accept, process, and analyze certain samples. During the first three quarters of the award period, $27,580 of that amount had been used strictly to pay for on-call time. In the CDC's response to our prior audit findings, they state that laboratory staff should use the buddy system to respond to an event. Their response also implies that the employees could be called to duty in an emergency. This does not address how many people need to be on-call. According to the Department's response, having one individual on-call to alert others could be sufficient. However, at any one time, there may be as many as six employees on-call.

III.D.2. Allowable Costs – Breakdown in Key Controls over Non-payroll Expenditures

Immunization Grants (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 3H23IP122525-07S1 and 5H23IP122525-08 revised

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 2010- 2011
Federal Award Number: 4CT700700

Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices (CFDA #93.130) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2007 and 2008
Federal Award Number: 6 /U68CS00166-20-02

Injury Prevention and Control Research and State and Community Based Programs (CFDA #93.136) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2007 and 2008
Federal Award Numbers: 5VF1CE001124-02 and 1VF1CE001124-01

Universal Newborn Hearing Screening (CFDA #93.251) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2007 and 2008
Federal Award Number: 6H61MC00088-06-01

Maternal and Child Health Services Block Grant to the States (CFDA #93.994) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2007 and 2008
Federal Award Number: B04MC08887-01

Criteria: Title 2 Code of Federal Regulations Part 225, Appendix A, Section C, requires that the costs charged to a federal award be necessary and reasonable to carry out the federal award.

Condition: The Department has not established adequate controls over the approval of requisitions in the Core-CT accounting system. We consider these approvals to be a key control over non-payroll expenditures. Individuals who approve requisitions told us that they are not provided with relevant information about most requisitions and that they generally do not approve requisitions based on a documented need but rather based on whether or not sufficient funds are available to cover the cost.

As a result of this breakdown in a key control, a former employee may have been able to commit fraud. The Department found that between July 2007 and May 2008, the individual requisitioned unnecessary items totaling $4,311 that were probably purchased for personal use. Of this amount, the Department has only been able to locate items costing $1,051. The individual's supervisor approved these requisitions without sufficiently reviewing them. The items purchased included designer pens, calculators, flash drives, leather writing cases, and a camera.

Effect: We question costs of approximately $4,311 as follows:

CFDA #	Amount
93.251	$ 434
93.136	761
93.130	277
93.994	2,839
	$ 4,311

Cause: Weak key controls allowed this condition to occur. The Department has not established adequate policies and procedures for the approval of requisitions to prevent excessive or unnecessary purchases from occurring.

Recommendation: Internal controls over requisitions and their approval by supervisors should be improved.

Agency Response: "We disagree with this finding. The Agency reported this to the auditor as a result of an investigation. The employee has separated from the Agency. Employees have been reminded to keep their passwords in locked/secure locations. We do not believe that the supervisor approved these requisitions, but that the employee in question gained inappropriate access to the supervisor's passwords and approved the requisitions herself. We believe this to be an isolated incident."

Auditors' Concluding Comment: Our finding is not based solely on the terminated employee's activities. As indicated above, individuals who approve requisitions for the IMM and WIC grants do not base their approvals of requisitions on documented program needs but rather on whether or not sufficient funds are available to cover the costs. This type of review and approval is not sufficient to prevent fraud and ensure compliance with federal requirements.

III.D.3. Allowable Costs and Period of Availability – Review and Approval of Vendor Payments

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 2008-2009 and 2009- 2010
Federal Award Number: 4CT700700

Immunization Grants (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 3H23IP122525-07S1 and 5H23IP122525-08 revised

Criteria: Title 2 Code of Federal Regulations (CFR) Part 225, Appendix A, Section C, requires that the costs charged to a federal award be necessary and reasonable to carry out the federal award. In addition, the transaction should be adequately documented.

Title 7 CFR Section 246.16(b)(3) and 45 CFR Section 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.

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.

Condition: We noted insufficient controls over three payments in our sample of 25 non-payroll expenditures from each of the IMM and WIC Grants.

We noted that the Department did not adequately review two invoices totaling $5,150 for shipping costs charged to the IMM grant. The Department did not determine whether the shipments actually occurred or whether the correct rate was being charged by the vendor. As a result, duplicate and excessive payments could occur and not be detected by the Department. Due to the insufficient review by the Department, we were unable to determine how much of this payment was an allowable cost of the IMM grant.

We noted noncompliance with federal requirements and various breakdowns in key controls over an $8,632 purchase that was charged to the WIC program. Initially, the Department purchased 80 items based on a properly approved purchase order (PO). However, the vendor shipped the wrong model. The Department placed those items in storage, but did not initiate a payment to the vendor due to the lack of a valid receiving report. A short time later the Department reordered the 80 items using the same PO. These items were properly received in Core-CT and the vendor was paid, thereby closing the PO in Core-CT. After fifteen months, the Department overrode key controls to process a payment for the first shipment. We noted the following:

- A purchasing employee created a new PO. The form used to justify the new PO was misleading and suggested that the original PO was being revised. However, that PO was already fully expended.

- We were told that another business office employee acted as the receiver in Core-CT. This individual admitted that he had no knowledge of the purchase or whether the items were actually received, and indicated that he had been requested by payment processors to take similar action in relation to other shipments.

- The business office supervisor of the aforementioned employees approved the PO. However, he indicated that he had no knowledge of this particular series of events, including the creation of the new PO by purchasing staff.

- At the time of this audit, 64 out of the 80 incorrectly shipped models were still on hand, providing further evidence that the units were not of much use to the program participants.

- These items were ordered during the 2008 award period and received during the period of availability, but because those funds were no longer available, $8,632 was incorrectly charged to the 2010 award.

Effect: Due to the lack of and insufficient review of documentation, the unnecessary nature of the WIC purchase, and overrides of key controls, we question the costs to the IMM and WIC grant of $13,782 as follows:

CFDA #	# Tested	Population Amount	Questioned Costs
10.557	25	$ 45,788,844	$ 8,632
93.268	25	1,177,381	5,150
			$ 13,782

Cause: The Department did not adequately review and approve invoices before making payments. It kept unnecessary items and overrode controls to process a payment.

Recommendation: The Department of Public Health should ensure compliance with federal requirements by implementing adequate controls over the processing of payments.

Agency Response: "We agree with this IMM finding. The program is responsible for the monitoring of the shipping charges to IMM grants and the Department has instituted additional procedures at the program supervisory level to review and reconcile our shipping reports with the vendor's invoices before payments can be made.

As regards to the WIC program, we partially agree with this finding. The Department purchased 80 breast pumps at a reduced price, lower than the cost of other pumps at the time. Initially, the warehouse did not enter them into the inventory but once they were entered and received in Core-CT, we realized that these pumps did not come with carrying bags. We continue to use these pumps and have issued 16 of the 80 to date. They are issued to women in the program as back-ups whenever their pumps break down, as the original pump bags can be used for these pumps. These pumps also continue to be used in the local WIC agencies to demonstrate and teach women how to use the manual pumps, as there is no need for carrying bags. They are also being used and will continue to be utilized for demonstration when local WIC staff conducts one-day satellite WIC clinics.

The Purchasing employees have been instructed not to amend or revise a closed PO in the future and that new POs must be created in accordance with Purchasing procedures.

The fiscal office employees that have receiving roles in Core-CT have also been instructed to follow the agency's receiving procedure and must receive only the goods and services purchased for the fiscal office. In addition, the payment processing staff must work with the programs to ensure that goods and services purchased by the agency are received in accordance with the agency's receiving guidelines before payments can be made."

Auditors' Concluding Comments: In their response, the Department implies that they intended to purchase the "reduced priced" breast pumps. However, documentation shows that the vendor shipped a lower cost substitute for the item on the original purchase order. We were told by Program personnel that they knew at the time of initial delivery that these pumps did not meet the Department's specifications for working mothers and that the correct units were still needed. Program personnel decided to keep the shipment of "reduced price" breast pumps to distribute to mothers who might not ordinarily qualify for traditional program assistance to promote the breastfeeding initiative. In addition, program personnel had no knowledge of the fiscal office receiving these "reduce priced" breast pumps into Core-CT until our inquiry during the audit. These items are being used only because they have them in stock and not because of an effort by the Department to save money.

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

Immunization Grants (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2007-2008 and 2008-2009
Federal Award Numbers: 3H23IP122525-07S1 and 5H23IP122525-08 revised

Criteria: Title 31 Code of Federal Regulations (CFR) Part 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.

Title 45 CFR Section 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. Title 45 CFR Section 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. Title 45 CFR Section 92.21(e) provides that if a grantee cannot meet the criteria for advance payments under 45 CFR Section 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: The Department of Public Health has established different policies and procedures for compliance with federal cash management requirements based on whether or not a contract meets a $200,000 threshold. 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 cash need rather than actual cash disbursements. For those contracts that are below the threshold, advance funding also is provided for an initial period, but subsequent payments are based on contractually established benchmarks, without consideration of the subrecipients' actual cash needs. Regardless of whether the payments were above or below the threshold, the Department's policies do not comply with the requirements.

Effect: There were no questioned costs as a result of our testing. Our review of the Department's records found that during the 2010 state fiscal year, there were 91 deposits from subrecipients who returned a total of $638,977 in excess funds from all federal awards.

Cause: The Department has not implemented sufficient policies and procedures to adequately determine and monitor 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 continue to monitor opportunities for improvement within available resources."

III.D.5. Cash Management, Period of Availability and Financial Reporting - Coding Errors and Adjustments

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA #10.557)
Federal Award Agency: United States Department of Agriculture
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Number: 4CT700700

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 Year 2009-2010
Federal Award Number: 05-0705-CT-5000

ARRA – Immunization (CFDA #93.712)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Numbers: 3U01CI000307-05S2

ARRA – Preventing Healthcare – Associated Infections (CFDA #93.717) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: 3U01CI000307-05S1

Criteria: Title 45 Code of Federal Regulations (CFR) Section 92.20(a) and (b) indicate, in part, that effective internal control and accountability must be maintained for all grantee and sub grantee assets, assuring their use solely for authorized purposes in accordance with state laws and procedures for expending and accounting for its own funds. Title 7 CFR Section 246.16(b)(3) requires that only costs resulting from obligations of a funding period may be charged to that award.

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 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. Accounting errors and the timing and accuracy of their correction affect the Department's ability to comply with federal cash management and financial reporting requirements.

Condition: The Department has continued to implement the project accounting module in Core-CT. As a result, the number of coding errors noted by our audit continued to decrease. However, we still noted that some accounting corrections that were reflected in various financial reports were not recorded in Core-CT in a timely manner. In addition, the Department did not record or update the correct CFDA #s in Core-CT resulting in errors that required adjustments to the State's Schedule of Expenditures of Federal Awards (SEFA).

Effect: There were no questioned costs noted. Failing to record transactions correctly 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 of errors and further reduces the efficiency of staff. In addition, the errors and delays in record keeping 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; have made monitoring for compliance with the period of availability requirements more difficult; have resulted in delays in recovering $228,589 in indirect costs; and caused misstatements to the SEFA that required audit adjustments.

Cause: Clerical errors have contributed to some of these findings.

Recommendation: The Department of Public Health should improve controls designed to ensure that transactions are recorded in the proper grant award and that adjustments are properly made in a timely manner, in order to clearly illustrate compliance with federal cash management, period of availability, financial reporting requirements, and sound grant management practices.

Agency Response: “We agree in part with this finding. Many continuing grants have been sent to DPH with changed CFDA numbers. The Department strives to create new accounts and to move personnel and other expense costs to the proper new SID and to adjust the cash and indirect costs associated with these changes in a timely manner. The Department has implemented procedures and regularly checks all grants for changes to CFDA numbers. The indirect costs are drawn on a quarterly basis for all accounts."

Auditors' Concluding Comments: Delays in preparing two financial reports resulted in a delay in charging indirect costs totaling $228,589. There was a delay of 90 days in recovering $153,254 and a delay of ten months in recovering $75,335

III.D.6. Allowable Costs –Non-payroll Expenditures

Immunization Grants (IMM) (CFDA #93.268)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Years 2009-2010
Federal Award Number: 5H23IP122525-08 revised

Criteria: Title 2 Code of Federal Regulations (CFR) Part 225, Appendix A, Section C, requires that the costs charged to a federal award be necessary and reasonable to carry out the federal award.

Condition: An employee who was not charged to the IMM grant received a $125 annual shoe allowance that was charged to the IMM grant. The charge was not supported by the IMM grant budget or award and is therefore considered a questioned cost.

Effect: We question the cost of $125 charged to the IMM grant.

Cause: The employee's supervisor did not properly allocate the charge to the General Fund.

Recommendation: The Department should comply with federal cost requirements by only charging federal awards for necessary and reasonable costs that are included in the federal awards and budgets.

