B22831

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

STATE OF INDIANA

SINGLE AUDIT REPORT

July 1, 2002 to June 30, 2003

TABLE OF CONTENTS

TABLE OF CONTENTS
(Continued)

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: The Honorable Joseph E. Kernan
The Members of the General Assembly, and
The Citizens of the State of Indiana

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 Indiana, as of and for the year ended June 30, 2003, 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 Indiana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which represent 10.4% and .6% of the assets and revenues of the governmental activities, 71.1% and 58.8% of the business-type activities and 100% of the assets and revenues of the governmental and proprietary discretely presented component units. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the 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 of the State of Indiana as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV(G) to the financial statements, the State of Indiana has restated certain beginning fund balances and net assets. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 2002, year-end.

INDEPENDENT AUDITOR'S REPORT
(Continued)

The Management Discussion and Analysis, schedule of funding progress for employee retirement systems and plans and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2003, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

STATE BOARD OF ACCOUNTS

December 29, 2003

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Joseph E. Kernan,
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Indiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2003-CAFR-1, 2003-CAFR-2, and 2003-CAFR-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information of the State of Indiana's management, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than the specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts.

STATE BOARD OF ACCOUNTS

December 29, 2003

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2003

The following discussion and analysis of the State of Indiana's financial performance provides an overview of the State's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and the State's financial statements, which follow this section.

Financial Highlights

- For FY 2003, on a government-wide basis, the assets of the State of Indiana exceeded its liabilities by $14.5 billion. This compares with $14.7 billion for FY 2002, as restated. Of this amount, $3.0 billion may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $871.1 million, or 11.6% of the total general fund expenditures.
- On a government-wide basis for the primary government, the State incurred expenses net of program revenue of $11.9 billion, which are partially offset by general revenues and transfers of $11.7 billion, giving a decrease in net assets of $202.1 million. The financial position of the State has deteriorated as can be seen in this decrease in net assets. This compares with a decrease in net assets of $907.1 million for FY 2002.
- Indiana continues to feel the effects of the economic recession. While the unemployment rate dropped from 5.1% to 4.7% in FY 2003, there have been increases in personal bankruptcies and increases in the number of citizens on welfare for the State over the course of FY 2003. Per the American Bankruptcy Institute, for FY 2003, the State ranks sixth worst in number of households in personal bankruptcy filings. During calendar year (CY) 2002, the State had an 11.4% rise in personal bankruptcy filings, compared to a 7.2% increase nationally. In 2002, Indiana experienced the largest percentage increase (20%) in the number of people on welfare, compared to a 2.2% decrease nationwide, according to a study by the Center for Law and Social Policy.
- General revenue for the primary government increased by $1.25 billion, or 12.0%, from FY 2002. The revenue increased because the budget bill passed during the General Assembly's special session, which was signed into law on July 1, 2002, increased the sales tax from 5% to 6% effective December 1, 2002, increased riverboat gaming, cigarette, and gasoline taxes, and reduced property taxes and corporate income taxes.
- The State of Indiana is rated AA+ by Standard & Poor's (on a scale where AAA is the best). As of November 4, 2003, 20% of the states were rated AAA, 20% were rated AA+, and 28% were rated AA. Standard & Poor's changed the outlook for the State to negative as of January 18, 2002, which means that the rating may be lowered. Each bond issue of the State's component units is rated separately by Moody's. 21 of the 30 bond issues are rated Aaa (on a scale where Aaa is the best), with the outlook for the State revised to negative as of November 15, 2003.

Key Economic Indicators

	Dec 31, 2002	Dec 31, 2001	% Change
Total Employment	2,926,700	2,937,600	-0.4%
Service-Producing Employment	2,166,200	2,165,000	0.1%
Goods-Producing Employment	760,500	772,600	-1.6%
Unemployment Rate[1]	4.7%	5.1%	0.4%
Median Household Income	$ 41,034	$ 41,847	-1.9%

[1] Data as of June 30, 2003 and June 30, 2002, respectively

Sources: Bureau of Labor Statistics, Current Employment Statistics Series and Local Area Unemployment Statistics, US Census Bureau, Income in the United States: 2002

Salaries and benefits for State employees represent approximately 9-10% of governmental fund expenditures. The following table shows a five year history of the count of State employees.

Full Time State Employees Paid Through The Auditor of State's Office

	Governor's Authority	Judiciary	Other Elected Officials	On Disability Leave	Total
1999	35,602	816	1,016	1,159	38,593
2000	36,284	836	1,014	1,235	39,369
2001	36,134	862	1,018	1,263	39,277
2002	35,907	869	1,021	1,315	39,112
2003	35,753	899	1,039	1,217	38,908

For information on State employees by agency, please see pages 188-189 in the Statistical Section.

Overview of the Financial Statements

This Financial Section consists of four parts: management's discussion and analysis (this part), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the State. The first two statements are government-wide financial statements that provide both long-term and short-term information about the State's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the State government, reporting the State's operations in more detail than the government-wide statements.

- The governmental fund statements tell how general government services such as public safety, education, and welfare were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the State Lottery Commission and the Indiana Transportation Finance Authority's Toll Roads.
- Fiduciary fund statements provide information about the financial relationships in which the State acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as the retirement plan for the State's employees.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the State's net assets and how they have changed. Net assets, the difference between the State's assets and liabilities, is one way to measure the State's financial health, or position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Indiana is improving or deteriorating. To assess the overall health of the State, additional non-financial factors should be considered, such as changes in the State's tax base, the condition of the State's roads and the State's student population. The government-wide financial statements of the State are divided into three categories:

- **Governmental activities**. Most of the State's basic services are included here, such as the State's roads and bridges, and health and environmental programs. State sales and income taxes and federal grants finance most of these activities.

- **Business-type activities**. The State provides goods and services through these activities that are financed or recovered primarily through fees and user charges. The Hoosier Lottery and the East-West Toll Road are included here.
- **Discretely Presented Component Units**. These are legally separate discretely presented entities for which the State is financially accountable. These include, among others, the Indiana Bond Bank, the Board for Depositories, the Indiana Housing Finance Authority, and colleges and universities that receive state funding.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds, not the State as a whole. Funds are accounting devices that the State uses to keep track of specific sources of funding and spending for particular purposes. The State of Indiana uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The State has three kinds of funds: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds**. Most of the State's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

   Relationship and Reconciliation. Because the information provided in the governmental funds statements does not encompass the additional long-term focus of the government-wide statements, reconciliation pages are provided. On the page following each governmental fund's financial statement, these reconciliations explain the differences between the government-wide and the fund financial statement. Government-wide statements use full accrual accounting. Revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements use the modified accrual basis of accounting. Revenues are recognized when earned so long as they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. Debt service payments and a number of specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

   Noncurrent assets such as infrastructure, land, and property, plant and equipment appear on the government-wide statements but not on the governmental fund statements where they are expensed as acquired rather than capitalized. Noncurrent liabilities such as revenue bonds payable and net pension obligations also appear on the government-wide statements but not on the fund statements. Internal service funds are included as part of the governmental activities in the government-wide statements but not the governmental fund financial statements because they provide services to the governmental funds.

2. **Proprietary funds**. Services for which the State charges customers a fee are generally reported in proprietary funds. These funds use the economic resources measurement focus and the accrual basis of accounting. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact the State's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information such as cash flows. The State uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the State's other programs and activities. An example would be the State Office Building Commission.

3. **Fiduciary funds**. The State is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

Financial Analysis of the State As a Whole

Net Assets

The following is condensed from the Statement of Net Assets:

State of Indiana
Condensed Schedule of Net Assets
(in millions of dollars)

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and other assets	$ 7,962.1	$ 7,461.4	$ 3,302.4	$ 3,297.7	$ 11,264.5	$ 10,759.1
Capital assets	10,429.6	10,181.0	255.7	249.1	10,685.3	10,430.1
Total assets	18,391.7	17,642.4	3,558.1	3,546.8	21,949.8	21,189.2
Current liabilities	3,972.8	3,479.7	167.8	161.6	4,140.6	3,641.3
Long-term liabilities	1,763.6	1,842.1	1,544.8	1,289.7	3,308.4	3,131.8
Total liabilities	5,736.4	5,321.8	1,712.6	1,451.3	7,449.0	6,773.1
Net assets:						
Invested in capital assets, net of related debt	9,664.9	8,683.3	36.9	19.8	9,701.8	8,703.1
Restricted	534.1	666.4	1,218.2	2,054.3	1,752.3	2,720.7
Unrestricted	2,456.3	2,970.9	590.4	21.4	3,046.7	2,992.3
Total net assets	$ 12,655.3	$ 12,320.6	$ 1,845.5	$ 2,095.5	$ 14,500.8	$ 14,416.1

At the end of the current fiscal year, unrestricted net assets for governmental activities were $2.5 billion, or 12.8% of the total governmental activities' expenses, as compared to $3.0 billion, or 16.2%, for FY 2002. Unrestricted net assets were 36.1% of expenses for business-type activities, as compared to 1.4% in FY 2002.

The State maintains a Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue of the State's general fund during periods of economic recession. The fund had total assets of $248.1 million or 10.1% of the total governmental activities' unrestricted net assets.