Agency Response: "We disagree with this finding. The employee in question while not paid from the Immunization grant, performs work solely for the Immunization Program. His duties require special protective gear and we feel that it is an appropriate charge to this grant."

Auditors' Concluding Comments: The budget for the IMM grant does not provide for any costs relating to this General Fund employee's activities. Therefore, the shoe allowance should also be charged to the General Fund.

III.D.7. Allowable Costs/Cost Principles – Adjustments and Documentation of Costs

Water Protection Grants to the States (CFDA #66.474) Non Major Program
Federal Award Agency: Environmental Protection Agency
Agreement Period: October 1, 2002 to December 31, 2006
Federal Award Number: WP981736-01

State Public Water System Supervision (CFDA #66.432) Non Major Program
Federal Award Agency: Environmental Protection Agency
Agreement Period: October 1, 2003 to September 30, 2007
Federal Award Numbers: F00147004, F00147005, F00147006, F00147007

Background The United States Environmental Protection Agency (EPA) hired an Independent Public Accounting (IPA) firm to review charges to three water-related grants. Based on the EPA's review of the Department's responses to the IPA's findings, reimbursement of $308,558 in questioned costs was requested and concerns over internal controls were identified. The amount of the questioned costs is disputed by the Department.

Criteria: Correspondence from the EPA dated December 20, 2010 identified concerns regarding the Department's handling of the grants and made recommendations to improve their "time, labor, and grants financial management."

Condition: The EPA's correspondence noted the following concerns:

- Supporting documentation was not readily available,
- Documentation supporting costs associated with vehicle usage needs improvement,
- Adjustments between grants to cover shortfalls and overruns are unallowable,
- Tracking and approval of charges need increased scrutiny by appropriate managers and finance offices to review and approve costs as being applicable, allocable and reasonable under the grant.

Effect: Of the $308,558 in questioned costs identified by the EPA, the Department has agreed that $8,277 was incorrectly charged to the awards and has returned the funds. The Department has filed a formal dispute over the remaining $300,281.

Award	CFDA #	EPA Questioned Costs
WP981736-01	66.474	$ 50,623
F00147004	66.432	257,935
		$ 308,558

Cause:	These conditions appear to be the result of insufficient administrative oversight.
Recommendation:	The Department should improve internal controls over water-related grants.
Agency Response:	"We agree in part with this finding. The Department was asked [by the EPA] to provide backup documentation dating back to state fiscal year 2000, which was not readily available in the timeframe allowed for the response. These documents were recently submitted to EPA. The employees associated with the original costs have since retired and new procedures have been in place for two years, based upon a Corrective Action Plan accepted by EPA. The Department is currently disputing the amount due to EPA. To date, we have paid $8,277. We are currently in discussions with EPA. The final resolution by EPA will be shared with the Auditors as soon as it is received."

E. DEPARTMENT OF CHILDREN AND FAMILIES

III.E.1. Eligibility – Inadequate Documentation

Foster Care – Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1401 and 1001CT1401

ARRA - Foster Care – Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1402 and 1001CT1402

Criteria: States must provide documentation that criminal records checks have been conducted with respect to prospective foster parents. (Title 45 Code of Federal Regulations (CFR) Section 1356.30(a))

For the purpose of Title IV-E eligibility, a foster family home is defined as the home of an individual or family licensed or approved as meeting the standards established by the state licensing authority. Anything less than full licensure or approval is insufficient for meeting Title IV-E eligibility requirements. (45 CFR Section 1355.20(a))

A child's removal from the home must be in accordance with a judicial determination to the effect that continuation in the home would be contrary to the child's welfare, or that placement in foster care would be in the best interest of the child. The judicial order must be explicitly stated in the court order. (45 CFR Section 1356.21(d))

Condition: We reviewed a sample of 60 Foster Care maintenance payments totaling $57,099 ($32,090 Federal Financial Participation (FFP)) for compliance with federal eligibility requirements. Our sample was randomly selected from an audit universe of $58,253,627 ($32,510,939 FFP) for the fiscal year ended June 30, 2010. We could not determine the number of transactions in our audit universe. Our review disclosed the following:

- For six transactions ($2,521, $1,417 FFP), criminal background checks were not adequately documented. For all six exceptions, the provider file did not contain evidence of local background checks. One provider file did not contain any FBI fingerprint-based background check results.

- For one transaction ($781, $439 FFP), the foster family was not fully licensed during the audited period. The Department initiated a provider license revocation. The revocation process continued for several years due to appeals. During this time, the Department did not re-license the provider.

- For one transaction ($463, $260 FFP), a judicial determination supporting the child's removal from the home was not on file.

Effect: The eight transactions ($3,765, $2,116 FFP) identified above are questioned due to noncompliance with federal requirements.

Cause: The Department's internal controls for ensuring that complete criminal record checks are performed and documented were inadequate.

The Foster and Adoption Services Unit did not communicate to the Revenue Enhancement Unit that the foster family was no longer fully licensed. The Revenue Enhancement Unit determines a recipient's eligibility to the Foster Care program.

Recommendation: The Department of Children and Families should improve its internal controls to ensure that complete criminal background checks are performed and adequately documented. In addition, the Department should implement internal controls to ensure that actions and/or proceedings potentially affecting the status of a fully licensed foster care provider be communicated to the Unit responsible for determining client eligibility.

Agency Response: "We agree with this finding. Beginning in March 2011, the verification of eligibility documentation will be automated which will greatly diminish the possibility of claiming ineligible cases. In addition, internal controls will be strengthened by requiring Foster and Adoptive Services Unit (FASU) Program Managers to sign off on the completion and documentation in LINK of the background checks prior to the license being issued. At the final stage of completing the licensing process, a checklist will be prepared, listing all the documents that are necessary to issue a license. The checklist will require the supervisor to examine the file to make sure all the appropriate documents are completed and in the file. Once the checklist has been verified and completed the supervisor will sign the checklist attesting that the file has been checked and the necessary documents are in the file. The file will then be given to the manager directly responsible for the supervisor and the same process will take place once again.

In cases where a license is revoked or suspended, and DCF can no longer make a claim, the FASU manager overseeing the case will be responsible for notifying a designated manager in Revenue Enhancement immediately. Additionally, the Revenue Enhancement Unit will develop an email reminder to be sent to the FASU Managers, explaining the need to notify Revenue Enhancement when a license is put on hold or when the license has been taken off hold. The email will allow for a reply to be made directly to the designated manager in Revenue Enhancement within the appropriate timeframe to prevent submission of an inappropriate claim."

III.E.2. Activities Allowed or Unallowed/Allowable Costs/Cost Principles – Inadequate Documentation

Foster Care – Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1401 and 1001CT1401

ARRA - Foster Care – Title IV-E (CFDA #93.658)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1402 and 1001CT1402

Criteria: Office of Management and Budget Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments", states that to be allowable under federal awards costs must be adequately documented.

Condition: We reviewed a sample of 60 Foster Care maintenance payments totaling $57,099 ($32,090 Federal Financial Participation (FFP)) for compliance with federal activities allowed/unallowed and allowable cost/cost principles requirements. Our sample was randomly selected from an audit universe of $58,253,627 ($32,510,939 FFP) claimed for federal reimbursement during the state fiscal year ended June 30, 2010. We could not determine the number of transactions included in our audit universe.

Our review disclosed five transactions, totaling $3,888 ($2,185 FFP) that were not adequately supported. We noted the following:

Two transactions ($3,798, $2,134 FFP) were not adequately supported. For one transaction, no documentation was provided in support of the payment. For the other transaction, the Department provided vendor invoices indicating "support staff" as the services/activities provided but did not provide any supporting documentation indicating the type and extent of the services provided and whether the client actually received the services.

Three transactions ($90, $51 FFP) were for holiday checks. State policy does not provide guidance on what items or activities the funds can be spent. The payments were not supported by receipts nor were the expenditures identified in order to determine allowability under the Foster Care program.

Effect: The five transactions ($3,888, $2,185 FFP) identified above are questioned because they were not adequately supported.

Cause: The Department's internal controls for ensuring that payments were adequately supported prior to claiming federal reimbursement were inadequate.

It has been customary for the Department to send foster children annual holiday checks. The Department has not established written policies regarding what types of goods or services can be purchased with these monies.

Recommendation: The Department should improve its internal controls to ensure that payments are adequately supported prior to requesting federal reimbursement. In addition, the Department should document that holiday payments are allowable expenditures under the federal Foster Care program prior to claiming such costs.

Agency Response: "We agree with this finding. The Department will cease the practice of applying for reimbursement for Holiday Checks and make corrections to prior periods. Although the Department is confident that a policy will be able to be promulgated regarding the proper use of these funds, because the child is the direct recipient of the funds that are to be used for holiday purchases, it is very unlikely that the Department would be able to collect receipts from the children documenting the purchases made with the funds.

The Department is in the midst of creating a Unit to perform audits of LINK expenditures entered by the Area Offices. The audit team will perform on-site post audits of LINK expenditures and educate the Area Office personnel regarding proper documentation and appropriate expenditures. Fiscal Services plans to perform these audits beginning in May of 2011."

III.E.3. Eligibility– Inadequate Documentation/Recipient Eligibility

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1407 and 1001CT1407

ARRA - Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1403 and 1001CT1403

Criteria: States must provide documentation that criminal records checks have been conducted with respect to prospective adoptive parents. (Title 45 Code of Federal Regulations (CFR) Section 1356.30(a))

The adoptive assistance agreement must be signed and in effect at the time of, or prior to, the final decree of adoption. (45 CFR Section 1356.40(b))

Section 473(a) (92) and Section 473 (a) (4) of the Social Security Act establishes the adoption assistance eligibility requirements. Title IV-E adoption assistance is available on behalf of a child if s/he meets the eligibility criteria.

Condition: We reviewed a sample of 60 Adoption Assistance payments totaling $52,855 ($29,699 Federal Financial Participation (FFP)) for compliance with federal eligibility compliance requirements. Our sample was randomly selected from an audit universe of $44,961,067 ($25,266,737 FFP) for the fiscal year ended June 30, 2010. We could not determine the number of transactions in our audit universe. Our review disclosed the following:

- For 22 transactions ($18,498, $10,396 FFP), criminal background checks were not adequately documented. We were unable to verify that the provider underwent a complete criminal background check because documentation of one or more components of the criminal background check on the provider was missing. This included supporting documentation for criminal background checks that were not received and/or maintained on file for the period under review; the use of checklists to represent that checks were performed rather then the actual search results; and provider files that could not be located at the Department's record storage facility.

- For one transaction ($826, $464 FFP), the adoption subsidy payment was unsupported due to missing documentation. The closed adoption record containing the child's case record including the adoption decree and the child's birth certificate could not be located by the Department.

- For two transactions ($1,708, $960 FFP), the Department claimed federal reimbursement for children who were ineligible. In each case, the Department correctly determined the child to be Title IV-E ineligible.

However, the Title IV-E determination was not correctly reflected in the Department's eligibility system. Federal claims are based on quarterly reports generated from the child's eligibility determination stored in the eligibility system and payments made from the Department's payment system.

Effect: The twenty-five transactions ($20,206, $11,356 FFP) identified above are questioned due to noncompliance with federal requirements. The transaction amount questioned relative to the missing closed adoption record was also cited and included as one of the transactions identified in the condition regarding inadequate criminal records check documentation.

Cause: The Department did not establish adequate procedures to ensure that eligibility information for active adoption assistance case files was maintained in accordance with federal eligibility requirements.

Recommendation: The Department of Children and Families should improve internal controls to ensure that all documents supporting the eligibility for adoption assistance are obtained and maintained.

Agency Response: "We agree with this finding. Beginning in March 2011, the verification of eligibility documentation will be automated which will greatly diminish the possibility of claiming ineligible cases. In addition, internal controls will be strengthened by requiring Foster and Adoptive Services Unit Program Managers to sign off on the completion and documentation in LINK of the background checks prior to the license being issued. At the final stage of completing the licensing process, a checklist will be prepared, listing all the documents that are necessary to issue a license. The checklist will require the supervisor to examine the file to make sure all the appropriate documents are completed and in the file. Once the checklist has been verified and completed the supervisor will sign the checklist attesting that the file has been checked and the necessary documents are in the file. The file will then be given to the manager directly responsible for the supervisor and the same process will take place once again."

III.E.4. Activities Allowed or Unallowed/Allowable Costs/Cost Principles – Unallowable Services

Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1407 and 1001CT1407

ARRA - Adoption Assistance (CFDA #93.659)
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 0901CT1403 and 1001CT1403

Criteria: Adoption assistance payments made on behalf of a child cannot exceed the amount the child would have received if s/he had been in a foster family home. Special allowances that may be made on behalf of an individual child in certain situations in foster care, such as child care or clothing allowances, are not permitted as an allowable additional reimbursement in the adoption assistance program. Special allowances for individual children that are over and above the state's foster care payment standard cannot be included in the amount negotiated in the adoption assistance agreement since the adoption assistance payment cannot exceed the foster care maintenance payment rate for the child. (Title 42 United States Code (USC) Section 673(a)(3)) (ACYF-CB-PA-01-01)

Condition: We reviewed a sample of 60 Adoption Assistance payments totaling $52,855 ($29,699 Federal Financial Participation (FFP)) for compliance with federal activities allowed/unallowed and allowable cost/cost principles requirements. Our sample was randomly selected from an audit universe of $44,961,067 ($25,266,737 FFP) for the fiscal year ended June 30, 2010. We could not determine the number of transactions in our audit universe. Our review disclosed the following:

We noted four payments totaling $2,799 ($1,573 FFP) in our sample were made for miscellaneous adoption payments to families who received these payments in addition to receiving their monthly recurring subsidized adoption payment. It is the Department's policy to pay the monthly adoption subsidy equal to the prevailing foster care rate that is applicable to the child's age and special needs. Further review of the miscellaneous adoption payment account disclosed that an additional $219,228 ($123,206 FFP) was paid on behalf of eligible Title IV-E children whose subsidized adoption recurring payment equaled the prevailing foster care rate.

Effect: The Department improperly claimed $222,027 in federal reimbursement ($124,779 FFP).

Cause: The Department incorrectly assigned a Title IV-E eligibility status to the miscellaneous adoption assistance account in its LINK computer system to which these transactions were coded. The Department's federal claiming process considers the eligibility status of a service when processing claims for reimbursement. The Department has since changed the status of the account to ineligible in LINK.

Recommendation: The Department of Children and Families should review its internal controls to ensure that only allowable costs are claimed under the federal Adoption Assistance program.

Agency Response: "The Department agrees with this finding. The LINK system was updated to remove the miscellaneous adoption assistance as a Title IV-E eligible expense on December 3, 2010."

III.E.5. Subrecipient Monitoring – TANF Eligibility Rates

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2008-2009 and 2009-2010
Federal Award Number: G0901CTTANF and G1001CTTANF

Background: The Department of Social Services (DSS) is Connecticut's lead state agency designated to administer the TANF program. Connecticut administers a variety of programs through a number of state agencies under TANF including the Department of Children and Families (DCF). DCF provides child welfare prevention and intervention services to its clients when conditions warrant intervention by the Department.

Several of these services are delivered by providers contracted by DCF. For some of these services, providers are required to determine TANF eligibility for each of its clients that they serve. Providers complete a TANF Eligibility Determination/Redetermination Form for each client. Providers are required to retain the forms for audit purposes. Providers submit summary results of their eligibility determinations each quarter to DCF. DCF then prepares a worksheet identifying payments made to all providers in the quarter and the percentage of clients determined TANF eligible. The worksheet is submitted to DSS who uses the worksheet to claim federal reimbursement for provider payments based on the percentage of TANF eligible clients served by each provider.

Criteria: A pass-through entity is responsible for monitoring a subrecipient's use of federal funds to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations and the provisions of contracts and/or grant agreements.

Condition: We tested 16 TANF eligibility rates submitted by eight providers that were used by DSS to claim federal reimbursement in the fiscal year ended June 30, 2010. We requested TANF Eligibility Determination/Redetermination forms from the providers in support of the submitted rates and re-calculated the rates using the submitted determination forms. Our test disclosed the following:

- For five rates, the determination forms supported a lower rate.
- For four rates, the determination forms supported a higher rate.
- For four rates, we could not re-calculate the rate because the provider did not submit the determination forms.
- For three rates, the determination forms supported the submitted rates.

Effect: Rates used to claim federal reimbursement are not reliable. The above rates were used to claim $1,122,862 in federal reimbursement.

Cause: The Department did not adequately monitor its providers to ensure that the eligibility statistics were properly calculated and supported by TANF Eligibility Determination/Redetermination Forms.

Recommendation: The Department of Children and Families should strengthen its internal controls to ensure that accurate statistics are used to calculate costs that are used to claim federal reimbursement under the TANF program.

Agency Response: "We agree with this finding. In the 4^{th} quarter of fiscal year 2009, the Department began conducting its own audit of the eligibility forms completed by providers, selecting a different claimed service each quarter and requesting providers send the forms in for review. Providers whose documentation did not match the reported number of eligible and ineligible clients were notified and corrections were made. However, further study has revealed that errors most often occur when providers do not follow the directions on the forms themselves. All providers of TANF claimed services will receive new forms with the instructions clarified and highlighted in February 2011. In addition, the developers of the data reporting system in which providers enter TANF eligibility status, PSDCRS (Program and Services Data and Collection Reporting System) have agreed to create a prospectus for automating the filling out of the form in order to prevent the errors in the assessment of TANF eligibility and in recording the eligibility in the data system. Depending on the cost and complexity of the programming required, the change could be implemented in the July 2011 release of PSDCRS."

III.E.6. Allowable Costs/Cost Principles: Case Management Claims

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Year 2009-2010
Federal Award Number: G1001CTTANF

Background: The Department of Social Services (DSS) is Connecticut's lead state agency esignated to administer the TANF program. Connecticut administers certain aspects of the TANF program through a number of state agencies including the Department of Children and Families (DCF).

DSS claimed federal reimbursement under TANF for expenditures of in-home and out-of-home case management services incurred by DCF. The case management expenditures were allocated to TANF through DCF's Cost Allocation Plan. DSS makes changes to the numbers so that the costs can be claimed on the appropriate lines of the TANF claim form (ACF-196).

For TANF in-home case management, the amount claimable under TANF is the result of the TANF eligibility rate multiplied by the total costs claimable under TANF, which is reduced by ten percent to account for retroactive changes in amounts allocated to Title IV-E.

For TANF out-of-home case management, the amount claimable under TANF is the result of the percentage of cases with placements of less than one year duration multiplied by the total costs claimable to TANF, which is reduced by ten percent to account for retroactive changes in amounts allocated to Title IV-E.

To claim such reimbursements, DCF Revenue Enhancement eligibility services workers complete TANF determination forms for all new placement cases and assign appropriate eligibility codes. The data is summarized and used to calculate the TANF eligibility rate and the percentage of cases with placements of less than one year duration. Both detailed and summary reports are generated to support the reductions in the claims.

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: DSS claimed $8,045,780 and $3,020,335 in-home and out-of-home case management services, for the quarter ended March 31, 2010.

The total amount reported for in-home case management services after a ten percent reduction was based on an eligibility rate of 84.52 percent. We compared the summary reports used to compute the eligibility rate to the detailed reports for twelve of the fourteen codes used to calculate the eligibility rate and noted significant variances in the number of children determined eligible, ineligible, and not determined that could not be explained by the Department for eleven out of the twelve codes reviewed.

The total amount reported for out-of-home case management services after a ten percent reduction was based on a rate of 40.69 percent for cases less than one year duration. We compared the summary reports used to compute that rate to the detailed reports for all eleven TANF eligible codes for the months of January, February and March, 2010. Our review disclosed discrepancies between the number of children per the summary reports and detailed reports for all codes reviewed. The figures for the months of January, February and March varied from 76 to 99 percent.

Effect: The Department has lessened assurance that the percentages used to allocate case management expenditures are accurate and equitably allocated.

Cause: The Department's reporting system for TANF case management is inadequately designed.

Recommendation: The Department of Children and Families should design and implement internal controls to ensure that its TANF case management reporting system provides complete and accurate information consistent with its financial reporting objectives and needs.

Agency Response: **"**We agree with this finding. DCF and DSS need to re-design and implement the complete set of TANF Reports.

DSS originally developed the TANF Reports directly with Maximus, and DCF was not part of the Joint Application Design (JAD) sessions. Therefore, the Department is not able to provide details as to how the TANF Reports were designed and generated and how they are ultimately used in TANF claiming.

In October 2009, DCF Revenue Enhancement Division (RED) and Information Systems Division (IS) staff members made themselves available to attend DCF/DSS Joint Application Development sessions in order to create the Business Requirements and Detailed Design for the new set of TANF Reports. The target starting period was December 2009. The meetings were to be scheduled by the DSS Fiscal Division Director. Repeated attempts throughout 2010 to move forward with scheduling the JAD sessions elicited no response. However, a call was received on January 24, 2011, indicating DSS staff is now available, and the DCF RED/IS team will attend TANF Reports JAD sessions in February 2011."

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 Year: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: S010A080007 and S010A090007

Special Education – Grants to States (IDEA Part B) (CFDA #84.027)
Federal Award Agency: U.S. Department of Education
Award Year: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: H027A080021 and H027A090021

Special Education–Preschool Grants (IDEA Preschool) (CFDA #84.173)
Federal Award Agency: U.S. Department of Education
Award Year: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: H173A080024 and H173A090024

School Breakfast Program (CFDA #10.553)
National School Lunch Program (CFDA #10.555)
Federal Award Agency: U.S. Department of Agriculture
Award Year: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: 2009IN109844 and 2010IN109844

Temporary Assistance to Needy Families (TANF) (CFDA #93.558)
Federal Award Agency: Department of Health and Human Services
Award Year: Federal Fiscal Years 2008-2009 and 2009-2010
Federal Award Numbers: G091CTTANF and G1001CTTANF

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 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) state 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 provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.

Condition: We observed that the Department of Education's process for examining submitted Schedule of Expenditures of Federal Awards (SEFA) was inadequate, in that we found the following:

- The Department's monitoring process had failed to disclose and resolve lacking or erroneous identification of federal programs in 6 of the 10 (60 percent) SEFAs selected for testing.

- The State has identified certain state-funded programs (i.e. Family Resource Centers, Priority School Districts, Youth Service Bureaus, etc.) at the Department of Education as candidates to claim for reimbursement under the federal Temporary Assistance for Needy Families Program (TANF). However, the Department is not informing its subrecipients that those state funds are subject to claiming under TANF. As a result, the subrecipients and their independent public auditors are not aware of any related federal compliance requirements imposed on them by the TANF program. Further, the subrecipients may not be providing audits to the Department in accordance with OMB Circular A-133.

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 Department of Social Services cannot ensure that state expenditures made by other agencies and claimed for federal reimbursement were used for allowable activities.

Cause: The State Department of Education does not have a formal review process that entails the selection of an appropriate sample of submitted audited SEFAs for testing.

The Department of Social Services and the Department of Education have not worked together to ensure that the Department of Education is informing its subrecipients that some of the state funds provided to them are claimed for reimbursement under the TANF program.

Recommendation: The State Department of Education should develop and implement formal controls specifically designed to prevent the recurrence of the above-noted conditions and should ensure that audit data on the SEFA matches data on ED-141 form as this will provide even greater accountability and verifiability over federal programs and federal funds.

The State Department of Education and the Department of Social Services should work together to ensure that the State Department of Education is informing it's subrecipients that some of the state funds provided to them are claimed for reimbursement under the TANF program.

Agency Response: "We agree in part. The U.S. Department of Education (USDE) issued a program determination letter dated September 21, 2010, accepting the corrective actions taken by the Connecticut State Department of Education (CSDE) as adequate for developing and implementing a process for examining the Schedule of Expenditures for Federal Awards. CSDE is continuing to implement the corrective actions as accepted by the USDE."

"As to the issue of informing CSDE subrecipients that certain state funds provided to them are used for claims against the federal TANF program administered by the Department of Social Services (DSS), the CSDE will (1) continue to annually provide DSS with accurate CSDE subrecipient information, and (2) respond to DSS requests concerning the need to advise CSDE subrecipients claimed for reimbursement under the TANF federal reporting regulations."

III.F.2. Special Tests and Provisions – Access to Federal Funds for New and Significantly Expanded Charter Schools

Title 1, Part A Improving Basic Programs Grants (CFDA #84.010)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2007-2008, 2008-2009 and 2009-2010
Federal Award Numbers: S010A070007, S010A080007 and S010A090007

ARRA-Title 1, Part A Improving Basic Programs Grants (CFDA #84.389)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2009-2010
Federal Award Number: S389A090007

Special Education – Grants to States (IDEA Part B) (CFDA #84.027)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2007-2008, 2008-2009 and 2009-2010
Federal Award Numbers: H027A070021, H027A080021 and H027A090021

ARRA-Special Education – Grants to States (CFDA #84.391)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Year 2009-2010
Federal Award Number: H391A090021

Improving Teacher Quality State Grants (CFDA #84.367)
Federal Award Agency: U.S. Department of Education
Award Years: Federal Fiscal Years 2007-2008, 2008-2009 and 2009-2010
Federal Award Numbers: S367A070006, S367A080006 and S367A090006

Criteria: Pursuant to Title 34 Code of Federal Regulations (CFR) Part 76, Subpart H, State Education Authorities (SEA) "must implement procedures that ensure that the charter school Local Education Authority (LEA) receives the proportionate amount of funds for which the charter school LEA is eligible under each covered program." The allocation of such funds for significantly expanded schools may not be based solely on prior year allocations. Although the SEA is permitted great flexibility in the development of its procedures, such procedures must be reasonable and must not treat all expansions as insignificant.