Changes in Net Assets

The following is condensed from the Statement of Activities:

State of Indiana
Condensed Schedule of Change in Net Assets
(in millions of dollars)

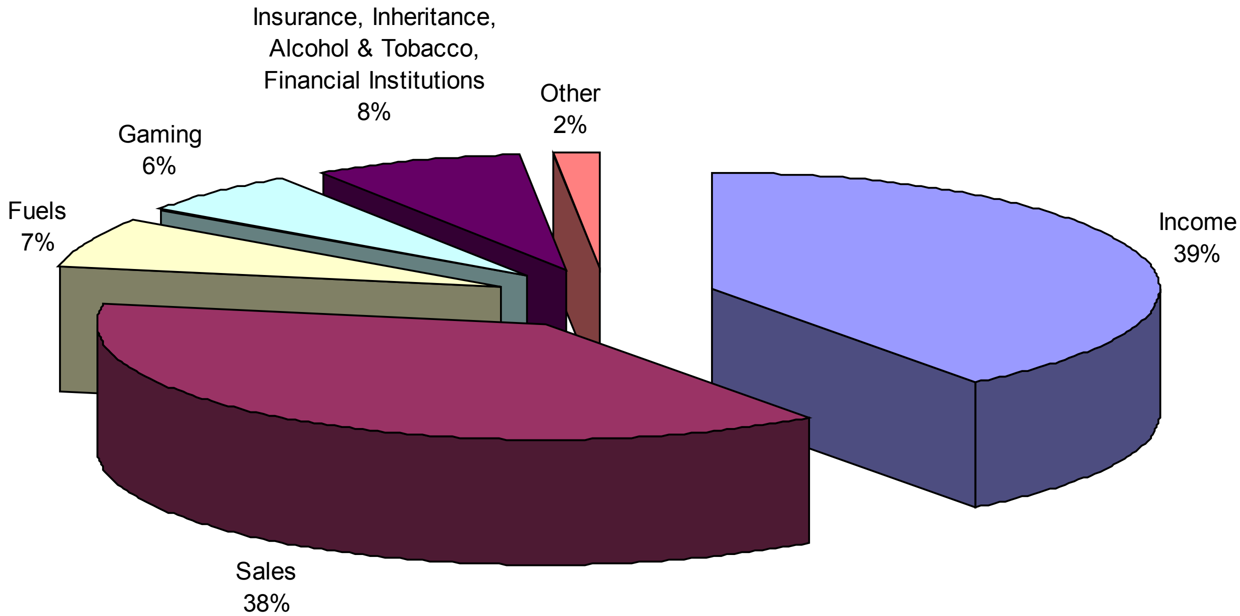
	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues:						
Charges for services	$ 1,210.4	$ 1,178.8	$ 853.1	$ 1,049.5	$ 2,063.5	$ 2,228.3
Operating grants and contributions	6,677.2	6,171.9	170.5	0.6	6,847.7	6,172.5
Capital grants and contributions	15.6	37.0	17.8	92.3	33.4	129.3
General revenues						
Individual and corporate income taxes	4,428.3	4,307.6	-	-	4,428.3	4,307.6
Sales taxes	4,210.5	3,630.1	-	-	4,210.5	3,630.1
Other	2,632.1	2,159.1	408.8	329.0	3,040.9	2,488.1
Total revenues	19,174.1	17,484.5	1,450.2	1,471.4	20,624.3	18,955.9
Program Expenses						
General government	3,049.7	3,097.8	-	-	3,049.7	3,097.8
Public safety	1,198.6	1,134.0	-	-	1,198.6	1,134.0
Health	323.6	332.7	-	-	323.6	332.7
Welfare	6,534.7	6,403.5	-	-	6,534.7	6,403.5
Conservation, culture and development	480.8	473.1	-	-	480.8	473.1
Education	6,243.7	5,718.3	-	-	6,243.7	5,718.3
Transportation	1,278.9	1,099.5	-	-	1,278.9	1,099.5
Interest expense	80.9	87.3	-	-	80.9	87.3
Toll roads	-	-	90.8	85.7	90.8	85.7
Aviation Technology Bonds	-	-	0.7	-	0.7	-
Airport Facilities Revenue Bonds	-	-	12.0	-	12.0	-
State revolving fund	-	-	62.6	50.3	62.6	50.3
Unemployment compensation fund	-	-	887.5	804.9	887.5	804.9
State lottery commission	-	-	552.2	521.1	552.2	521.1
Other	-	0.5	29.7	23.6	29.7	24.1
Total expenses	19,190.9	18,346.7	1,635.5	1,485.6	20,826.4	19,832.3
Excess (deficiency) before transfers	(16.8)	(862.2)	(185.3)	(14.2)	(202.1)	(876.4)
Transfers	105.8	85.8	(105.8)	(107.2)	-	(21.4)
Other	-	(9.3)	-	-	-	(9.3)
Change in net assets	89.0	(785.7)	(291.1)	(121.4)	(202.1)	(907.1)
Beginning net assets, as restated	12,566.3	13,106.4	2,136.6	2,216.9	14,702.9	15,323.3
Ending net assets	$ 12,655.3	$ 12,320.7	$ 1,845.5	$ 2,095.5	$ 14,500.8	$ 14,416.2

Governmental Activities

Expenses exceeded program revenues by $11.3 billion. General revenues and transfers were $11.4 billion, leaving an increase in net assets of $89.0 million, which is 0.5% of total revenues. During the fiscal year the State received $148 million from Tobacco Settlement Master Agreement, which represents 0.8% of total revenues. Transfers of $108.7 million, or 0.6% of total revenues, were received from the State Lottery Commission. Without these two revenue sources, the state would have had a decrease in net assets of $168 million, which is 0.9% of total revenues.

Tax revenues for governmental activities were broken down as follows:

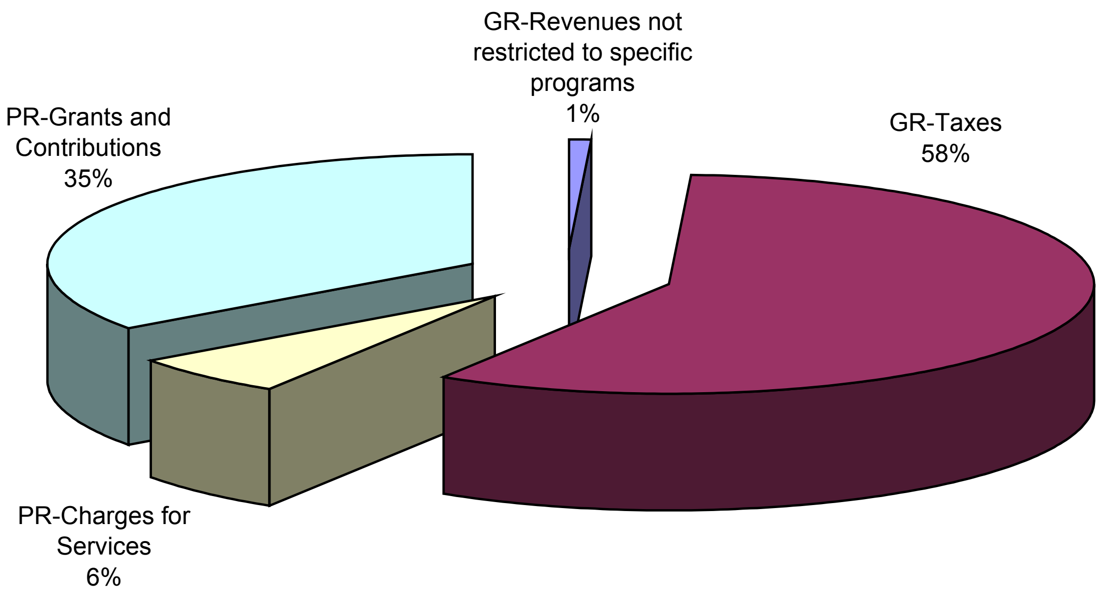
Tax Revenues - Governmental Activities



Tax revenues of $11.1 billion represent 57.9% of total revenues for governmental activities. Income tax dropped from 43% of tax revenues in FY 2002 to 39% in FY 2003 due to the increase in sales tax and cigarette tax, which increased from 37% to 38% and from 5% to 8%, respectively. Program revenues accounted for $7.9 billion or 41% of total revenues, which decreased from 43% of total revenues in FY 2002. Revenues not restricted to specific programs were $172 million or 0.9% of total revenues. Of this $172 million, $60.3 million was investment earnings, which decreased from $124.5 million in FY 2002 due to historically low interest rates.

Total revenues for governmental activities were broken down as follows:

Revenues to Support Governmental Activities



PR = program revenues
GR = general revenues

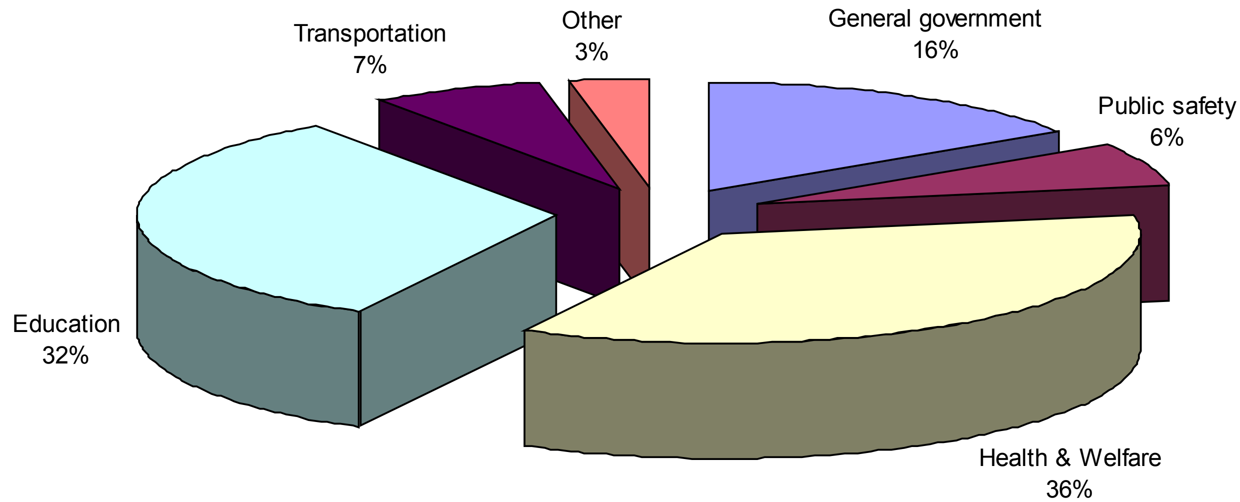
Total revenues were 99.9% of expenses, as compared to 95.3% in FY 2002. The difference was partially covered by transfers from business-type activities, primarily the Indiana State Lottery Commission.

The largest portion of the State's expenses is Health and Welfare, which is $6.9 billion, or 35.7% of total expenses. This compares with $6.7 billion, or 36.7% of total expenses in FY 2002. 66% is funded through operating grants, with the majority of the remainder funded from general revenues. $4.1 billion was spent for Medicaid assistance, as compared to $3.8 billion in FY 2002.

Education comprises 32.5%, or $6.2 billion, of the State's expenses. In FY 2002, Education accounted for 31.1%, or $5.7 billion, of expenses. All but $607.7 million of this is funded from general revenues. The expenses are composed of tuition support, transportation, and the ADA (average daily attendance) flat grant distribution. The National School Lunch Program is another area of expense, which is funded through program revenues.

$3.0 billion, or 15.9% of expenses, was spent for General Government. General Government, which comprised $3.1 billion (16.9%) of expenses in FY 2002, includes local distributions and money for state administration and those functions that serve the state as a whole. Examples of local distributions are the property tax replacement credit, which subsidizes local property tax collections, and the motor vehicle excise replacement credit, which subsidizes automobile license fees. Examples of state administration would be the executive branch of government, the state legislature, and the judiciary.

Total expenses for governmental activities were broken down as follows:



Business-type Activities

Business-type activities represent 7.0% of the Primary Government's revenues and 7.9% of the expenses. The State Lottery Commission accounts for 63.8% of business-type activities' program revenues and 33.8% of expenses. Profits of the State Lottery Commission help to fund the State's retirement plans, and, through the Build Indiana Fund, the motor vehicle excise tax credit, and capital projects for local governments. The Unemployment Compensation Fund's expenses make up 54.3% of business-type activities' expenses.