Condition: During our prior review, we noted that the State Board of Education approved enrollment increases for six charter schools. Of the six, four enrollment increases were due to the addition of grade levels. Two of the approved enrollment increases due to the addition of grade levels appeared to be of sufficient volume and proportion to potentially qualify as "significantly expanded."

We asked for the Department's procedure for determination of significance and allocation of funds to charter schools that would qualify as significantly expanded. The Department was unable to provide the requested documentation. We were informed that funds for all existing charter schools were allocated based on prior year actual enrollment data.

As the federal regulations afford the SEA with great flexibility in setting the criteria for its determination of significance, in the absence of a procedure, any attempt at quantification of potential under or over allocations would be conjecture. Additionally, the impact of any changes would not be easy to quantify within the scope of this testing due to the complexity of the calculation required.

For the current audited period, we asked for the status of the Department's efforts to address the condition previously noted. We were informed that the calculation and distribution for the audited period had transpired prior to our discovery of the condition. We were further informed that the Department's calculation for state fiscal year 2011 would consider our recommendation, but no formal definitions, policies or procedures had been adopted to date.

Effect: The Department is not compliant with the requirement to have developed and implemented a procedure to ensure that each charter school receives the proportionate amount of funds for which it is eligible. Furthermore, the Department is at increased risk that federal funds for significantly expanded charter schools have been incorrectly allocated.

Cause: The Department has not developed or implemented procedures to ensure that charter schools receive the proportionate amount of funds for which each school is entitled under the programs subject to this federal requirement.

Recommendation: The Department of Education should develop and implement procedures to ensure that charter schools receive the proportionate amount of funds for which each school is entitled under the programs subject to this federal requirement. The Department should apply the procedures they develop to the payments made for the audited period and make any appropriate adjustments.

Agency Response: "We agree with the finding. The Department is currently adopting a recommended policy to ensure that existing charter schools experiencing significant growth receive their proportionate share of Title 1 funding. The policy is predicated on those charter schools meeting three conditions relative to an enrollment expansion, whereby they will be treated in the Title 1 determinations in the same manner as new charter schools. The Bureau of Grants Management will develop procedures consistent with the policy to address any recalculation of grant payments necessitated by adjustments in enrollment or free and reduced meal data of applicable charter schools."

G. UNIVERSITY OF CONNECTICUT

III.G.1. Eligibility – Student Standing

ARRA - Nurse Faculty Loan Program (CFDA #93.408) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2010
Federal Award Number: 1 E0AHP15378-01-00

Criteria: In accordance with the Terms and Conditions set forth in the Notice of Grant Award, students must be enrolled in an eligible Master's or Doctoral nursing degree program at the time the loan is established and must maintain good academic standing.

Condition: Program disbursements totaled $131,561 during the fiscal year ended June 30, 2010. We tested payments made to four students during that period having an aggregate value of $37,387. We found that one of the four students in our test sample was on probation and another was not enrolled in an eligible degree program. Questioned costs (disbursements to the two students) totaled $11,095, amounting to 30 percent of the amount tested.

Effect: Loans were made to students that did not meet the programs eligibility requirements.

Cause: Program administrators did not follow the guidance provided in the Notice of Grant Award.

Recommendation: The University of Connecticut should review all loans made; the Nurse Faculty Loan Program fund should be reimbursed for all disbursements made to ineligible students.

Agency Response: "We agree with this finding."

III.G.2. Special Tests and Provisions – Timely Disbursement of Funds

ARRA - Nurse Faculty Loan Program (CFDA #93.408) Non Major Program
Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2010
Federal Award Number: 1 E0AHP15378-01-00

Criteria: Per the Terms and Conditions set forth in the Notice of Grant Award, the grantee was required to disburse all ARRA-Nurse Faculty Loan Program funds by June 30, 2010.

Condition: Federal funds awarded totaled $130,359. The required matching institutional capital contribution was $14,484. Only $131,561 of the total program funding of $144,843 was disbursed by June 30, 2010.

Effect: Funds were not disbursed within the required timeframe.

Cause: Program administrators did not follow the guidance provided in the Notice of Grant Award.

Recommendation: The University of Connecticut should seek guidance from the awarding agency as to what remedial action may be required.

Agency Response: "We agree with this finding."

III.G.3. Eligibility – Citizenship Status

ARRA - Trans-NSF Recovery Act Research Support (CFDA #47.082)
Federal Award Agency: National Science Foundation
Award Year: State Fiscal Year Ended June 30, 2010
Federal Award Number: 0934749

Criteria: Per the notice of award, the grantee is responsible for assuring that all recipients are United States citizens, nationals or permanent resident aliens.

Condition: Program administrators assumed that admission to the Graduate School evidenced eligibility. They did not take steps to verify that all program participants were United States citizens, nationals or permanent resident aliens.

We reviewed the applications for admittance to the Graduate School filed by five of the 20 program participants. All had stated (by checking a box on the application) that they were United States Citizens. We did not find further documentation of their status; the Graduate School does not require applicants to provide documentation to support such statements.

Effect: The University did not take adequate steps to ensure that this eligibility requirement was met.

Cause: Program administrators assumed that admission to the Graduate School evidenced eligibility. However, status as a United States citizen, national or permanent resident alien is not a prerequisite for admission to the Graduate School. Further, as noted above, the Graduate School does not verify applicants' claims of citizenship status.

Recommendation: The University of Connecticut should verify the citizenship status of program participants. If the eligibility of any participants cannot be verified, the program should be reimbursed for any stipends paid to those participants.

Agency Response: "We agree with the finding and are taking steps to verify the eligibility of all participants. We will work with Office for Sponsored Programs staff to report the condition to the sponsor and request direction regarding disposition of the funds."

III.G.4. Late Reporting

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2010
Research and Development Programs:
Mental Health Research Grants (CFDA #93.242):
Account # 523599 – "Role of Growth Factors in Synaptic Morphology by Growth Factors" – 5 R01 MH069778-04 from the National Institutes of Health, project period May 4, 2004 through April 30, 2009
Trans-NIH Recovery Act Research Support (CFDA #93.701):
Account # 525210 – "Dyslexia Susceptibility Genes and Mechanisms of Neuronal Development" – 3 R01HD055655-02S1 from the National Institutes of Health, project period June 1, 2009 through October 31, 2009
Account # 525233 – "Reversibility of Neocortical Malformation" – 3 R21NS062416-02S1 from the National Institutes of Health, project period June 27, 2009 through October 31, 2009

Criteria: Per the NIH Grants Policy Statement, financial reports are to be submitted on later than 90 days after the end of the period.

Condition: We reviewed seven financial reports. We found that three of the seven were not submitted within 90 days. The report on award 5 R01 MH069778-04 was 47 days late, the report on award 3 R01HD055655-02S1 was 42 days late and the report on award 3 R21NS062416-02S1 was 110 days late.

Effect: Financial reports were not submitted within the required time period.

Cause: The cause could not be readily determined.

Recommendation: The University of Connecticut should file financial reports within the required time period.

Agency Response: "Management agrees with the finding. The Post-Award staff has been reminded of the importance of timely submission of all required reports. We also regularly remind the faculty and staff that their assistance is necessary to ensure timely reporting. Post-award procedures dictate that the Principal Investigator or designee return draft expenditure reports within 10 business days from the date sent. However, this requirement has not been consistently enforced. The staff has also been reminded that OMB Circular A-110 permits the University to request extensions for filing reports when necessary. Our operating procedures require that such requests be made in writing, and that the Financial Records System (FRS) be updated once we obtain approval for a new financial report due date. In addition, we have recently completed the first phase of a dashboard system for monitoring closeout activity. The dashboard enables Post-Award personnel to more closely monitor accounts. We hope that the dashboard, in combination with more oversight by team leaders and the Assistant Director will help reduce instances of late reporting."

III.G.5. Cash Management

Federal Award Agency: Department of Defense
Award Year: State Fiscal Year Ended June 30, 2010
Research and Development Programs:
Military Medical Research and Development (CFDA #12.420)
Account # 525331 – "Tracking the Health of Soldiers with Advanced Implantable Nano-Sensors" – W81XWH-09-1-0711 from the U.S. Army Medical Command, project period September 11, 2009 through April 15, 2011
Air Force Defense Research Sciences Program (CFDA #12.800)
Account # 525227 – "Production, Manipulation and Applications of Ultracold Polar Molecules" – FA9550-09-1-0588 from the Air Force Office of Scientific Research, project period June 1, 2009 through July 31, 2012

Federal Award Agency: Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2010
Research and Development Programs:
Medicaid Transformation Grants (CFDA #93.793)
Account # 525053 – "Medicaid Transformation Project E - Prescribing MIE" – Pass-through award 078UCP-MTP-01 from the Connecticut Department of Social Services, project period July 1, 2007 through June 30, 2010

Criteria: Per Title 31 Code of Federal Regulations (CFR) Section 205.33, 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. The grantee must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The grantor must limit a funds transfer to the minimum amounts needed and must time the disbursement to be in accord with the actual, immediate cash requirements.

Condition: We noted that average daily cash balances in excess of $100,000 were maintained for three awards. These cash balances were significantly in excess of immediate cash needs.

An average daily cash balance of $467,385 was maintained for award W81XWH-09-1-0711; the average amount expended each day was $1,000. An average daily cash balance of $773,897 was maintained for award FA9550-09-1-0588; the average amount expended each day was $1,737.68. An average daily cash balance of $146,641 was maintained for award 078UCP-MTP-01; the average amount expended each day was $1,357.

Effect: Excess cash balances were maintained.

Cause: The grantor agencies transferred funds substantially in excess of the University's immediate cash needs.

Conclusion: This condition was deliberately engendered by the grantor agencies; they bear the responsibility for taking appropriate remedial action.

Agency Response: "Not applicable."

III.G.6. Allowable Costs/Cost Principles – Time and Effort

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2010
Research and Development Programs: Various

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 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.

Condition: We inquired of 35 researchers as to the accuracy of their Fall 2009 time and effort reports. Our review disclosed that 25 of the reports appeared to understate the percentage of effort devoted to sponsored research.

One researcher's time and effort report presented 100 percent of effort devoted to instruction, but the researcher informed us that only 30 percent was actually devoted to instruction. The remaining 70 percent of effort was devoted to sponsored research. On the average, the percent of effort devoted to sponsored research was understated by 29 percentage points.

A separate review of the key personnel compliance requirement yielded similar results. Some of the time and effort reports on file for the awards tested indicated that key researchers had not devoted a reasonable amount of effort to their projects. However, we noted that, in all cases, the time and effort reports were in error, and the researchers had actually devoted the required effort.

Effect: Our review did not disclose any instances where direct costs were not supported. However, this condition could, potentially, have affected the University's facilities and administrative cost rate calculations by understating the research base.

Cause: The time and effort forms are prefilled with estimated percentages of effort devoted to various projects by each researcher on a semester basis. These percentages are estimated by dividing the amount charged to each account by the total paid the employee on a biannual (July through December and January through June) basis. However, the payroll charges used in the calculation are presented on the forms, along with a statement that revised payroll authorizations must be filed (this would trigger cost transfers) if the prefilled percentages are adjusted. As a result, many researchers are under the impression that time and effort reports are intended to verify salary allocation, rather than report time and effort.

This impression is reinforced by the fact that, as most researchers are nine-month employees who work September through May, the prefilled percentages are not actually calculated on the compensation paid for the semesters represented. That is, the prefilled percentages reflect the apportionment of salaries paid during the biannual period, not salaries paid for work performed during the semester. For example, though Fall Semester time and effort percentages are calculated based on July through December payments, amounts paid during July, August and part of September were actually earned during the preceding academic year and are not relevant to the Fall Semester. Overlapping payments for Summer Semester work create an additional complication.

Recommendation: The University of Connecticut should inform researchers that their time and effort reports must be adjusted as necessary to reflect a reasonable estimate of their actual distribution of time and effort. To promote accuracy, payroll charges should not be presented on the forms, and the instruction to file revised payroll authorizations if prefilled estimated percentages are altered should be removed.

Agency Response: "We agree with the auditor's observations. However, we also believe that some of the differences noted during questioning of the faculty about their effort reports were due to a lack of them fully understanding the reports. To help ensure compliance with relevant federal regulations and guidelines, the University is currently evaluating its effort reporting process including the instructions provided and whether or not to include dollar amounts on the effort reports. Improvements identified will be implemented for the Fall 2010 reporting period (reports to be issued during the Spring 2011 semester)."

H. UNIVERSITY OF CONNECTICUT HEALTH CENTER

III.H.1. Allowable Costs/Cost Principles - Time and Effort Reporting

Federally-Sponsored Research and Development Programs

Federal Award Agency: Various Federal Agencies
Award Year: State Fiscal Year Ended June 30, 2010
Research and Development Programs:

Criteria: OMB Circular A-21 establishes the methods available for verifying charges for personal services. Such methods require that “After the Fact Activity Records”, also known as time and effort reports, be verified by responsible persons in a timely manner.

Condition: We reviewed the time and effort reports for 48 employees who received compensation from federally funded grants. For six of the 48 employees, the time and effort reports were not verified by responsible persons within 90 days after the end of the reporting period.

Effect: Time and effort reports were not verified in a timely manner.

Cause: Persons verifying time and effort reports have not made the verification of such reports a priority.

Recommendation: The University of Connecticut Health Center should continue to emphasize the importance of timely verification of time and effort reports.

Agency Response: “The Health Center agrees with this finding in so far as we continue to have principal investigators who do not respond to first requests to certify the effort of employees working on their projects. The Health Center has a progressively punitive process to achieve PI compliance with effort reporting requirements. This process was effective but not uniformly administered during 2010 because of effort reporting system transitions that diverted administrative staff efforts from procedural tasks to transition-related tasks.”

I. 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, 2010:

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.I.1. Cash Management

Federal Pell Grant Program (CFDA #84.063)
Federal Academic Competitiveness Grant (CFDA #84.375)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Title 34 Code of Federal Regulations (CFR) Section 668.166(b) states that an institution may maintain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the institution drew down in the prior award year. The institution must immediately return to the Secretary any amount of excess cash over the one-percent tolerance, and any amount remaining in its account after the seven-day tolerance period.

Condition: In the federal Pell Grant (Pell) program, a drawdown of $1,623,726 was made by the University of Connecticut on September 18, 2009, which resulted in excess cash of between $203,659 to $484,253, being on hand for 36 days for the period from September 18, 2009 through October 23, 2009.

In the Academic Competitiveness Grants (ACG) program, due to an award adjustment made on June 25, 2010, excess cash of $375 was on hand for 17 days from June 25, 2010 through July 12, 2010.

Effect: The University was not in compliance with federal regulations governing cash management.

Cause: Excess cash occurred in the fiscal year 2010 Pell account due to a change in the Common Origination and Disbursement (COD) System's method of estimating initial current funding levels.

ACG COD originations/disbursements transactions were not processed weekly during the period cash was on hand due to a lack of activity until the disbursement of summer awards.

Recommendation: The University of Connecticut should comply with the federal regulations to ensure that federal cash drawdowns do not exceed the amount necessary for immediate disbursement.

Agency Response: *UConn:* "We agree with the finding."

III.I.2. Student Eligibility – Dependency Status

Federal Pell Grant Program (CFDA #84.063)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Adequate controls over the financial aid awarding process require that to provide a Pell award to a student, the school must have a valid Institutional Student Information Report (ISIR) form with an Estimated Financial Contribution (EFC) computed from correct data.

Also, the 2009-2010 Federal Student Aid Handbook states that the institution is required to update changes in dependency status whether or not the student was selected for verification. For the Pell program, the updated information must be submitted to the Central Processing System (CPS) for reprocessing.

Condition: In total, we selected 160 recipients for eligibility testing from several state universities and colleges. Of the 160 selected in total, 36 were University of Connecticut students. From this sample of 36 students, we noted one instance where the Financial Aid Office corrected a student's dependency status from independent to dependent on their internal records and did not send the correction to the CPS.

Effect: The CPS was not notified of a student's correct dependency status.

Cause: The University did not follow its established procedures for submitting updated information to the CPS for required changes in a student's dependency status.

Recommendation: The University of Connecticut should comply with its established procedures for submitting updated information to the Central Processing System with all required changes.

Agency Response: *UConn:* "We agree with the finding."

III.I.3. Student Eligibility – Scholarships for Disadvantaged Students

Federal ARRA-Scholarships for Disadvantaged Students (CFDA #93.407)
Federal Scholarships for Health Professions Students from Disadvantaged Backgrounds (CFDA #93.925)
Federal Award Agency: Department of Health and Human Services
Award Year: 2009-2010

Background: The University of Connecticut received two grants from the Department of Health and Human Services (HHS) – Health Resources and Services Administration (HRSA) for the budget period ended June 30, 2010, which provided funding for scholarships for disadvantaged students. The total amounts of the University's grants titled Scholarships for Disadvantaged Students (SDS) and American Recovery and Reinvestment Act (ARRA) - Scholarships for Disadvantaged Students (ARRA-SDS) were $72,803 and $31,925, respectively.

Criteria: Per the Notice of Grant Award Terms and Conditions, provided by HRSA to determine if a student comes from an economically disadvantaged background, a school must use the students' parents' income (regardless of dependency status, age or marital status). For the purposes of the SDS programs, a low-income family is based on 200 percent of the current Departmental poverty guidelines.

The Grant Specific Terms state that no single student may receive both SDS normally-appropriated funds and ARRA-SDS funds in the same grant budget period.

The Program Terms state that "the grantee's expenditures for each discipline must not exceed the individual subaward amounts for each discipline being funded."

Condition: During our review of the University's eligibility determinations for scholarships issued under both SDS and ARRA-SDS grant awards, we noted the following:

- The University did not use the students' parents' income to determine if the scholarship recipients came from an economically disadvantaged background. Rather, the Principal Investigator of the grant made decisions regarding the award of funds based on a report run by the Student Financial Aid Services Office that included the student's academic plan, federal Estimated Financial Contribution (EFC), federal need and unmet need. In addition, we noted a flaw in the report whereby students that did not file a Free Application for Federal Student Aid (FAFSA) were included on the report and listed as having a zero EFC.

- Additionally, the subaward distribution of the grant was not followed in both the SDS and the ARRA-SDS grants.

From a sample of five SDS recipients, we noted the following:

- For three recipients, we were unable to determine whether these students were eligible for an award under the SDS program. The University did not obtain documentation of parental income and the students did not file a FAFSA.

- One recipient received SDS funds under both normally-appropriated funds and ARRA-SDS funds in the same grant budget period.

From a sample of five ARRA-SDS recipients, we noted the following:

- For three recipients, parental income exceeded the Departmental poverty guidelines based on 200 percent, which made the recipient non-eligible.

- For one recipient, we were unable to determine whether the student was eligible for an award under the ARRA-SDS program. The University did not obtain documentation for parental income and the student did not file a FAFSA.

- Two recipients received SDS funds under both ARRA funds and normally-appropriated funds in the same grant budget period.

- One recipient was not in a baccalaureate or graduate nursing degree program.

Effect: The University was not in compliance with federal regulations governing beneficiary eligibility and certain terms and conditions of the grant. Failure to comply with the conditions of the grant may result in denial of future funding.

The University also did not follow the individual subaward amounts for each discipline budget total approved. For the SDS Program and the ARRA-SDS Program, the graduate nursing degree discipline was exceeded by $7,456 and $2,500, respectively.

The total amount of SDS in our sample was $15,500, while the total of the University's grant was $72,803. We are treating $43,682 as questioned costs.

The total amount of ARRA-SDS in our sample was $7,384, while the total of the University's grant was $31,925. We are treating $31,925 as questioned costs.

Cause: The University did not follow the Terms and Conditions of the Notice of Grant Award when determining if a student comes from an economically disadvantaged background; awarding SDS normally-appropriated funds and ARRA-SDS funds to students; and awarding funds based on the approved budget total that covered several disciplines, for which the grantee was not allowed to exceed.

In certain instances, the University incorrectly included baccalaureate and graduate degree program students, as well as non-degree Master's Entry into Nursing Certificate Program students, in the discipline that allowed for the subawards per the grant to be met.

We were informed that the University based their determination of eligibility for an SDS award on the HRSA website: http://bhpr.hrsa.gov/dsa/sds.htm, which defines disadvantaged by environment or economics. The University believed that using a student's EFC, as well as other factors, was reasonable in looking at the student's environment. The website the University referred to does not address the issue of the grant specific terms found in the Notice of Grant Award, which the University had on file.

Recommendation: The University of Connecticut should develop procedures in accordance with the Department of Health and Human Services– Health Resources and Services Administration Notice of Grant Award when awarding Scholarships for Disadvantaged Students normally-appropriated and American Recovery and Reinvestment Act-Scholarships for Disadvantaged Students funds. Additionally, the University should reimburse the federal government for the amount of questioned costs.

Agency Response: *UConn:* "The University agrees with this finding. The auditors raised important issues in their findings and we have developed a corrective action plan in response.*"*

III.I.4. Student Eligibility – Cost of Attendance

Federal Pell Grant Program (CFDA #84.063)
Federal Family Education Loans (CFDA #84.032)
Federal Direct Loan Program (CFDA #84.268)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the Estimated Financial Contribution (EFC).

The term “cost of attendance” refers to the “tuition and fees normally assessed a student carrying the same academic workload as determined by the institution and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study.” Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board.

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal Central Processing System (CPS) and included on the student’s Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance awarded is not in excess of the student’s financial need.

Condition: In total, we selected 160 recipients for eligibility testing from several state universities and colleges. Of the 160 selected in total, 20 were Title IV students from Central CSU, 19 were students from Southern CSU, and one was a Charter Oak State College student.

From the 20 recipients selected from Central CSU, we noted four instances where the University calculated financial need incorrectly. In two of these instances, the University over-awarded a total of $5,095 in Subsidized Direct Loans than the recipients COA and EFC allowed. In the other two instances, the students’ awards were not affected.

From the 19 recipients selected from Southern CSU, we noted two instances where the University calculated financial need incorrectly. The COA did not reflect the students’ correct enrollment status. In both of these instances, the students’ awards were not affected.

From the one recipient selected from Charter Oak State College, we noted an instance in which this student’s COA was missing an amount for one of the components of the budget. In this instance, the student’s award was not affected.

Effect: These institutions did not calculate these students’ financial needs correctly.

Central CSU: The University over-awarded $5,095 in Subsidized Direct Loans.

Cause: *Central CSU:* The University did not adjust the students’ COA when the enrollment status changed.

Southern CSU: We were informed that after the students' award packages were processed, the University's information system ran an automated procedure that incorrectly modified the COA.

Charter Oak State College: A component of the student's COA was inadvertently omitted from the budget.

Recommendation: Central CSU, Southern CSU and Charter Oak State College should ensure that the data entered and processed in the financial aid awarding procedure is accurate.

Agency Response: *Central CSU:* "We agree with the finding."

Southern CSU: "We agree with the finding."

Charter Oak State College: "We agree with the finding."

III.I.5. Student Eligibility – Pell Grant

Federal Pell Grant Program (CFDA #84.063)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Background: Beginning with the 2009-2010 Award Year, the Higher Education Opportunity Act modified the Higher Education Act to provide that a student meeting certain requirements shall receive up to two Pell scheduled awards during a single award year. To receive the second scheduled award funds, the student must be enrolled as at least a half-time student in an eligible program leading to a bachelor's or associates degree or other recognized educational credential (except as provided for students with intellectual disabilities). The student's Pell award for the payment period is calculated the same way as an award that would be paid from the student's first scheduled award. If the student is otherwise eligible and has received (or will receive) 100 percent of the first scheduled award, the calculated award for the payment period must be paid from the student's second scheduled award.

In accordance with the Act, each higher education institution awarding Pell funds must have a formal written policy notifying the students of their potential eligibility, and the criteria to receive a second scheduled Pell award. This policy must also address the administration of a "cross-over payment period".

As part of our Statewide Single Audit, we requested a copy of each University's Pell Grant Policy.

Criteria: On an annual basis, the United States Department of Education (ED) provides institutions Payment and Disbursement Schedules for determining Pell awards based on the maximum Pell amount established by Congress. The Payment Schedule is used to determine the annual award for a full-time student.

Condition: We noted that:

- Southern CSU and Western CSU did not have a second scheduled Pell award policy developed and in effect as of July 1, 2010.

Southern CSU: Upon notification by the Auditors of Public Accounts (APA) of the requirement, the University developed a policy, which was issued on September 15, 2010. On September 30, 2010, we were provided a list of 217 students that were awarded and disbursed Pell funds with a cumulative total of $259,867.

From a sample of 15 students selected from the list of 217 students, we noted four instances where the University incorrectly awarded and disbursed Pell funds. In three of these instances, the students' were under-awarded. The cumulative understatement was $2,413. In one instance, a student was over-awarded $66. Upon notification by the APA, the University made the four necessary Pell award adjustments.

Western CSU: Upon notification by the APA of the requirement, the University developed a policy. The policy developed and issued on August 24, 2010, was not consistent with the federal regulations. The University modified its policy, a copy of which was provided to the APA on September 22, 2010. Based upon the University's revised policy, they awarded and disbursed nine second scheduled Pell awards totaling $11,658. Upon review of the University's revised policy, it appears that the University did not award and disburse second scheduled Pell to all eligible students.