Net Cost of Primary Government
(in millions of dollars)

	June 30, 2003	June 30, 2002	% Change
Governmental Activities:			
Education	5,636.0	5,184.7	8.7%
General government	2,502.3	2,613.6	-4.3%
Welfare	1,931.6	1,888.6	2.3%
Public safety	425.9	487.3	-12.6%
Transportation	378.0	352.7	7.2%
Conservation, culture, and development	193.0	176.2	9.5%
Health	140.0	168.0	-16.7%
Other	80.9	87.8	-7.9%
Business-type Activities:			
Unemployment Compensation Fund	717.0	547.5	31.0%
Other	6.2	(1.8)	-438.8%
State Revolving Fund	(16.8)	(97.2)	-82.8%
State Lottery Commission	(112.2)	(105.2)	6.7%
TOTAL	**11,881.9**	**11,302.3**	**5.1%**

This schedule shows the net expense (revenue) attributable to each function of government. Each function of Indiana government is either self-supporting (a negative number) or requires additional general revenues to cover expenses (a positive number).

Financial Analysis of the State's Funds

The following is an analysis of the State's major governmental funds:

General Fund

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund. The fund balance of the General Fund at June 30, 2003 was $1.26 billion, which is 34.4% of assets. This compares to a fund balance at June 30, 2002 of $1.08 billion, which was 35.3% of assets. This indicates that the State's financial position in the General Fund is better than the prior year by $0.18 billion. The fund balance of $1.26 billion is composed of reserves of $387 million and unreserved of $871 million. Major reserves are:

- Encumbrances of $25 million, which is money set aside to pay for future obligations.
- Loans of $54.1 million, which consists of $37.1 million in loans to entities outside the primary government and $17.0 million in interfund loans.
- Tuition support of $305 million, which is money set aside for July distributions to schools.

The State calculates a cash basis surplus balance monthly. The year-end surplus balance is combined with estimated revenue forecasts to assess and determine the State's budget. This surplus balance is contained in the General Fund. As of June 30, 2003, the surplus balance was $689.7 million. The balance increased 167.7 million over the June 30, 2002 balance of 522.0 million. This surplus balance is composed of:

- $305.0 million tuition support, which is money set aside to pay for July distributions to schools.
- $248.1 million rainy day fund, which is to assist in stabilizing revenue during periods of economic recession and is part of designated unreserved.
- $136.6 million, which represents the excess of revenues over expenditures and accounts for the bulk of the increase over FY 2002.

The $136.6 million is on a cash basis. Accrual adjustments of $36.4 million reconcile this to the General Fund unreserved, undesignated fund balance on a GAAP basis of $173.0 million. For more information on the cash basis surplus, see page 158 in the Statistical Section. The unreserved, undesignated fund balance of $173.0 million plus the unreserved fund balance designated for appropriations of $290.0 million, plus the unreserved fund balance designated for allotments of $408.1 million give the total unreserved fund balance of $871.1 million. This ties to the Balance Sheet for the General Fund. For more information on designations of unreserved fund balance, see the chart at the bottom of page 62.

The General Fund's revenues increased 4.1%, or $298.1 million, from FY 2002, primarily due to a 333% increase, or $243.0 million, in cigarette tax revenue and a 956% increase, or $106.4 million, in grant revenue, due to the Federal Jobs & Growth Tax Relief Reconciliation Act of 2003. Income tax revenue dropped by 1.9%, or $82.1 million, in comparison with FY 2002. The General Fund's expenditures decreased 0.2%, or $13.8 million, from FY 2002.

Motor Vehicle Highway Fund

The Motor Vehicle Highway Fund receives portions of gas and special fuel tax, motor vehicle registration fees, the motor carrier surtax, federal revenue, and other revenues. These are distributed to cities and towns, counties and the State Department of Transportation and are used to help fund the State Police, the Bureau of Motor Vehicles, the Department of Revenue and others. The fund collected $463 million in taxes, $56.1 million in International Registration Plan (IRP) fees from motor carriers, $15 million in federal grants, and $12 million in other fees. The fund received $246 million in transfers in, which are taxes collected in other funds. These figures are virtually unchanged from FY 2002. The fund distributed $290 million to local units of government, $191 million for public safety, and transferred $315 million to other funds, which include the Department of Transportation and the General Fund. These amounts compare to FY 2002 distributions of $276 million to local units of government, $172 million for public safety, and transfers of $411 million to other funds.

Medicaid Assistance Fund

Medicaid is an insurance program for low-income and needy people. It is jointly funded by the Federal government and the State. The Medicaid Assistance Fund received $2.6 billion in Federal revenue and used $1.5 billion in State revenue. The Fund distributed $4.1 billion in Medicaid assistance. This compares to $2.5 billion in Federal revenue, $1.9 billion in State revenue, and $3.8 billion distributed in FY 2002.

Build Indiana Fund

The Build Indiana Fund receives revenues from the Hoosier Lottery through the State Lottery Commission, Riverboat Wagering Tax through the Indiana Gaming Commission, Horse Racing Pari-mutuel Wagering Tax through the Indiana Horse Racing Commission, and Charity Gaming Excise Tax through the Department of Revenue. The revenues are used to help fund Motor Vehicle Excise Tax Replacement, capital projects for local units of government, and State projects such as the 21st Century Research and Technology Fund, the Indiana Technology Fund and other education technology grants.

The Build Indiana Fund received $250.0 million in gaming revenue which was transferred in from other funds. The revenue decreased from $437.3 million in FY 2002 because the General Assembly capped Build Indiana Fund revenue. Of this amount, $108.7 million came from the State Lottery Commission. The fund received $132.0 million in transfers from the Property Tax Replacement Fund to cover a cash deficit in the fund. The Fund distributed $29.0 million for the Higher Education Technology Fund, $9.5 million for the Digital Television Conversion Project, $4.1 million for the 21st Century Research and Technology Fund, $3.8 million for capital projects for local units of government and $6.7 million for other technology and local grants. The Fund also earned $0.9 million in investment earnings and $0.5 million from securities lending transactions. Transfers out of the Fund included $236.2 million to the Motor Vehicle Excise Replacement account in the General Fund and $175 million to the Property Tax Replacement Fund.

State Highway Department Fund

The State Highway Department Fund was created to fund the construction, reconstruction, operation, maintenance, and control of state highways and tollways. The fund collected $706 million in grants and received $456 million in transfers in, which are taxes collected in other funds, compared with $551.3 million and $547 million in FY 2002, respectively. The fund expended $1,197 million during the year, compared with $987 million in FY 2002.

Property Tax Replacement Fund

The Property Tax Replacement Fund collects sales and corporate income taxes that are dedicated to tuition support and to property tax replacement distribution to local units of government. This is to relieve the property tax burden for the citizens of Indiana who own property. In FY 2003, the fund collected $2,020 million in sales and corporate income taxes, as compared to $1,477 million in FY2002. The fund received a transfer in of $430.9 million from the State Gaming Fund. The General Assembly enacted legislation that directs surplus lottery revenues greater than $250 million to the Property Tax Replacement Fund, rather than the Build Indiana Fund. The fund also received transfers in of $203.8 million for individual income tax, $58.8 million for corporate income tax, and $19.3 million for sales tax collected in the General Fund and $175 million from the Build Indiana Fund. $1.4 billion was distributed to local units of government for property tax relief.

Payments of property tax replacement and homestead tax credits to counties were shifted from May 2003 to July 2003 by legislation passed by the General Assembly, which left excess money in the Property Tax Replacement Fund. Any excess in the fund is transferred to the General Fund. For the year ended June 30, 2003, $158.0 million was transferred to the General Fund. In addition, transfers out include $1.5 billion to the General Fund for tuition support and $136.2 million to the Build Indiana Fund.

Tobacco Settlement Fund

The Tobacco Settlement Fund is used to receive and distribute revenue received from the Tobacco Settlement Agreement entered into on November 23, 1998, by the State and leading United States tobacco product manufacturers. During fiscal year 2003, the State collected $148.0 million from tobacco product manufacturers. The State expended $25.7 million for tobacco education, prevention, and use control, $16.9 million to fund operating and capital expenses associated with community health centers, $6.5 million for the Hoosier Rx Prescription Drug program, and $3.0 million for the Indiana Local Health Department Trust Account. Net transfers out of the Fund include $33.6 million for the Children's Health Insurance Program (CHIP), $30.3 million to the General Fund per an order of the State Board of Finance, $24.3 million for Residential Services, and $7.9 million for various health-related programs, including $4.0 million for Aging and Community Services, $2.0 million for Developmentally Disabled Services, $1.4 million for Local Maintenance, and $0.5 million for Newborn Screening. The State earned $1.1 million in investments of this money.

General Fund Budgetary Highlights

An economic downturn that began in Indiana in 2000 affected the State's General Fund. Because of a continuing decline in revenue, a special session of the General Assembly was convened in May, 2002. During that session, the governor and Legislature succeeded in passing a major tax restructuring plan, saving taxpayers from significant increases in their property taxes by raising the homestead and renters' exemptions. This restructuring was necessitated by a court ordered change in the assessment. The 2002 legislation increased the sales tax by 1 percent, the cigarette tax by 40 cents per pack and the gas tax by 3 cents per gallon. Revenue was also enhanced through an increase in the tax imposed on riverboats. Owners of the riverboats, in turn, were granted their request that dockside gambling be allowed. Actual revenue collections for fiscal year 2003 were 4.5% over the revised revenue forecast of April, 2003.

In all, a total of $1.5 billion in taxes ($800 million alone from the sales tax increase) was raised, and over $1 billion of that was earmarked for property tax relief. The state's increase in the homestead exemption could not totally offset the tax implications of a court order mandating that property assessments be based on market value. In response, lawmakers reduced schools' reliance on local property taxes. With the restructuring, 67 percent of the property taxes levied for a school general fund will be paid through a state property tax replacement credit. This will result in the state being responsible for 85% of the funding of the school general fund.

Even with the tax restructuring, a series of spending reductions, transfers, and reallocations of other revenues were used to offset the reduced revenues in the General Fund. The following summarizes the differences between the original and final budget amounts for fiscal year 2003:

- Agencies controlled spending to create budgetary savings of $323.4 million.
- Delays in payments of local school aid and higher education created a savings of $20.0 million.
- Transfers of certain restricted funds were made to the General Fund in the amount of $123.0 million.
- The Lottery and Gaming Surplus Account in the Build Indiana Fund transferred $175.0 million to the Property Tax Replacement Fund.
- The Federal Jobs & Growth Tax Relief Reconciliation Act of 2003 provided $103.4 million of General Fund revenues.