- In total, we selected 160 recipients for eligibility testing from several state universities and colleges. Of the 160 selected in total, we selected 11 Title IV recipients from Eastern CSU. From this sample of 11, four students received Pell funds. Two of these four students were eligible for a second scheduled award. We found that both of these students' Pell funds were awarded and disbursed incorrectly.

Effect: These Universities were not in compliance with the federal regulations related to awarding and disbursing Pell funds.

- *Southern CSU:* In certain instances, students were not awarded and disbursed the correct Pell amounts.

- *Western CSU:* At a minimum, the University did not award 30 eligible students a second scheduled Pell award. We determined that the cumulative amount of Pell amounts that should have been awarded to these 30 students was $34,772.

- *Eastern CSU*: Two students were awarded and disbursed incorrect Pell amounts for the Summer 2010 period. One student was under-awarded $699 and the other was over-awarded $50. Upon notification by the APA, the University made the necessary Pell adjustments.

Cause: We noted that:

- Southern CSU and Western CSU did not develop and publish a second scheduled Pell award policy in a timely manner in accordance with the federal regulations.

Southern CSU: Upon implementation of a second scheduled Pell award policy, in certain instances, Pell awards were incorrectly calculated by University staff responsible for determining these awards.

Western CSU: Management's interpretation of the establishment of a Pell policy for second scheduled payments excluded certain eligible students from receiving Pell awards.

- *Eastern CSU:* In the first instance (under-award), the University disbursed its summer Pell awards on May 24, 2010, based upon the student's enrollment of six credits, at that time. The student registered for an additional four credit course, which made the student eligible for a Pell award at three-quarter-time enrollment.

In the second instance (over-award), the University inadvertently used the incorrect Pell Disbursement Schedule to calculate the award.

Recommendation: Southern CSU, Western CSU and Eastern CSU should implement procedures to ensure compliance with the federal regulations related to awarding and disbursing federal Pell Grants. Also, Eastern Connecticut State University should consider not disbursing Pell Grants for the summer term until after the completion of the school's add/drop period.

Agency Response: *Southern CSU:* "We agree with the finding."

Western CSU: "We agree with the finding."

Eastern CSU: "We agree with the finding."

III.I.6. Student Eligibility – Federal Supplemental Educational Opportunity Grant

Federal Supplemental Educational Opportunity Grant (CFDA #84.007)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Title 34 Code of Federal Regulations (CFR) Section 676.10 establishes the particular eligibility requirements for a student to receive Federal Supplemental Educational Opportunity Grants (FSEOG). One of these requirements is that an institution shall select students with the lowest Estimated Financial Contribution (EFC) who will also receive federal Pell Grants in that year.

Condition: In total, we selected 160 recipients for eligibility testing from several state universities and colleges. Of the 160 in total selected, we selected seven Title IV recipients from Housatonic CC. From this sample of seven, we noted one instance in which a student who received a FSEOG award was not eligible.

Effect: A student received $200 in a FSEOG award that she was ineligible to receive. We are treating this amount as a questioned cost. Total FSEOG awards in our sample were $800, while the total of FSEOG awards at the College was $127,892.

Cause: Due to a processing error, the College's automated system allowed this award to be calculated incorrectly and disbursed.

Recommendation: Housatonic Community College should award and disburse Federal Supplemental Educational Opportunity Grants in accordance with requirements stipulated in 34 CFR Section 676.10.

Agency Response: *Housatonic CC:* "We agree with this finding."

III.I.7. Student Eligibility – Satisfactory Academic Progress

Federal Pell Grant Program (CFDA # 84.063)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Background: The Connecticut Community College System has a uniform academic progress standard for all students receiving student financial aid at the 12 community colleges. This policy states that satisfactory academic progress (SAP) for financial aid recipients is measured by both quantitative and qualitative standards, and is an assessment of a student's cumulative academic record at the college. A student must successfully complete two-thirds of the credits s/he attempts. In addition, a student must maintain a cumulative minimum grade point average of 2.0 for the cumulative earned credits which exceed 16. The policy further states that each college must develop an appropriate appeal process providing specific procedures under which a student may appeal a determination that the student is not making SAP.

Criteria: Title 34 Code of Federal Regulations (CFR) Section 668.16 specifies standards that are required to be met in order for an institution to demonstrate its ability to administer student aid.

Norwalk CC's published appeal process states that all appeals must be in writing and received in the Financial Aid Office within 10 days of a student being notified of termination of Financial Aid. The policy further states that appeals must be based on severe extenuating circumstances, such as termination of employment, illness, hospitalization of the student, caring for an ill member of the immediate family, death of a member of the immediate family, or domestic problems. Any of these circumstances must have proper documentation, such as termination of employment – verification from employer and illness/hospitalization – signed note from physician verifying dates and period of treatment.

Condition: In total, we selected 160 recipients for eligibility testing from several state universities and colleges. Of the 160 in total selected, we selected seven Title IV recipients from Norwalk CC for SAP testing. From the seven recipients selected, we noted that one student did not meet SAP requirements in order to receive financial assistance. The College granted the student a waiver of this policy without having documentation of severe extenuating circumstances on file as required by the published appeal process.

The student received $2,007 in Pell funds, which we are treating as questioned costs. Total Pell disbursements in our sample at Norwalk CC were $20,525. Total Pell disbursements at Norwalk CC were $5,870,596.

Effect: The student received Title IV funds for which she was not eligible.

Cause: The Financial Aid Department did not comply with the College's SAP Policy.

Recommendation: Norwalk Community College should follow its established procedures to ensure compliance with federal regulations related to Satisfactory Academic Progress.

Agency Response: *Norwalk CC:* "We agree with this finding. We did have a written appeal letter from the student, but the documentation was not in the student's file."

III.I.8. Reporting – American Recovery and Reinvestment Act

Federal Work-Study Program (CFDA #84.033)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Background: Under the American Recovery and Reinvestment Act (ARRA) of 2009, higher education institutions that received $25,000 or more in 2009-2010 Federal Work-Study (FWS) funding are subject to Section 1512 Recipient Reporting.

Criteria: The United States Department of Education (ED) and Office of Management and Budget (OMB) provided information on the reporting requirements for schools that received $25,000 or more in 2009-2010 FWS funding from the ARRA.

These instructions require schools to report quarterly commencing with the calendar quarter ended September 30, 2009. The guidance disseminated on October 9, 2009 provided specific instructions for reporting award information for the quarter ended September 30, 2009.

The guidance disseminated on December 31, 2009 provided specific instructions for reporting award information for the quarter ended December 31, 2009.

Condition: Central CSU, Southern CSU, Eastern CSU and Gateway CC did not report accurate information to the federal government regarding the number of full-time equivalent jobs created as a result of the FWS ARRA funds received.

Effect:	These institutions did not report accurate information to the federal government regarding the number of full-time equivalent jobs created as a result of the FWS ARRA funds received. *Central CSU:* The University under-reported the number of jobs created for the quarter ended December 31, 2009 by 11. *Southern CSU:* The University under-reported the number of jobs created for the quarter ended December 31, 2009 by 7. *Eastern CSU:* The University under-reported the number of jobs created for the quarters ended September 1, 2009 and December 31, 2009 by 1 and 5, respectively. *Gateway CC:* The College over-reported the number of jobs created for the quarter ended September 1, 2009 by 2. The College under-reported the number of jobs created for the quarter ended December 31, 2009 by 7.
Cause:	These institutions did not follow the applicable instructions distributed by ED when submitting the required quarterly reports associated with FWS funding from the ARRA.
Recommendation:	Central CSU, Southern CSU, Eastern CSU, and Gateway CC should ensure that the most current instructions distributed by the United States Department of Education are followed when submitting the required quarterly reports associated with Federal Work-Study funding from the American Recovery and Reinvestment Act.
Agency Response:	*Central CSU:* "We agree with this finding." *Southern CSU:* "We agree with this finding." *Eastern CSU:* "We agree with the finding." *Gateway CC:* "We agree with this finding."

III.I.9. Reporting – Pell Grant Disbursement Transmissions to the Common Origination and Disbursement System

Federal Pell Grant Program (CFDA #84.063)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Background: When disbursing Pell funds, entities must report through the Common Origination and Disbursement (COD) System certain disbursement records.

Criteria: The 2009-2010 Federal Student Aid Handbook states, "An institution must submit federal Pell Grant…disbursement records no later than 30 days after making a disbursement or becoming aware of the need to adjust a student's previously reported disbursement."

Condition: We selected ten students who received Pell awards, from Eastern CSU for disbursement testing. From this sample, we noted that at least one of the Pell disbursement transmissions to COD for three students was submitted late. The delays ranged from two to 158 days late.

Effect: The University was not in compliance with federal requirements related to the timely submission of Pell payment data.

Cause: A system error was the cause for one of the instances noted. In the other instances the cause is unknown.

Recommendation: Eastern Connecticut State University should implement procedures to ensure compliance with the federal regulations related to the timely submission of Pell Grant Payment Data.

Agency Response: *Eastern CSU:* "We agree with the finding."

III.I.10. Reporting – Fiscal Operations Report and Application to Participate (FISAP)

Federal Supplemental Educational Opportunity Grant (CFDA #84.007)
Federal Work-Study Program (CFDA #84.033)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: The instructions for completing the FISAP are contained in the *Instructions Booklet for Fiscal Operations Report for 2009–2010 and Application to Participate for 2011–2012 (FISAP*).

Condition: We reviewed the FISAP at Western CSU and noted the following:

- The total number of undergraduate students was reported as 6,929. The supporting documentation for this figure noted that it should have been reported as 6,913.

- The total number of graduate students was reported as 1,009. The supporting documentation for this figure noted that it should have been reported as 1,006.

- The total amount of undergraduate tuition and fees was reported as $35,376,140. The supporting documentation for this amount noted that it should have been reported as $44,793,841.

- The total amount of graduate tuition and fees was reported as $1,172,117. The supporting documentation for this amount noted that it should have been reported as $4,144,192.

- The total cumulative amount of Federal Perkins Loan (FPL) Funds advanced to students was reported as $9,418,601. The supporting documentation for this amount noted that it should have been reported as $9,415,976.

- The total amount of FPL Funds advanced to students during the 2009-2010 award year was reported as $114,350. The supporting documentation for this amount noted that it should have been reported as $111,850.

- The amount of the FWS-federal share of community service earned compensation was reported as $21,303. The supporting documentation for this amount noted that it should have been reported as $18,087.

- The amount of the FWS-nonfederal share of community service earned compensation was reported as $2,813. The supporting documentation for this amount noted that it should have been reported as $6,029.

We reviewed the FISAP at Gateway CC and noted the total amount of tuition and fees was reported as $18,498,742. The supporting documentation for this amount noted that it should have been reported as $17,424,845.

Effect: The FISAP that these institutions submitted to the United States Department of Education contained errors. If an institution provides inaccurate data, the level of funding for its campus-based programs could be affected.

Cause: These institutions did not follow the guidelines in the *Instructions Booklet* for reporting various amounts on the FISAP.

Recommendation: Western Connecticut State University and Gateway Community College should establish internal controls to ensure that data reported on the Fiscal

Operations Report and Application to Participate is accurate and in agreement with supporting documentation.

Agency Response: *Western CSU:* "We agree with the finding."

Gateway CC: "We agree with this finding. It should be noted that since this finding has come to our attention, a FISAP edit has been submitted with the correct tuition and fees total."

III.I.11. 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 Teacher Education Assistance for College and Higher Education Grants (CFDA #84.379)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Title 34 Code of Federal Regulations (CFR) Section 668.53 requires an institution to establish policies for verifying information contained in a student aid population.

Title 34 CFR Section 668.56 requires that an institution must verify all Free Application for Federal Student Aid (FAFSAs) that have been selected for verification. Items that are required to be verified include household size; number of household members who are in college; adjusted gross income (AGI); U.S. income taxes paid; and certain types of untaxed income and benefits such as child support, individual retirement accounts and Keogh account deductions.

The Financial Aid Office verifies student and parental income and household data by comparing financial data found on signed tax returns and household data found on the verification worksheet to data found on the Institutional Student Information Report (ISIR).

Condition:

From a sample of 11 students selected for verification testing at UConn, we noted one instance where the student's earnings amount on the verification worksheet did not agree with the reported amount on the ISIR.

From a sample of 15 students selected for verification testing at Central CSU, we noted exceptions with four students. Our testing disclosed the following specific conditions:

- In four instances, the income tax paid amount on the income tax return did not agree with the reported amount on the ISIR.

- In one instance, the amount reported on the verification worksheet as in college, did not agree with the reported amount on the ISIR.
- In one instance, the parent's AGI amount on the income tax return did not agree with the reported amount on the ISIR.

- In one instance, the amount of child support received on the verification worksheet did not agree with the reported amount on the ISIR.

From a sample of ten students selected for verification testing at Eastern CSU, we noted exceptions with four students. Our testing disclosed the following specific conditions:

- In four instances, the household size reported on the verification worksheet did not agree with the reported amount on the ISIR.

- In one instance, the number of household students reported on the verification worksheet as in college did not agree with the number on the ISIR.

- In two instances, the amount of child support received on the verification worksheet did not agree with the reported amount on the ISIR.

- In seven instances pertaining to three students, other amounts reported on the income tax returns or verification worksheets did not agree with the reported amounts on the ISIR.

From a sample of ten students selected for verification testing at Southern CSU, we noted exceptions with four students. Our testing disclosed the following specific conditions:

- In one instance, the income tax paid amount on the income tax return did not agree with the reported amount on the ISIR.

- In one instance, the education tax credit amount on the income tax return was not reported on the ISIR.

- In one instance, the University completed the verification process by reviewing the student and parent's tax returns from the wrong tax year. In this instance, the 2009 U.S. income tax returns were on file instead of the required 2008 U.S. income tax returns.

- In one instance, there was conflicting financial information reported on the verification worksheet, which did not agree with the reported amount on the ISIR.

From a sample of ten students selected for verification testing at Gateway CC, we noted two instances where the household size reported on the verification worksheet did not agree with the reported amount on the ISIR.

From a sample of ten students selected for verification testing at Naugatuck Valley CC, we noted exceptions with three students. Our testing disclosed the following specific conditions:

- In two instances, the income tax paid amount on the income tax return did not agree with the reported amount on the ISIR.

- In one instance, the amount of child support was incorrectly reported as "VA Non-Education Benefits" on the ISIR.

Effect: These institutions were not in compliance with verification requirements.

UConn: In this instance, the student's Estimated Financial Contribution (EFC) amount and award was not affected based upon the condition noted.

Central CSU: In all four instances, the student's EFC amount was affected based upon the condition noted. In three of these four instances, the student's award had to be modified.

Eastern CSU: In two of the four instances, the student's EFC amount was affected based upon the condition noted. In both of these instances, the student's award had to be modified.

Southern CSU: In one of the four instances, the student's EFC amount was affected based upon the condition noted. In this instance, the student's award had to be modified. In another instance, the conflicting information has not been resolved, which may affect the student's award.

Gateway CC: In both of these instances, the student's EFC amount and award was not affected based upon the condition noted.

Naugatuck Valley CC: In one of the three instances, the student's EFC amount was affected. However, there was no affect to this student's award.

Cause: Established verification procedures were not followed.

Recommendation: The University of Connecticut, State Universities, and Community Colleges should complete verification in accordance with federal regulations.

Agency Response: *UConn:* "We agree with this finding."

Central CSU: "We agree with the finding."

Eastern CSU: "We agree with the finding."

Southern CSU: "We agree with this finding."

Gateway CC: "We agree with this finding."

Naugatuck Valley CC: "We agree with the finding."

III.I.12. Special Tests: Disbursements – Requirements Related to Federal Family Education Loan (FFEL), Direct Loans and Perkins Loan Funds

Federal Family Education Loans (CFDA #84.032)
Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038)
Federal Direct Loan Program (CFDA #84.268)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Per Title 34 Code of Federal Regulations (CFR) Section 668.164(e), whenever an institution disburses Title IV program funds by crediting a student's account, and the total of all Title IV program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or, in the case of PLUS loans, to the parent as soon as possible but no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period.

Per 34 CFR Section 668.165(a)(2), if an institution credits a student's account at the institution with FFEL or FPL 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.

Title 34 CFR Section 668.167(b)(1) and (2) require FFEL funds to be disbursed by the institution to students or parents within three business days if the lender provided the funds by electronic funds transfer (EFT) or master check, or to return those funds to the lender promptly but no later than ten business days after the date the institution is required to disburse the funds.

Condition: From 15 students selected for disbursement testing at Central CSU, nine and five received Direct Loan and FPL funds, respectively. From this sample, we noted the following:

- In one instance, a credit balance resulting from the payment of Title IV funds was not paid to the student within the required timeframe. The delay was one day.

- In four instances where students received FPL and two instances where students received Direct Loan funds, there was no evidence that the students were notified of the date and amount of disbursement to the student's account, or the right to cancel all or a portion of the loan disbursement, and the procedures and time by which the University must be notified that the borrower wishes to cancel the loan or loan disbursement.

From ten students selected for disbursement testing at Southern CSU, all ten received FFEL funds. From this sample, we noted the following:

- In one instance where a student had a credit balance in his account created by the posting of a PLUS loan, the excess funds were not paid to the parent within the required timeframe. The delay was six days.

- In one instance, FFEL funds received via EFT by the University were disbursed to the student late. The delay was four days.

From a sample of five students who received FPL funds at Western CSU, we noted the following:

- In one instance, when a student received FPL funds he was not notified of the date and amount of disbursement to his account, or the right to cancel all or a portion of the loan disbursement, and the procedures and time by which the University must be notified that the borrower wishes to cancel the loan or loan disbursement. After further review of ten additional students that received FPL funds during the Fall 2009 semester, it was noted that seven of these students did not receive the required notifications.

Further, Western CSU did not notify any parent borrowers of the credit of PLUS loan funds to the students' accounts; nor was there any evidence that the parent borrowers were notified of any rights available to them as the borrower. The University awarded $3,433,701 in PLUS loans during the fiscal year ended June 30, 2010. In Fall 2009 and Spring 2010, PLUS loans were awarded to 355 and 370 students, respectively.

Effect: These Universities were not in compliance with disbursement requirements related to FFEL, Direct Loan, and FPL funds.
Western CSU: Parent borrowers did not receive required loan notifications.

Cause: Established disbursement procedures were not followed.

Western CSU: The University does not have a procedure in place to notify the parent borrower of the credit of PLUS loan funds.

Recommendation: Central CSU, Southern CSU and Western CSU should comply with the federal requirements related to applicable loan funds. Additionally, Western Connecticut State University should ensure that parent borrowers are notified of all required loan disbursement information.

Agency Response: *Central CSU:* "We agree with the finding."

Southern CSU: "We agree with this finding."

Western CSU: "We agree with the finding."

III.I.13. Special Tests: Return of Title IV Funds

Federal Supplemental Educational Opportunity Grants (CFDA #84.007)
Federal Family Education Loans (CFDA #84.032)
Federal Perkins Loans – Federal Capital Contributions (CFDA #84.038)
Federal Pell Grant Program (CFDA #84.063)
Federal Direct Loan Program (CFDA # 84.268)
Academic Competitiveness Grant (CFDA #84.375)
National Science and Mathematics Access to Retain Talent Grant (CFDA #84.376)

Teacher Education Assistance for College and Higher Education Grant (CFDA #84.379)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Title 34 Code of Federal Regulations (CFR) Section 668.22 provides guidance regarding the treatment of Title IV funds when a student withdraws from an institution.

Condition: From a sample of ten students who were selected for Return of Title IV funds testing at UConn, we noted the following:

- In seven instances, the Return of Title IV Funds calculation was incorrect. As a result of these conditions, the University over-returned $393 to Direct Loan. Also, the University under-returned a total of $1,525 as follows: $837 to Direct Loan, $177 to FPL, and $509 to Pell.

In addition, UConn was not performing a calculation of the amount of Title IV assistance earned for those students who had been expelled or were deceased during the payment period.

From a sample of ten students who were selected for Return of Title IV Funds testing at Central CSU, we noted the following:

- In eight instances, the Return of Title IV Funds calculation was incorrect. In five of these instances, the University over-returned $1,769 to the Direct Loan Program.

- In one instance, the University did not return the Title IV Funds to the United States Department of Education (ED) within the required 45 days.

From a sample of five students who were selected for Return of Title IV Funds testing at Western CSU, we noted the following:

- In five instances, the Return of Title IV Funds calculation was incorrect. The University over-returned $264 to FFEL and $327 to Pell.

- In one instance, the University used the incorrect withdrawal date in performing the Return of Title IV Funds calculation.

- In one instance, the University did not notify the student of the grant overpayment.

- In two instances, the University notified the student of the incorrect amount of FFEL funds returned to the lender.

From a sample of ten students who were selected for Return of Title IV Funds testing at Gateway CC, we noted the following:

- In ten instances, the College incorrectly calculated the Return of Title IV Funds. In these instances, the College returned $298 more of Pell than required.

- In six instances, the College did not make all of the required notifications within the 30 day timeframe.

- In five instances, the College did not return the Title IV Funds to the ED within the required 45 day timeframe.

Effect: These institutions were not in compliance with the federal regulations governing the Return of Title IV Funds.

Cause: The Return of Title IV Funds calculation methodologies used by these institutions were not consistent with the federal regulations.

UConn: The University did not review the automated return calculation worksheets to ensure that the system was correctly configured. Additionally, Return of Title IV Funds calculations were not performed for students who had been expelled or were deceased during the payment period.

Western CSU: Human error resulted in the remaining conditions.

Central CSU and Gateway CC: These institutions were not monitoring the Return of Title IV Funds process diligently ensuring that the required notifications to the student and/or the return of federal funds were returned in a timely manner.

Recommendation: The University of Connecticut, Central CSU, Western CSU and Gateway CC should review their procedures to ensure compliance with the federal regulations contained in 34 CFR Section 668.22 governing the treatment of Title IV funds when a student withdraws, and provide additional training to those staff members responsible for processing the return of Title IV Funds.

Agency Response: *UConn:* "We agree with this finding."

Central CSU: "We agree with this finding."

Western CSU: "We agree with this finding."

Gateway CC: "We agree with this finding."

III.I.14. Special Tests: Student Status Changes

Federal Family Education Loans (CFDA #84.032)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Per Title 34 Code of Federal Regulations (CFR) Section 682.610(c)(2), 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 data may be provided on that roster file.

Condition: From a sample of ten student borrowers who received FFEL that separated from Western CSU, we noted that an incorrect status was reported to the National Student National Student Loan Data System (NSLDS) for four borrowers. In both of these cases, the students' enrollment status was reported as withdrawn when they had actually graduated.

From a sample of ten student borrowers who received FFEL program funds that separated or dropped to less than-half-time from Gateway CC, we noted an incorrect status was reported to the NSLDS for two borrowers. In both of these cases, the students' enrollment status was reported as less than-half-time when they had actually withdrawn.

Effect: Enrollment information for certain student borrowers was not provided to the loan community in an accurate manner.

Cause: Established procedures for reporting student status changes were not followed.

Further, Western CSU did not submit all of its graduation information to the NSLDS in a timely manner.

Recommendation: Western Connecticut State University and Gateway Community College should implement procedures to ensure that enrollment status changes are accurately submitted in a timely manner to the National Student Loan Data System in accordance with federal regulations.

Agency Response: *Western CSU:* "We agree with this finding."

Gateway CC: "We agree with this finding."

III.I.15. Special Tests: Student Loan Repayments

Federal Perkins Loans – Federal Capital Contributions (CFDA #84.038)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Title 34 Code of Federal Regulations (CFR) Section 674.31(b)(2) states that repayment begins nine months after the borrower ceases to be at least a half-time regular student at the institution.

Title 34 CFR Section 674.42(b) requires an institution to conduct exit counseling with the borrower either in person, by audiovisual presentation, or electronically before the student ceases to be enrolled on at least a half-time basis. If a borrower withdraws or fails to complete an exit counseling session, the institution must mail the exit counseling material to the borrower within 30 days after learning that the borrower did not complete the exit counseling.

Condition: From a sample of ten borrowers at UConn who entered repayment during the audited period, we noted the following:

- In five instances where the University was aware that students were graduating, they did not conduct exit counseling before the borrower graduated.

In all five of these instances, the change in the borrowers' enrollment status was not reported to the University's service provider in a timely manner. The University's service provider received notification of the change in status for these borrowers 105 to 108 days after the graduation date. In each of these instances, the borrowers were provided the exit counseling package and repayment schedule 137 to 144 days after the graduation date.

From a sample of ten borrowers at Central CSU who entered repayment during the audited period, we noted the following:

- In nine instances, where the University was aware that students were graduating, they did not conduct exit counseling before the borrower graduated.

In six of these instances, the change in the borrowers' enrollment status was not reported to the University's service provider in a timely manner. The University's service provider received notification of the change in status for these borrowers 51 to 60 days after the graduation date. In each of these instances, the borrowers were not provided the exit counseling package and repayment schedule in a timely manner.

- In one instance, where the student officially withdrew from the University, the change in the borrowers' enrollment status was not reported to the University's service provider in a timely manner. The University's service provider received notification of the change in status for this borrower 68 days after he withdrew. In this instance, the borrower was not provided the exit counseling package and repayment schedule in a timely manner.

From a sample of five borrowers at Eastern CSU who entered repayment during the audited period, we noted the following:

- In two instances, the change in the borrowers' enrollment status was not reported to the University's service provider in a timely manner. In these instances, the borrowers were not provided the exit counseling package and repayment schedule in a timely manner.