Spending during state fiscal year 2004 will be carefully monitored and other measures will be used, if necessary, to maintain an acceptable General Fund balance.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $10.7 billion, which was 48.7% of total assets for the primary government. Related debt was $1.0 billion. Total capital assets net of related debt for the primary government was $9.7 billion. The ratio of capital assets to related debt was 1,087%.

The following table shows the percentage change from fiscal year 2002 to fiscal year 2003.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2003	2002	2003	2002	2003	2002	
Land	$ 1,111.7	$ 1,058.8	$ 28.2	$ 30.7	$ 1,139.9	$ 1,089.5	4.6%
Infrastructure	7,480.9	7,473.1	180.3	180.4	7,661.2	7,653.5	0.1%
Construction in Progress	303.1	192.7	6.6	0.5	309.7	193.2	60.3%
Property, plant and equipment	2,435.2	2,292.7	124.1	117.7	2,559.3	2,410.4	6.2%
Less accumulated depreciation	(901.3)	(836.3)	(83.5)	(80.2)	(984.8)	(916.5)	7.5%
Total	**$ 10,429.6**	**$ 10,181.0**	**$ 255.7**	**$ 249.1**	**$ 10,685.3**	**$ 10,430.1**	**2.4%**

Overall capital assets increased by 2.4% from 2002 to 2003. Construction in Progress increased by 60.3% due to increased spending. Property, plant, and equipment increased 6.18%, or $148.9 million. $100.0 million of the increase is due to a prior period adjustment. More detailed information about the State's capital assets is presented in Note IV(D) to the financial statements.

Long-term Obligations

Major long-term obligations items are included in the following table. These major items comprised 100% of total long-term liabilities and 44.4% of total liabilities.

The following table shows the percentage change from fiscal year 2002 to fiscal year 2003.

State of Indiana
Long-term Liabilities
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2003	2002	2003	2002	2003	2002	
Accrued liability for compensated absences	$ 48.0	$ 52.0	$ 0.1	$ 0.1	$ 48.1	$ 52.1	-7.7%
Accrued prize liability	-	-	58.1	51.2	58.1	51.2	13.5%
Capital lease payable	18.5	19.2	-	-	18.5	19.2	-3.6%
Claims payable	-	-	18.5	11.7	18.5	11.7	0.0%
Construction retention	1.2	4.9	-	-	1.2	4.9	-75.5%
Salaries, health, disability, and benefits payable	4.4	-	-	-	4.4	-	N/A
Net pension obligations	1.1	0.7	-	-	1.1	0.7	57.1%
Due to component units	-	-	1,057.3	1,008.8	1,057.3	1,008.8	4.8%
Revenue bonds/notes payable	1,690.4	1,765.3	410.8	217.9	2,101.2	1,983.2	5.9%
Total	**$ 1,763.6**	**$ 1,842.1**	**$ 1,544.8**	**$ 1,289.7**	**$ 3,308.4**	**$ 3,131.8**	**5.6%**

Accrued liability for compensated absences is an estimate of the State's liability for vacation and personal leave time not taken by State employees and accrued at June 30, 2003. This total liability decreased by 7.7% from FY 2002 to FY 2003. This was offset, however, by the $4.4 million long-term accrual in salaries, health, and disability benefits payable, for the State Incentive Retirement Plan (SIRP). Another $4.4 million was accrued as a current liability for SIRP payments made in July, 2003.

The amount due to component units is money due to the Indiana Bond Bank from the State Revolving Fund. The Indiana Bond Bank is a separate body corporate and politic from the State and is reported as a discretely presented component unit. The State Revolving Fund is administered by the State Budget Agency and the Indiana Department of Environmental Management, which are agencies of the State. Proceeds from State revolving bonds issued by the Indiana Bond Bank are used by the State Revolving Fund to assist qualified entities in obtaining below market financing for water pollution control projects.

The repayment of these loans is used by the State Revolving Fund to repay the Indiana Bond Bank, which makes the bond payments. The 4.8% increase is attributable to $141.8 million Series 2002A & 2002B bonds issued by the Indiana Bond Bank on behalf of the State Revolving Fund.

Of the $2.1 billion in revenue bonds/notes payable, $1.2 billion were issued by the Indiana Transportation Finance Authority, $853 million by the Indiana State Office Building Commission, and $26 million by the Recreational Development Commission. Revenue bonds/notes payable increased 5.9% over FY 2002, primarily due to the issuance of $150.1 million in Highway Bond Anticipation Notes by the Indiana Transportation Finance Authority in June, 2003.

More detail about the State's debt is presented in note IV(F) of the notes to the financial statements.

Infrastructure

As required by GASB Statement No. 34, the State has capitalized its infrastructure. This amounts to $7.5 billion in roads and bridges using the modified approach, $904 million in right of way classified as land, and $14 million in dams being depreciated. In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.

- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at or above the established condition level.

Under the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 23,000 lane miles of roads and approximately 5,100 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past two years. It is the State's policy to maintain Interstate and National Highway System (NHS) Non-Interstate roads at an average Pavement Quality Index (PQI) of 75 and Non-NHS roads at an average PQI of 65. The most recent condition assessment, completed for fiscal year 2003, indicated that the average PQI for roads exceeded the minimum acceptable standard.

The State has maintained the assessed conditions of bridges at levels which are above the established benchmarks. It is the State's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83%. The most recent condition assessment, completed in August 2002, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Although the actual maintenance and preservation costs for NHS Non-Interstate roads and Interstate and NHS Non-Interstate bridges were lower than planned, this has not caused the condition level to fall below the State’s policy.

Economic Factors

The economic forecast, upon which the state budget for fiscal years 2004 and 2005 was based, was updated in April 2003. At that time, real Gross Domestic Product (GDP) was projected to increase by 1.3% in the first quarter of calendar year (CY) 2003. Real GDP growth was projected to increase through the remainder of 2003 before stabilizing at 3.4%. On a state fiscal year basis, real GDP was projected to increase by 2.8% in FY 2004 and increase by 3.4% in FY 2005.

Growth was slightly stronger than expected in the first quarter of CY 2003, and as the effects of the federal economic stimulus package began to materialize, growth was significantly stronger than expected in the second and third quarters of CY 2003. Through the first three quarters of CY 2003, real GDP exceeded expectations and increased by 2.7% compared to the April forecast of 2.1%.

The April 2003 forecast projected the Indiana non-farm personal income growth to gradually increase through the fourth quarter of CY 2002 and the first quarter of CY 2003 before rapidly increasing in the second quarter of CY 2003. Through the remainder of CY 2003, CY 2004, and CY 2005, Indiana non-farm personal income was expected to continually grow, reaching 5.2% growth in the first quarter of CY 2005. On an annual basis, Indiana non-farm personal income growth was projected to increase by 4.6% in CY 2004 and by 5.0% in the first half of CY 2005.

Indiana non-farm personal income exceeded expectations in the fourth quarter of CY 2002 and was weaker than expected in the first and second quarters of CY 2003. Through the first half of CY 2003, Indiana non-farm personal income growth did not meet expectations and increased by 3.1% compared to the April forecast of 3.6%.

The April forecast projected baseline growth in General Fund and Property Tax Replacement Fund revenues of 3.1% in FY 2004 and 4.5% in FY 2005.

Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, and 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 questions about this report or need additional financial information, contact the Auditor of State, 240 State House, 200 West Washington Street, Indianapolis, Indiana 46204-2793.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE

FINANCIAL STATEMENTS

State of Indiana
Statement of Net Assets
June 30, 2003
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Assets:				
Current assets:				
Cash, cash equivalents and investments	$ 3,382,643	$ 1,354,357	**$ 4,737,000**	$ 1,397,852
Securities lending collateral	1,900,882	-	**1,900,882**	500,714
Receivables (net)	1,385,087	102,069	**1,487,156**	287,879
Inventory	5,971	3,192	**9,163**	30,293
Internal balances	300	(300)	**-**	-
Prepaid expenses	8,415	2,077	**10,492**	9,315
Loans	64,258	35,290	**99,548**	1,356,193
Due from primary government	-	-	**-**	117,717
Investment in direct financing lease	-	9,230	**9,230**	-
Funds held in trust by others	-	-	**-**	41,073
Other current assets	-	-	**-**	21,781
Total current assets	6,747,556	1,505,915	**8,253,471**	3,762,817
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	158,992	829,433	**988,425**	1,419,564
Taxes, interest, and penalties receivable	448,106	-	**448,106**	4,998
Other receivables	36,535	-	**36,535**	1,238,432
Investments - unrestricted	-	-	**-**	686,880
Loans	388,770	752,362	**1,141,132**	661,568
Bond issuance costs net of amortization	11,339	1,574	**12,913**	30,972
Due from primary government	-	-	**-**	1,057,264
Investment in direct financing lease	-	202,925	**202,925**	-
Net pension assets	170,803	-	**170,803**	-
Other noncurrent assets	39	10,183	**10,222**	32,020
Capital assets, net of accumulated depreciation	10,429,612	255,669	**10,685,281**	3,663,450
Total noncurrent assets	11,644,196	2,052,146	**13,696,342**	8,795,148
Total assets	**18,391,752**	**3,558,061**	**21,949,813**	**12,557,965**
Liabilities:				
Current liabilities:				
Accounts payable	285,672	30,982	**316,654**	147,924
Claims payable	-	1,826	**1,826**	-
Interest payable	43,841	35,123	**78,964**	53,471
Current portion of long-term debt	52,775	21,701	**74,476**	1,612,214
Intergovernmental payable	1,315,085	-	**1,315,085**	-
Due to component unit	96,347	21,370	**117,717**	-
Capital lease payable	59	-	**59**	6,130
Accrued prize liability	-	44,095	**44,095**	-
Salaries, health, disability, and benefits payable	120,212	2,738	**122,950**	80,804
Tax refunds payable	61,894	-	**61,894**	-
Deferred revenue	20,765	7,158	**27,923**	166,651
Accrued liability for compensated absences	71,699	145	**71,844**	57,806
Securities lending payable	3,611	-	**3,611**	-
Securities lending collateral	1,900,882	-	**1,900,882**	500,714
Deposits held in custody for others	-	-	**-**	55,473
Other current liabilities	-	2,669	**2,669**	38,620
Total current liabilities	3,972,842	167,807	**4,140,649**	2,719,807