- In two instances, the borrower's separation date was recorded incorrectly. In both these instances, the borrowers' grace period was extended to greater than nine months.

From a sample of five borrowers at Southern CSU who entered repayment during the audited period, we noted the following:

- In four instances where the University was aware that students were graduating they did not conduct exit counseling before the borrower graduated.

In each of these instances, the change in the borrowers' enrollment status was not reported to the University's service provider in a timely manner. The University's service provider received notification of the change in status for these borrowers 32 to 55 days after the graduation date. In each of these instances, the borrowers were not provided the exit counseling package and repayment schedule in a timely manner.

From a sample of ten borrowers at Western CSU who entered repayment during the audited period, we noted the following:

- In five instances where the University was aware that students were graduating, they did not conduct exit counseling before the borrower graduated.

In four of these instances, the change in the borrowers' enrollment status was not reported to the University's service provider in a timely manner. The University's service provider received notification of the change in status for these borrowers 59 days after the graduation date. In each of these instances, the borrowers were not provided the exit counseling package and repayment schedule in a timely manner.

Further, in three of these instances, the University did not mail out its portion of the exit counseling material in a timely manner. The University mailed its portion of the exit counseling material 115 days after the graduation date.

- In one instance, the borrower's separation date was reported incorrectly. The student was reported as less than half-time, when actually enrolled as half-time. In this instance, the student's separation date was recorded as September 1, 2009 instead of February 1, 2010.

Effect: These Universities were not in compliance with federal due diligence requirements.

Eastern CSU: In the case of the second condition, the borrowers were provided an additional month and twelve months of grace before repayment began, respectively.

Western CSU: In the case of the second condition, the borrower's grace period was reduced to less than nine months before repayment was initiated.

Cause: Controls in place were not sufficient to prevent this from occurring.

Eastern CSU and Western CSU: In the case of the second condition, the University inadvertently reported the incorrect separation date to the University's service provider.

Recommendation: The University of Connecticut and the State Universities should ensure that policies and procedures regarding changes in the enrollment status of Perkins Loan recipients are reported to the loan service provider accurately and in a timely manner.

Agency Response: *UConn:* "We agree with this finding."

Central CSU: "We agree with the finding."

Eastern CSU: "We agree with the finding."

Southern CSU: "We agree with this finding."

Western CSU: "We agree with the finding."

III.I.16. Special Tests: Student Loan Repayments – Defaulted Students

Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038)
Federal Award Agency: Department of Education
Award Year: 2009-2010

Criteria: Schools must follow the due diligence requirements of Subpart C of the Federal Perkins Loan Program (FPL) regulations (Title 34 Code of Federal Regulations (CFR) Section 674.41-50) when a loan enters repayment.

Condition: From a sample of ten students at UConn whose loan went into default during the audited period, we noted the following:

- In three instances, one or more of the required contact letters were not sent to the borrower as required.
- In seven instances, the borrower was not sent one or more of the required overdue notices and/or final demand letters as required.
- In four instances, the borrowers were not sent a statement of account as required.
- In four instances, the borrowers were not sent a final demand letter within the required timeframes. These letters were sent 24 to 45 calendar days late.
- In ten instances, the students' accounts were not reported to a national credit bureau in the timeframes required. In eight of these instances, the information reported to the credit bureau was not accurate.

From a sample of five students at Central CSU whose loan went into default during the audited period, we noted five instances where the University did not contact the borrower by telephone 30 days after the final demand letters were sent and before beginning the collection procedures. Upon further review, it appears that the University's service provider did not contact any borrower whose account went into overdue status since the system was established in 2008.

Effect: UConn and Central CSU were not in compliance with federal requirements.

Cause: *UConn:* We were informed that during this time-period, the University was transitioning between two different service providers. In addition, the Office that monitors this activity experienced some staffing shortages.

Central CSU: Due to a processing error by the University's service provider, these telephone calls were not being performed.

Recommendation: The University of Connecticut and Central Connecticut State University should ensure that policies and procedures are in place to ensure that the Perkins Loan due diligence requirements are being performed in accordance with federal regulations.

Agency Response: *UConn:* "We agree with this finding."

Central CSU: "We agree with this finding."

J. DEPARTMENT OF ADMINISTRATIVE SERVICES

III.J.1. Allowable Cost/Cost Principles - Billing Rates Adjustment Method

Statewide Cost Allocation Plan (SWCAP)
Federal Cognizant Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010

Background: The State Department of Administrative Services operates an Internal Service Fund (the Fund). The Fund is used to account for the revenues and expenditures related to several fee-for-service functions provided to other state agencies. The largest of those functions are Fleet Operations and Central Printing. Approximately 85 percent of the Fund revenue is generated by Fleet Operations. Central Printing generates approximately 2 percent of Fund revenues.

The Department typically submits billing rate calculations annually for both Fleet Operations and Central Printing to the State Office of Policy and Management (OPM) for review and approval. OPM approval is required for the proposed rates to take effect. However, OPM has not approved proposed rate changes for several years.

Criteria: OMB Circular A-87, Attachment C, Other Policies (4), states that, "Billing rates used to charge federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: (a) a cash refund to the federal government for the federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (federal share and non-federal share) exceeds $500,000."

Condition: For the period under review, fiscal year 2008, the Department did not propose rate adjustments for approval and the Office of Policy and Management had not approved prior proposed adjustments in several years.

The Department received requests for additional information and corrective action to the prior year audit from the Division of Cost Allocation of the Department of Health and Human Services (DCA) in June 2010. The

Department is in the process of addressing those requests. The period under review, fiscal year 2008, precedes the requests from DCA.

Effect: The application of outdated billing rates increases the risk that customer agencies are inaccurately (i.e. either over/under) charged for the services rendered. Failure to make the required adjustments increases that risk. By extension, federal program funds used to pay for those billed services provided by the Department may bear a share of the unadjusted and potentially unallowable costs.

Cause: OPM has not permitted the Department to bill at rates reflective of actual costs as required.

Recommendation: The Department of Administrative Services should work together with the Office of Policy and Management to ensure compliance with OMB Circular A-87, which requires development and application of rates "based upon the estimated costs of providing services." The Department should make adjustments for differences between revenue and allowable costs using one of the adjustment methods defined in OMB Circular A-87.

Agency Response: "DAS agrees with this recommendation. DAS is currently working on developing rates for our Revolving Fund businesses based on the estimated cost of providing services. Our goal is to have rates developed by May 1, 2011. However, resources are limited in the DAS Business Office and, given the change in administration, we are uncertain of the additional demands that may be put on this unit in the next calendar year. DAS has requested a revolving fund position to assist with rate development to enable us to meet the May 1, 2011 goal."

III.J.2. Allowable Cost/Cost Principles - No Verification Methodology for Employees Charged to the Revolving Fund

Statewide Cost Allocation Plan (SWCAP)
Federal Cognizant Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010

Background: The State Department of Administrative Services operates an Internal Service Fund (the Fund). The Fund is used to account for the revenues and expenditures related to Fleet Operations and Central Printing and Electronic Publishing services furnished and billed to other state agencies and listed in Section II of the approved Statewide Cost Allocation Plan for the fiscal year ended June 30, 2010.

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

OMB Circular A-87, Attachment B, Section 8.h.4. states that, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency.

Condition: The Department's Fund accounts for the direct and indirect service related efforts of approximately 80 employees. The Department does not obtain personnel activity reports or equivalent documentation reflecting the actual activity of each employee charged to the Fund. The Department does not have a formal, periodic process in place to verify that the costs of the employees directly or indirectly charged to the Fund correlated to their actual efforts.

Effect: Employee costs could be charged to activities accounted for by the Fund when, in fact, the employee's efforts were not associated with those activities. Any rates developed with inaccurate information would be at increased risk of overall inaccuracy and potential overstatement. The billing for and payment of such costs would be in violation of the provisions of OMB Circular A-87.

Cause: The Department does not have a system in place to periodically verify and document that employees charged to the activities accounted for by the Fund work on those activities.

Recommendation: The Department of Administrative Services should take the necessary steps to develop and implement a system to verify and document that employees charged to its Internal Service Fund work on Fund-related activities.

Agency Response: "DAS agrees with this recommendation. DAS is exploring the most efficient means of assuring that employees are charged to the proper Fund and the Fund-related activities. The goal is to have the time studies completed by May 1, 2011. As stated above, DAS has requested a position to assist with this project so that we can successfully complete this work within the stated timeframe."

III.J.3. Allowable Cost/Cost Principles – Financial Statements not in Compliance with Governmental Accounting Standards Board (GASB) Statement 34

Statewide Cost Allocation Plan (SWCAP)
Federal Cognizant Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010

Criteria: OMB Circular A-87 requires the inclusion of financial statements for proprietary funds within the Statewide Cost Allocation Plan (SWCAP).

GASB Statement 34 specifies that financial statements compiled for governmental proprietary funds statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. GASB Statement 34 further requires the inclusion of a summary reconciliation of the proprietary fund to the government-wide financial statements. In a memorandum dated August 2007, the Office of the State Comptroller (OSC) mandated that DAS comply with GASB 34.

A primary financial statement assertion is that the data presented will be accurate.

Condition: Although the Department does produce a set of financial statements, the Department does not produce a Statement of Cash Flows as required by GASB 34.

Our review discovered that the Department had not properly claimed depreciation expense on certain buildings, machinery and equipment for several years. Our review also discovered that the presentation of certain liabilities unexpectedly remained the same year to year. The Department stated that the entries noted in our review with respect to its balance sheet were errant.

Effect: The Department is not compliant with State of Connecticut or federal directives. The errors in presentation indicate that the information presented in the financial statements, which is used to compile billing rates for services, is unreliable.

Cause: The Department did not properly prepare financial statements and review their accuracy. The Department did not sufficiently communicate with OSC to clarify its role with regard to the preparation of financial statements.

Recommendation: The Department of Administrative Services should work with the Office of the State Comptroller (OSC) GAAP Unit to improve communications and to take the necessary steps to become compliant with GASB 34 and the applicable OSC Directive. Further, the Department should improve its review and monitoring procedures to minimize errors in its financial statements and to improve the accuracy of the billing rates it generates.

Agency Response: "DAS agrees with this recommendation. DAS will prepare the Statement of Cash Flows as required by GASB 34 and will improve our review and monitoring procedures to minimize future errors. With regard to the specific errors identified above, DAS has contacted OPM regarding the depreciation on the building and is in the process of correcting errors in the Core-CT system regarding the depreciation of machinery and equipment. Depreciation on machinery and equipment will be recorded in the financials this fiscal year. The liability accounts that maintained balances year to year will be cleared in fiscal year 2011 as well."

K. DEPARTMENT OF INFORMATION TECHNOLOGY

III.K.1. Allowable Cost/Cost Principles - Unallowable Costs in Revolving Fund Rate Structure

Statewide Cost Allocation Plan (SWCAP)
Federal Cognizant Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2008-2009 and 2009-2010

Background: The State Department of Information Technology (DOIT) administered a Revolving Fund for purposes of tracking and allocating expenses of the Agency which were recovered via direct-billed central services costs. These costs are commonly known as "Section II costs" when referring to the State's Statewide Cost Allocation Plan (SWCAP). During the 2010 fiscal year, the majority of DOIT's Revolving Fund operation was transferred to the General Fund under a new Special Identification (SID). Under the new system, DOIT has developed a direct billing system that uses actual current costs. Overhead costs are applied based on the percentage of direct costs to the total cost for each DOIT product.

Criteria: In accordance with Office of Management and Budget Circular A -87, all allocated costs distributed by an overhead rate should be supported by formal accounting records and be properly allocable to federal awards. In order to be properly allocable, costs should be allowable, necessary and relevant to the data processing function and should be net of all credits.

Condition: Our audit of the overhead costs allocated to the 2010 Data Processing Revolving Fund and the General Fund identified $4,588 in costs that we deemed to be unrelated to the direct function of providing data processing services. These costs were allocated to various state agencies based on system usage and included in memo bills submitted to state agencies for their portion of DOIT's overhead cost.

Effect: The costs comprising DOIT's overhead allocation were overstated, resulting in overhead memo billings that were slightly inflated. The exact monetary impact and the specific federal programs affected by this overstatement were not immediately known.

Cause: We were unable to determine a cause for the above condition.

Recommendation: The Department of Information Technology should increase its efforts to ensure that the expenditures incurred by the Data Processing Revolving Fund and General Fund are properly charged for the data processing function.

Agency Response: "The Department agrees with this finding. The Fiscal Management Office of DOIT mitigated the identified expenses in the January 2011 Data Processing Billing Expense file. The January 2011 Data Processing costs were reduced by the mitigation total. The fiscal impact was minimal.

The Department of Information Technology implemented changes internally in order for similar costs to be charged to a Non-Data Processing fund and this situation no longer exists."