State of Indiana
Statement of Net Assets
June 30, 2003
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Long-term liabilities:				
Accrued liability for compensated absences	$ 48,031	$ 133	**$ 48,164**	$ 24,904
Claims payable	-	18,540	**18,540**	-
Construction retention	1,235	-	**1,235**	-
Salaries, health, disability, and benefits payable	4,360	-	**4,360**	-
Accrued prize liability	-	58,120	**58,120**	-
Net pension obligations	1,149	-	**1,149**	-
Due to component unit	-	1,057,264	**1,057,264**	-
Capital lease payable	18,457	-	**18,457**	98,429
Funds held in trust for others	-	-	**-**	43,366
Advances from federal government	295	-	**295**	25,087
Revenue bonds/notes payable	1,690,048	409,283	**2,099,331**	4,239,025
Other noncurrent liabilities	-	1,411	**1,411**	10,779
Total long-term liabilities	1,763,575	1,544,751	**3,308,326**	4,441,590
Total liabilities	**5,736,417**	**1,712,558**	**7,448,975**	**7,161,397**
Net Assets:				
Invested in capital assets net of related debt	9,664,938	36,931	**9,701,869**	2,311,016
Restricted-nonexpendable:				
Grants/constitutional restrictions	508,934	-	**508,934**	-
Permanent funds	4,708	-	**4,708**	-
Instruction and research	-	-	**-**	82,580
Student aid	-	-	**-**	84,721
Other purposes	-	-	**-**	46,832
Total restricted-nonexpendable	513,642	-	**513,642**	214,133
Restricted-expendable:				
Instruction and research	-	-	**-**	161,621
Grants/constitutional restrictions	-	-	**-**	3,005
Future debt service	13,803	94,240	**108,043**	147,592
Pension fund distribution		-	**-**	6,888
Public safety programs	6,631	-	**6,631**	-
Transportation programs	-	9,405	**9,405**	-
Student aid	-	-	**-**	72,995
Auxiliary enterprises	-	-	**-**	2,713
Capital projects	-	140,633	**-**	209,010
Unemployment compensation	-	973,606	**973,606**	-
Other purposes	-	326	**326**	401,318
Total restricted-expendable	20,434	1,218,210	**1,238,644**	1,005,142
Unrestricted	2,456,321	590,362	**3,046,683**	1,866,277
Total net assets	**$ 12,655,335**	**$ 1,845,503**	**$ 14,500,838**	**$ 5,396,568**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Activities
For the Year Ended June 30, 2003
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 3,049,696	$ 303,777	$ 243,579	$ -	$ (2,502,340)	$ -	$ (2,502,340)	$ -
Public safety	1,198,585	572,584	185,922	14,222	(425,857)	-	(425,857)	-
Health	323,621	8,148	174,107	1,355	(140,011)	-	(140,011)	-
Welfare	6,534,702	232,147	4,370,990	-	(1,931,565)	-	(1,931,565)	-
Conservation, culture and development	480,843	85,524	202,324	-	(192,995)	-	(192,995)	-
Education	6,243,705	6,649	601,035	-	(5,636,021)	-	(5,636,021)	-
Transportation	1,278,902	1,589	899,280	-	(378,033)	-	(378,033)	-
Unallocated interest expense	80,887	-	-	-	(80,887)	-	(80,887)	-
Total governmental activities	19,190,941	1,210,418	6,677,237	15,577	(11,287,709)	-	(11,287,709)	-
Business-type activities								
Toll Roads	90,766	89,017	-	-	-	(1,749)	(1,749)	-
Aviation Technology Bonds	723	713	-	-	-	(10)	(10)	-
Airport Facilities Revenue Bonds	12,035	11,612	-	-	-	(423)	(423)	-
State Revolving Fund	62,642	61,609	-	17,807	-	16,774	16,774	-
Unemployment Compensation Fund	887,501	-	170,480	-	-	(717,021)	(717,021)	-
State Lottery Commission	552,192	664,417	-	-	-	112,225	112,225	-
Other	29,687	25,686	-	-	-	(4,001)	(4,001)	-
Total business-type activities	1,635,546	853,054	170,480	17,807	-	(594,205)	(594,205)	-
Total primary government	$ 20,826,487	$ 2,063,472	$ 6,847,717	$ 33,384	(11,287,709)	(594,205)	(11,881,914)	-
Component units:								
Governmental and proprietary	347,366	104,466	259,920	-	-	-	-	17,020
Colleges and universities	4,010,407	1,916,262	821,418	79,680	-	-	-	(1,193,047)
Total component units	$ 4,357,773	$ 2,020,728	$ 1,081,338	$ 79,680	-	-	-	(1,176,027)
General Revenues:								
Income tax					4,428,304	-	4,428,304	-
Sales tax					4,210,526	-	4,210,526	-
Fuels tax					779,087	-	779,087	-
Gaming tax					673,072	-	673,072	-
Unemployment tax					-	332,281	332,281	-
Inheritance tax					175,873	-	175,873	-
Alcohol & Tobacco tax					374,308	-	374,308	-
Insurance tax					181,186	-	181,186	-
Financial Institutions tax					106,000	-	106,000	-
Other tax					170,306	-	170,306	-
Total taxes					11,098,662	332,281	11,430,943	-
Revenue not restricted to specific programs								
Investment earnings					60,344	75,530	135,874	113,202
Payments from State of Indiana					-	-	-	1,286,078
Other					111,955	1,097	113,052	126,986
Transfers within primary government					105,797	(105,797)	-	-
Total general revenues and transfers					11,376,758	303,111	11,679,869	1,526,266
Changes in net assets					89,049	(291,094)	(202,045)	350,239
Net assets - beginning, as restated					12,566,286	2,136,597	14,702,883	5,046,329
Net assets - ending					$ 12,655,335	$ 1,845,503	$ 14,500,838	$ 5,396,568

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

State of Indiana
Balance Sheet
Governmental Funds
June 30, 2003
(amounts expressed in thousands)

	General Fund	Motor Vehicle Highway Fund	Medicaid Assistance	Build Indiana Fund
Assets:				
Cash, cash equivalents and investments-unrestricted	$ 1,168,451	$ -	$ 42,555	$ 16,896
Securities lending collateral	1,375,686	-	-	-
Receivables:				
Taxes (net of allowance for uncollectible accounts)	1,024,911	21,976	-	-
Securities lending	2,530	-	-	-
Accounts	11,878	-	-	-
Grants	2,173	1,783	15,507	-
Interest	12,619	-	-	-
Interfund loans	17,031	-	-	-
Prepaid expenditures	861	2,237	-	-
Loans	37,295	-	-	3,713
Total assets	$ 3,653,435	$ 25,996	$ 58,062	$ 20,609
Liabilities:				
Accounts payable	$ 68,326	$ 1,364	$ 51	$ 1,571
Salaries and benefits payable	48,910	7,363	-	-
Interfund loans	120	5,263	-	-
Interfund services used	2,847	3,695	-	-
Intergovernmental payable	324,884	26,606	-	-
Due to component unit	96,347	-	-	-
Tax refunds payable	56,301	32	-	-
Deferred revenue	416,778	5,089	-	-
Accrued liability for compensated absences-current	3,036	109	-	-
Securities lending payable	2,530	-	-	-
Securities lending collateral	1,375,686	-	-	-
Total liabilities	2,395,765	49,521	51	1,571
Fund balance:				
Reserved:				
Encumbrances	25,353	10,369	-	1,381
Special purposes	2,173	1,783	15,507	-
Tuition support	305,000	-	-	-
Interfund loans	17,031	-	-	-
Long-term loans and advances	37,060	-	-	3,612
Restricted purposes	-	-	-	-
Unreserved fund balance reported in:				
General fund	871,053	-	-	-
Special revenue funds	-	(35,677)	42,504	14,045
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total fund balance	1,257,670	(23,525)	58,011	19,038
Total liabilities and fund balance	$ 3,653,435	$ 25,996	$ 58,062	$ 20,609

The notes to the financial statements are an integral part of this statement.

State Highway Department	Property Tax Replacement Fund	Tobacco Settlement Fund	Non-major Governmental Funds	Total
$ 226,181	$ -	$ 275,777	$ 1,512,328	**$ 3,242,188**
3,060	-	60,709	461,427	**1,900,882**
-	257,504	-	252,948	**1,557,339**
6	-	136	938	**3,610**
1,641	-	-	16,479	**29,998**
97,110	-	-	29,427	**146,000**
2	-	-	491	**13,112**
19,716	-	-	1,014	**37,761**
-	-	-	2,296	**5,394**
8,215	-	-	403,804	**453,027**
$ 355,931	$ 257,504	$ 336,622	$ 2,681,152	**$ 7,389,311**
$ 10,373	$ -	$ 1,154	$ 143,773	**$ 226,612**
9,416	-	68	27,247	**93,004**
-	-	-	10,089	**15,472**
190	-	-	2,202	**8,934**
-	874,013	-	89,582	**1,315,085**
-	-	-	-	**96,347**
-	-	-	5,561	**61,894**
1,641	65,613	-	185,338	**674,459**
630	-	2	2,023	**5,800**
6	-	136	938	**3,610**
3,060	-	60,709	461,427	**1,900,882**
25,316	939,626	62,069	928,180	**4,402,099**
937,803	-	221	131,710	**1,106,837**
97,110	-	-	20,136	**136,709**
-	-	-	-	**305,000**
19,716	-	-	1,014	**37,761**
8,215	-	-	289,914	**338,801**
-	-	-	2,936	**2,936**
-	-	-	-	**871,053**
(732,229)	(682,122)	274,332	978,491	**(140,656)**
-	-	-	78,304	**78,304**
-	-	-	250,467	**250,467**
330,615	(682,122)	274,553	1,752,972	**2,987,212**
$ 355,931	$ 257,504	$ 336,622	$ 2,681,152	**$ 7,389,311**

State of Indiana
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2003
(amounts expressed in thousands)

Total fund balances-governmental funds		$	2,987,212
Amounts 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:			
Land	$ 1,061,125		
Infrastructure assets	7,480,892		
Construction in progress	266,857		
Property, plant, and equipment	1,497,365		
Accumulated depreciation	(718,519)		
Total capital assets			9,587,720
The State's pension funds have net pension assets not reported as assets in the funds.			170,803
Recreational Development Commission startup is a noncurrent asset not reported in the funds			500
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.			742,001
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 the funds.			(61,354)
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.			170,666
Elimination of internal balance relating to investment in direct financing lease between internal service funds and governmental funds.			(810,701)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Accrued liability for compensated absences	(111,958)		
Capital lease payable	(18,405)		
Net pension obligations	(1,149)		
Total long-term liabilities			(131,512)
Net assets of governmental activities		$	12,655,335

The notes to the financial statements are an integral part of this statement.


SEAL OF THE STATE OF INDIANA
1816

State of Indiana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003
(amounts expressed in thousands)

	General Fund	Motor Vehicle Highway Fund	Medicaid Assistance	Build Indiana Fund
Revenues:				
Taxes:				
Income	$ 4,148,793	$ -	$ -	$ -
Sales	2,161,831	-	-	-
Fuels	-	463,492	-	-
Gaming	84,308	-	-	-
Inheritance	175,873	-	-	-
Alcohol and tobacco	315,966	-	-	-
Insurance	178,479	-	-	-
Financial Institutions	-	-	-	-
Other	82,110	-	-	-
Total taxes	7,147,360	463,492	-	-
Current service charges	205,317	12,489	-	-
Investment income	57,274	-	-	1,415
Sales/rents	2,645	15	-	-
Grants	117,575	14,956	2,610,669	-
Other	109,696	58,145	-	3,007
Total revenues	7,639,867	549,097	2,610,669	4,422
Expenditures:				
Current:				
General government	913,660	290,061	-	46,182
Public safety	599,430	191,465	-	1
Health	93,131	-	-	-
Welfare	375,536	-	4,067,767	-
Conservation, culture and development	62,328	9	-	3,140
Education	5,473,045	260	-	87
Transportation	5,096	3,234	-	3,655
Total expenditures	7,522,226	485,029	4,067,767	53,065
Excess (deficiency) of revenues over expenditures	117,641	64,068	(1,457,098)	(48,643)
Other financing sources (uses):				
Transfers in	3,043,982	246,447	1,519,347	381,960
Transfers (out)	(2,982,995)	(315,010)	(29,371)	(411,212)
Total other financing sources (uses)	60,987	(68,563)	1,489,976	(29,252)
Net change in fund balances	178,628	(4,495)	32,878	(77,895)
Fund Balance July 1, as restated	1,079,042	(19,030)	25,133	96,933
Fund Balance June 30	**$ 1,257,670**	**$ (23,525)**	**$ 58,011**	**$ 19,038**

The notes to the financial statements are an integral part of this statement.

State Highway Department	Property Tax Replacement Fund	Tobacco Settlement Fund	Non-Major Governmental Funds	Total
$ -	$ 73,486	$ -	$ 125,777	**$ 4,348,056**
42	1,946,909	-	87,153	**4,195,935**
53	-	-	310,184	**773,729**
-	-	-	588,764	**673,072**
-	-	-	-	**175,873**
-	-	-	58,241	**374,207**
-	-	-	2,707	**181,186**
-	-	-	106,963	**106,963**
-	-	-	95,782	**177,892**
95	2,020,395	-	1,375,571	**11,006,913**
12,068	-	147,988	810,492	**1,188,354**
118	-	1,117	17,106	**77,030**
589	-	-	24,410	**27,659**
705,968	-	-	2,813,289	**6,262,457**
121,694	-	32	209,881	**502,455**
840,532	2,020,395	149,137	5,250,749	**19,064,868**
58	1,391,257	7,482	466,007	**3,114,707**
-	-	-	389,813	**1,180,709**
-	-	44,837	183,157	**321,125**
-	-	846	2,082,919	**6,527,068**
-	-	-	397,430	**462,907**
-	-	-	771,187	**6,244,579**
1,196,481	-	-	172,798	**1,381,264**
1,196,539	1,391,257	53,165	4,463,311	**19,232,359**
(356,007)	629,138	95,972	787,438	**(167,491)**
456,397	945,341	73,569	1,690,756	**8,357,799**
(8,607)	(1,822,671)	(170,986)	(2,482,511)	**(8,223,363)**
447,790	(877,330)	(97,417)	(791,755)	**134,436**
91,783	(248,192)	(1,445)	(4,317)	**(33,055)**
238,832	(433,930)	275,998	1,757,289	**3,020,267**
$ 330,615	**$ (682,122)**	**$ 274,553**	**$ 1,752,972**	**$ 2,987,212**

State of Indiana
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003
(amounts expressed in thousands)

Net change in fund balances-total governmental funds	$	(33,055)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report net capital outlays for infrastructure as expenditures. However in the statement of activities these outlays are capitalized and under the modified approach not depreciated. This is the amount of the net capital outlays for infrastructure under the modified approach in the current period		175,491
Governmental funds report net capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($46,801) exceeds net capital outlays ($5,520) in the current period.		(52,321)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		106,542
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.		(100,678)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, data processing, telecommunications, fleet management, and printing, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		(6,930)
Change in net assets of governmental activities.	$	89,049

The notes to the financial statements are an integral part of this statement.


SEAL OF THE STATE OF INDIANA
1816

State of Indiana
Statement of Fund Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	Transportation Finance Authority Aviation Technology Bonds	Transportation Finance Authority Airport Facilities Bonds	State Revolving Fund
Assets				
Current assets:				
Cash, cash equivalents and investments - unrestricted	$ 103,254	$ 373	$ 1,311	$ 191,883
Receivables:				
Accounts	3,790	141	1,890	17,857
Taxes	-	-	-	-
Interest	-	-	1	24,706
Interfund services provided	-	-	-	-
Interfund loans	-	-	-	-
Loans	-	-	-	35,290
Investment in direct financing lease	-	265	8,965	-
Inventory	2,044	-	-	-
Prepaid expenses	1,150	-	-	-
Total current assets	110,238	779	12,167	269,736
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	91,547	-	-	668,601
Interest receivable - restricted	-	-	-	-
Loans	-	-	-	752,362
Investment in direct financing lease	-	9,830	193,095	-
Bond issuance costs - net of amortization	1,574	-	-	-
Property, plant and equipment net of accumulated depreciation	241,832	-	-	-
Other assets	-	-	-	10,183
Total noncurrent assets	334,953	9,830	193,095	1,431,146
Total assets	**445,191**	**10,609**	**205,262**	**1,700,882**
Liabilities				
Current liabilities:				
Accounts payable	6,624	6	14	358
Claims payable	-	-	-	-
Salaries and benefits payable	2,434	-	-	-
Interest payable	4,602	141	1,890	28,490
Capital lease payable	-	-	-	-
Current portion of long-term debt	12,380	265	8,965	-
Accrued prize liability	-	-	-	-
Health/disability benefits payable	-	-	-	-
Accrued liability for compensated absences	-	-	-	-
Due to component unit	-	-	-	21,370
Interfund loans	-	-	-	-
Deferred revenue	-	-	-	-
Other liabilities	-	-	-	341
Total current liabilities	26,040	412	10,869	50,559
Noncurrent liabilities:				
Construction retention	-	-	-	-
Accrued liability for compensated absences	-	-	-	-
Capital lease payable	-	-	-	-
Claim payable	-	-	-	-
Due to component unit	-	-	-	1,057,264
Interfund loans	-	-	-	-
Accrued prize liability	-	-	-	-
Amount due federal government	-	-	-	-
Revenue bonds/notes payable	206,358	9,830	193,095	-
Other liabilities	-	-	-	1,411
Total noncurrent liabilites	206,358	9,830	193,095	1,058,675
Total liabilities	**232,398**	**10,242**	**203,964**	**1,109,234**
Net assets				
Invested in capital assets net of related debt	23,094	-	-	-
Restricted-expendable:				
Transportation programs	9,405	-	-	-
Future debt service	44,457	-	-	-
Construction	140,633	-	-	-
Unemployment compensation	-	-	-	-
Other purposes	-	326	-	-
Unrestricted	(4,796)	41	1,298	591,648
Total net assets	**$ 212,793**	**$ 367**	**$ 1,298**	**$ 591,648**

The notes to the financial statements are an integral part of this statement.

Enterprise Funds				
Unemployment Compensation Fund	State Lottery Commission	Other Enterprise Funds	Total	Internal Service Funds
$ 968,375	$ 56,193	$ 32,968	**$ 1,354,357**	$ 140,451
-	30,407	112	**54,197**	36,563
22,734	-	-	**22,734**	-
-	102	329	**25,138**	60
-	-	-	**-**	8,934
-	-	-	**-**	420
-	-	-	**35,290**	-
-	-	-	**9,230**	149,690
-	641	507	**3,192**	5,971
-	877	50	**2,077**	3,021
991,109	88,220	33,966	**1,506,215**	345,110
-	69,285	-	**829,433**	158,992
-	-	-	**-**	138
-	-	-	**752,362**	-
-	-	-	**202,925**	661,011
-	-	-	**1,574**	11,339
-	4,695	9,142	**255,669**	841,892
-	-	-	**10,183**	39
-	73,980	9,142	**2,052,146**	1,673,411
991,109	**162,200**	**43,108**	**3,558,361**	**2,018,521**
17,503	6,101	376	**30,982**	6,428
-	-	1,826	**1,826**	-
-	-	304	**2,738**	1,287
-	-	-	**35,123**	43,841
-	-	-	**-**	59
-	-	91	**21,701**	52,775
-	44,095	-	**44,095**	-
-	-	-	**-**	21,558
-	-	145	**145**	1,142
-	-	-	**21,370**	-
-	-	300	**300**	22,409
-	1,175	5,983	**7,158**	5,396
-	1,598	730	**2,669**	-
17,503	52,969	9,755	**168,107**	154,895
-	-	-	**-**	1,235
-	-	133	**133**	830
-	-	-	**-**	52
-	-	18,540	**18,540**	-
-	-	-	**1,057,264**	-
-	-	-	**-**	500
-	58,120	-	**58,120**	-
-	-	-	**-**	295
-	-	-	**409,283**	1,690,048
-	-	-	**1,411**	-
-	58,120	18,673	**1,544,751**	1,692,960
17,503	**111,089**	**28,428**	**1,712,858**	**1,847,855**
-	4,695	9,142	**36,931**	77,217
-	-	-	**9,405**	**-**
-	49,783	-	**94,240**	13,803
-	-	-	**140,633**	**-**
973,606	-	-	**973,606**	**-**
-	-	-	**326**	193
-	(3,367)	5,538	**590,362**	79,453
$ 973,606	**$ 51,111**	**$ 14,680**	**$ 1,845,503**	**$ 170,666**

State of Indiana
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	**Transportation Finance Authority Aviation Technology Bonds**	**Transportation Finance Authority Airport Facilities Bonds**	**State Revolving Fund**
Operating revenues:				
Sales/rents/premiums	$ 6,486	$ 713	$ 11,612	$ -
Taxes	-	-	-	-
Grants	-	-	-	17,807
Interest income	-	-	-	61,609
Charges for services	-	-	-	-
Toll receipts	82,053	-	-	-
Other	478	-	-	1,097
Total operating revenues	89,017	713	11,612	80,513
Cost of sales	-	-	-	-
Gross margin	89,017	713	11,612	80,513
Operating expenses:				
General and administrative expense	69,868	156	415	2,236
Interest expense	-	-	-	59,545
Claims expense	-	-	-	-
Health / disability benefit payments	-	-	-	-
Unemployment compensation benefits	-	-	-	-
Depreciation and amortization	3,099	-	-	861
Other	178	1	-	-
Total operating expenses	73,145	157	415	62,642
Operating income (loss)	15,872	556	11,197	17,871
Nonoperating revenues (expenses):				
Interest and other investment income	2,615	3	53	-
Interest and other investment expense	(16,071)	(566)	(11,620)	-
Distributions to component units	-	-	-	-
Gain (Loss) on disposition of assets	37	-	-	-
Other	(1,587)	-	-	-
Total nonoperating revenues (expenses)	(15,006)	(563)	(11,567)	-
Income before contributions and transfers	866	(7)	(370)	17,871
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Change in net assets	866	(7)	(370)	17,871
Total net assets, July 1, as restated	**211,927**	374	1,668	573,777
Total net assets, June 30	**$ 212,793**	**$ 367**	**$ 1,298**	**$ 591,648**

The notes to the financial statements are an integral part of this statement.

Enterprise Funds				
Unemployment Compensation Fund	**State Lottery Commission**	**Other Enterprise Funds**	**Total**	**Internal Service Funds**
$ -	$ 664,417	$ 24,819	**$ 708,047**	$ 383,996
332,281	-	-	**332,281**	-
170,480	-	-	**188,287**	-
-	-	-	**61,609**	-
-	-	-	**-**	1,416
-	-	786	**82,839**	-
-	-	81	**1,656**	250
502,761	664,417	25,686	**1,374,719**	385,662
-	472,870	3,073	**475,943**	22,615
502,761	191,547	22,613	**898,776**	363,047
-	15,688	17,297	**105,660**	81,753
-	-	-	**59,545**	-
-	-	8,875	**8,875**	-
-	-	-	**-**	154,060
887,501	-	-	**887,501**	-
-	1,479	372	**5,811**	27,197
-	-	32	**211**	359
887,501	17,167	26,576	**1,067,603**	263,369
(384,740)	174,380	(3,963)	**(168,827)**	99,678
68,078	3,377	1,404	**75,530**	2,778
-	(4,856)	-	**(33,113)**	(80,887)
-	(60,000)	-	**(60,000)**	-
-	-	(38)	**(1)**	(211)
-	2,701	-	**1,114**	351
68,078	(58,778)	1,366	**(16,470)**	(77,969)
(316,662)	115,602	(2,597)	**(185,297)**	21,709
1,901	-	1,029	**2,930**	9,292
-	(108,727)	-	**(108,727)**	(37,931)
(314,761)	6,875	(1,568)	**(291,094)**	(6,930)
1,288,367	44,236	16,248	**2,136,597**	177,596
$ 973,606	**$ 51,111**	**$ 14,680**	**$ 1,845,503**	$ 170,666

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	Transportation Finance Authority Aviation Technology Bonds	Transportation Finance Authority Airport Facilities Bonds	State Revolving Fund
Cash flows from operating activities:				
Cash received from customers	$ 88,441	$ 713	$ 11,612	$ -
Cash received from federal government	-	-	-	-
Payments to ticket winners	-	-	-	-
Cash paid for general and administrative	-	(185)	(426)	(2,129)
Cash paid for salary/health/disability benefit payments	(19,987)	-	-	-
Cash paid to suppliers	(48,297)	-	-	-
Cash paid for claims expense	-	-	-	-
Other operating income	-	-	-	1,097
Net cash provided (used) by operating activities	20,157	528	11,186	(1,032)
Cash flows from noncapital financing activities:				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from debt issuance	-	-	-	141,765
Principal payments to reduce indebtedness	-	-	-	(91,015)
Payment of debt issue costs	-	-	-	(370)
Interest paid on bonds and note payable	-	-	-	(57,927)
Other	-	-	-	(565)
Net cash provided (used) by noncapital financing activities	-	-	-	(8,112)
Cash flows from capital and related financing activities:				
Acquisition/construction of capital assets	(6,454)	-	-	-
Proceeds from sale of assets	84	-	-	-
Proceeds from issuance of notes payable/bonds payable	-	-	-	-
Principal payments -- capital leases	-	-	8,090	-
Principal payments -- bonds/notes	(11,770)	-	(8,090)	-
Interfund loan	-	-	-	-
Capital contributions	-	-	-	-
Transportation grants paid	(1,587)	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Interest paid	(13,534)	(566)	(11,612)	-
Debt issue expense	-	(1)	-	-
Net cash provided (used) by capital and related financing activities	(33,261)	(567)	(11,612)	-
Cash flows from investing activities:				
Proceeds from sales of investments	-	-	-	176,971
Purchase of investments	(30,282)	-	-	(166,714)
Interest income (expense) on investments	2,615	4	47	58,995
Net cash provided (used) by investing activities	(27,667)	4	47	69,252
Net increase (decrease) in cash and cash equivalents	(40,771)	(35)	(379)	60,108
Cash and cash equivalents, July 1, as restated	170,767	408	1,690	131,775
Cash and cash equivalents, June 30	**$ 129,996**	**$ 373**	**$ 1,311**	**$ 191,883**
Reconciliation of cash , cash equivalents and investments:				
Cash and cash equivalents at end of year	$ 129,996	$ 373	$ 1,311	$ 191,883
Restricted cash and investments	-	-	-	668,601
Investments unrestricted	64,805	-	-	-
Cash, cash equivalents and investments per balance sheet	**$ 194,801**	**$ 373**	**$ 1,311**	**$ 860,484**
Noncash investing, capital and financing activities:				
Increase in fair value of investments	$ -	$ -	$ -	$ -

Enterprise Funds				
Unemployment Compensation Fund	State Lottery Commission	Other Enterprise Funds	Total	Internal Service Funds
$ 326,252	$ 652,563	$ 27,176	$ 1,106,757	$ 401,913
170,480	-	-	170,480	-
-	(389,235)	-	(389,235)	-
-	-	(16,840)	(19,580)	(78,234)
-	(12,738)	(416)	(33,141)	(149,244)
-	(82,754)	(3,085)	(134,136)	(20,970)
(883,687)	-	(1,973)	(885,660)	-
-	-	-	1,097	-
(386,955)	167,836	4,862	(183,418)	153,465
1,901	-	-	1,901	9,292
-	(168,727)	-	(168,727)	(37,931)
-	-	-	141,765	-
-	-	-	(91,015)	-
-	-	-	(370)	-
-	-	-	(57,927)	-
-	2,474	-	1,909	-
1,901	(166,253)	-	(172,464)	(28,639)
-	(4,753)	(538)	(11,745)	(197,192)
-	37	-	121	20,045
-	-	-	-	288,461
-	-	-	8,090	(60)
-	-	(131)	(19,991)	(138,503)
-	-	-	-	2,693
-	-	1,029	1,029	3,801
-	-	-	(1,587)	-
-	-	-	-	(10,881)
-	-	-	(25,712)	(77,367)
-	-	-	(1)	(1,710)
-	(4,716)	360	(49,796)	(110,713)
-	875	2,670	180,516	196,528
-	-	(8,953)	(205,949)	(208,614)
68,078	1,333	1,150	132,222	2,847
68,078	2,208	(5,133)	106,789	(9,239)
(316,976)	(925)	89	(298,889)	4,874
1,285,351	43,903	9,943	1,643,837	135,334
$ 968,375	**$ 42,978**	**$ 10,032**	**$ 1,344,948**	**$ 140,208**
$ 968,375	$ 42,978	$ 10,032	$ 1,344,948	$ 140,208
-	69,285	-	737,886	158,935
-	13,215	22,936	100,956	300
$ 968,375	**$ 125,478**	**$ 32,968**	**$ 2,183,790**	**$ 299,443**
$ -	$ -	$ 485	$ 485	$ -

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended
June 30, 2003

(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	**Transportation Finance Authority Aviation Technology Bonds**	**Transportation Finance Authority Airport Facilities Bonds**	**State Revolving Fund**
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	$ 15,872	$ 556	$ 11,197	$ 17,871
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization expense	3,099	-	-	861
Other provisions	-	-	-	-
(Increase) decrease in receivables	543	-	-	(19,921)
(Increase) decrease in interfund services provided	-	-	-	-
(Increase) decrease in inventory	(181)	-	-	-
(Increase) decrease in prepaid expenses	(238)	-	-	-
Increase (decrease) in accrued prize liability	-	-	-	-
(Increase) decrease in claims payable	-	-	-	-
Increase (decrease) in benefits payable	-	-	-	-
Increase (decrease) in accounts payable	882	(28)	(11)	157
Increase (decrease) in deferred revenue	-	-	-	-
Increase (decrease) in salaries payable	180	-	-	-
Increase (decrease) in compensated absences	-	-	-	-
Increase (decrease) in interfund services used	-	-	-	-
Increase (decrease) in other payables	-	-	-	-
Net cash provided (used) by operating activities	**$ 20,157**	**$ 528**	**$ 11,186**	**$ (1,032)**

The notes to the financial statements are an integral part of this statement.

Enterprise Funds					
Unemployment Compensation Fund	State Lottery Commission	Other Enterprise Funds	Total	Internal Service Funds
$ (384,740)	$ 174,380	$ (3,963)	$ (168,827)	$ 99,678
-	1,479	372	5,811	27,197
-	324	-	324	-
(6,029)	(12,986)	41	(38,352)	15,746
-	-	-	-	(2,094)
-	(481)	(12)	(674)	3,323
-	(328)	21	(545)	2,089
-	7,004	-	7,004	-
-	-	6,903	6,903	-
-	-	-	-	4,816
3,814	(2,075)	(154)	2,585	2,591
-	807	1,450	2,257	(57)
-	-	2	182	187
-	-	9	9	178
-	-	-	-	(188)
-	(288)	193	(95)	(1)
$ (386,955)	**$ 167,836**	**$ 4,862**	**$ (183,418)**	**$ 153,465**

State of Indiana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003
(amounts expressed in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets:			
Cash, cash equivalents and investments	$ 17,936,300	$ 32,990	$ 536,036
Securities lending collateral	1,539,957	7,225	141,019
Receivables:			
Taxes	-	-	6,047
Contributions	158,977	-	-
Interest	34,056	16	136
Securities lending	-	7	172
Member loans	8,239	-	-
Due from other funds	6,837	-	-
Due from component unit	13,304	-	-
From investment sales	369,531	-	-
Other	-	-	50
Other assets	-	-	410,276
Property, plant and equipment net of accumulated depreciation	89	-	-
Total assets	**20,067,290**	**40,238**	**$ 1,093,736**
Liabilities:			
Accounts/escrows payable	262,799	2,216	896,779
Salaries and benefits payable	453	-	-
Due to other funds	6,837	-	-
Securities lending payable	-	7	172
Due to component unit	13,304	-	-
Compensated absences	504	-	-
Investment purchases payable	651,722	-	-
Securities lending collateral	1,539,957	7,225	141,019
Other	338	-	55,766
Total liabilities	**2,475,914**	**9,448**	**$ 1,093,736**
Net assets:			
Held in trust for:			
Employees' post-employment benefits	17,591,376	-	
Trust beneficiaries	-	30,790	
Total net assets	**$ 17,591,376**	**$ 30,790**	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2003
(amounts expressed in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Private-Purpose Trust Funds
Additions:		
Member contributions	$ 332,067	$ 50,260
Employer contributions	939,786	-
Contributions from the State of Indiana	67,362	-
Net investment income (loss)	882,216	407
Less investment expense	(41,991)	-
Donations/escheats	-	76,526
Transfers in	5,621	-
Other	1,852	-
Total additions	2,186,913	127,193
Deductions:		
Pension benefits	1,000,737	-
Disability and other benefits	7,897	-
Payments to participants/beneficiaries	-	120,888
Refunds of contributions and interest	63,076	-
Administrative	14,748	886
Pension relief distributions	96,417	-
Capital projects	3,297	-
Depreciation	17	-
Transfers out	5,621	-
Other	4,813	-
Total deductions	1,196,623	121,774
Net increase (decrease) in net assets	990,290	5,419
Net assets held in trust, July 1, as restated	16,601,086	25,371
Net assets held in trust, June 30	**$ 17,591,376**	**$ 30,790**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units - Governmental and Proprietary Funds
June 30, 2003

(amounts expressed in thousands)

	Governmental	Proprietary			
	Indiana Development Finance Authority	Indiana Bond Bank	Indiana Housing Finance Authority	Non-Major Component Units	Total Component Units
Assets					
Current assets:					
Cash, cash equivalents and investments	$ 44,940	$ 73,051	$ 52,897	$ 257,174	**$ 428,062**
Securities lending collateral	-	-	-	302,911	**302,911**
Receivables (net)	402	41,183	371	7,926	**49,882**
Loans	6,257	1,349,936	-	-	**1,356,193**
Due from primary government	-	21,370	-	-	**21,370**
Other current assets	-	-	1,220	832	**2,052**
Total current assets	51,599	1,485,540	54,488	568,843	**2,160,470**
Noncurrent assets:					
Cash, cash equivalents and investments - restricted	-	35,285	269,455	-	**304,740**
Taxes, interest, and penalties receivable	-	-	4,998	-	**4,998**
Other receivables	-	-	861,377	241,086	**1,102,463**
Investments - unrestricted	-	-	-	108,172	**108,172**
Bond issuance costs, net of amortization	-	22,588	8,384	-	**30,972**
Intergovernmental loans	-	661,568	-	-	**661,568**
Due from primary government	-	1,057,264	-	-	**1,057,264**
Other noncurrent assets	-	-	602	1,055	**1,657**
Capital assets:					
Property, plant, and equipment	-	86	1,538	694	**2,318**
Less accumulated depreciation	-	(70)	(1,450)	(415)	**(1,935)**
Total capital assets, net of depreciation	-	16	88	279	**383**
Total noncurrent assets	-	1,776,721	1,144,904	350,592	**3,272,217**
Total assets	**51,599**	**3,262,261**	**1,199,392**	**919,435**	**5,432,687**
Liabilities					
Current liabilities:					
Accounts payable	67	749	996	797	**2,609**
Interest payable	-	44,589	558	364	**45,511**
Current portion of long-term debt	-	1,432,327	13,962	78,630	**1,524,919**
Securities lending collateral	-	-	-	302,911	**302,911**
Deposits held in custody for others	-	-	410	-	**410**
Other current liabilities	900	-	-	4	**904**
Total current liabilities	967	1,477,665	15,926	382,706	**1,877,264**
Long-term liabilities:					
Revenue bonds/notes payable	-	1,772,081	983,542	171,000	**2,926,623**
Other noncurrent liabilities	-	107	952	375	**1,434**
Total long-term liabilities	-	1,772,188	984,494	171,375	**2,928,057**
Total liabilities	**967**	**3,249,853**	**1,000,420**	**554,081**	**4,805,321**
Net assets					
Invested in capital assets net of related debt	-	16	88	63	**167**
Restricted-expendable					
Grants/constitutional restrictions	-	-	3,005	-	**3,005**
Future debt service	-	1,996	139,362	6,234	**147,592**
Pension fund distribution	-	-	-	6,888	**6,888**
Other purposes	-	-	-	40	**40**
Unrestricted (deficit)	50,632	10,396	56,517	352,129	**469,674**
Total net assets	**$ 50,632**	**$ 12,408**	**$ 198,972**	**$ 365,354**	**$ 627,366**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units - Governmental and Proprietary Funds
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Indiana Development Finance Authority	Indiana Bond Bank	Indiana Housing Finance Authority	Non-Major Component Units	Net (Expense) Revenue
Indiana Development Finance Authority	$ 19,315	$ 1,820	$ -	(17,495)	-	-	-	(17,495)
Indiana Bond Bank	100,879	769	99,839	-	(271)	-	-	(271)
Indiana Housing Finance Authority	201,310	101,877	128,890	-	-	29,457	-	29,457
Non-Major Component Units	25,862	-	31,191	-	-	-	5,329	5,329
Total component units	$ 347,366	$ 104,466	$ 259,920	(17,495)	(271)	29,457	5,329	17,020
General revenues:								
Investment earnings				-	433	14,074	-	14,507
Payments from State of Indiana				23,545	-	-	-	23,545
Other				-	-	1,647	-	1,647
Total general revenues				23,545	433	15,721	-	39,699
Change in net assets				6,050	162	45,178	5,329	56,719
Net assets - beginning				44,582	12,246	153,794	360,025	570,647
Net assets - ending				$ 50,632	$ 12,408	$ 198,972	$ 365,354	$ 627,366

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units - Colleges and Universities
June 30, 2003
(amounts expressed in thousands)

	Indiana University	Purdue University	Non-Major Colleges and Universities	Totals
Assets				
Current assets:				
Cash, cash equivalents and investments	$ 374,708	$ 346,400	$ 248,682	**$ 969,790**
Securities lending collateral	31,578	166,225	-	**197,803**
Receivables (net)	91,455	92,059	54,483	**237,997**
Inventory	15,832	6,167	8,294	**30,293**
Prepaid expenses	-	628	8,687	**9,315**
Due from primary government	38,450	26,851	31,046	**96,347**
Funds held in trust by others	-	6,044	35,029	**41,073**
Other current assets	8,236	10,369	1,124	**19,729**
Total current assets	560,259	654,743	387,345	**1,602,347**
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	-	1,114,312	512	**1,114,824**
Other receivables	68,487	52,602	14,880	**135,969**
Investments - unrestricted	429,658	-	149,050	**578,708**
Other noncurrent assets	-	-	30,363	**30,363**
Capital assets:				
Land	54,336	68,246	98,243	**220,825**
Infrastructure	133,655	17,570	58,111	**209,336**
Construction in progress	53,713	219,601	46,006	**319,320**
Property, plant, and equipment	2,499,931	1,531,343	1,441,142	**5,472,416**
Less accumulated depreciation	(1,144,831)	(793,451)	(620,548)	**(2,558,830)**
Total capital assets, net of depreciation	1,596,804	1,043,309	1,022,954	**3,663,067**
Total noncurrent assets	2,094,949	2,210,223	1,217,759	**5,522,931**
Total assets	**2,655,208**	**2,864,966**	**1,605,104**	**7,125,278**
Liabilities				
Current liabilities:				
Accounts payable	87,153	33,987	24,175	**145,315**
Interest payable	7,960	-	-	**7,960**
Current portion of long-term debt	36,796	25,220	25,279	**87,295**
Capital lease payable	2,063	4,067	-	**6,130**
Salaries, health, disability, and benefits payable	62,562	5,692	12,550	**80,804**
Deferred revenue	106,801	31,789	28,061	**166,651**
Accrued liability for compensated absences	29,829	20,221	7,756	**57,806**
Securities lending collateral	31,578	166,225	-	**197,803**
Deposits held in custody for others	26,393	20,146	8,524	**55,063**
Other current liabilities	-	32,080	5,636	**37,716**
Total current liabilities	391,135	339,427	111,981	**842,543**
Long-term liabilities:				
Accrued liability for compensated absences	-	14,657	10,247	**24,904**
Capital lease payable	12,504	85,925	-	**98,429**
Funds held in trust for others	35,216	8,150	-	**43,366**
Advances from federal government	-	20,431	4,656	**25,087**
Revenue bonds/notes payable	548,124	380,586	383,692	**1,312,402**
Other noncurrent liabilities	7,174	740	1,431	**9,345**
Total long-term liabilities	603,018	510,489	400,026	**1,513,533**
Total liabilities	**994,153**	**849,916**	**512,007**	**2,356,076**
Net assets				
Invested in capital assets net of related debt	1,086,535	605,608	618,706	**2,310,849**
Restricted-nonexpendable				
Instruction and research	-	82,580	-	**82,580**
Student aid	-	80,592	4,129	**84,721**
Other purposes	43,118	3,714	-	**46,832**
Total restricted-nonexpendable	43,118	166,886	4,129	**214,133**
Restricted-expendable				
Instruction and research	92,923	67,432	1,266	**161,621**
Student aid	-	51,937	21,058	**72,995**
Auxiliary enterprises	-	2,713	-	**2,713**
Capital projects	21,243	108,499	79,268	**209,010**
Other purposes	37,685	346,835	16,758	**401,278**
Total restricted-expendable	151,851	577,416	118,350	**847,617**
Unrestricted (deficit)	379,551	665,140	351,912	**1,396,603**
Total net assets	**$ 1,661,055**	**$ 2,015,050**	**$ 1,093,097**	**$ 4,769,202**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Indiana University**	**Purdue University**	**Non-Major Colleges and Universities**	**Net (Expense) Revenue**
Indiana University	$1,891,847	$1,007,098	$ 367,139	$ 45,376	(472,234)	-	-	(472,234)
Purdue University	1,181,992	553,936	232,702	25,104	-	(370,250)	-	(370,250)
Non-Major Colleges and Universities	936,568	355,228	221,577	9,200	-	-	(350,563)	(350,563)
Total component units	$4,010,407	$1,916,262	$ 821,418	$ 79,680	(472,234)	(370,250)	(350,563)	(1,193,047)
General revenues:								
Investment earnings					35,021	48,252	15,422	98,695
Payments from State of Indiana					511,268	353,423	397,842	1,262,533
Other					47,702	74,259	3,378	125,339
Total general revenues					593,991	475,934	416,642	1,486,567
Change in net assets					121,757	105,684	66,079	293,520
Net assets - beginning, as restated					1,539,298	1,909,366	1,027,018	4,475,682
Net assets - ending					$ 1,661,055	$ 2,015,050	$ 1,093,097	$ 4,769,202

The notes to the financial statements are an integral part of this statement.


SEAL OF THE STATE OF INDIANA
1816

NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

Notes to the Financial Statements
June 30, 2003

STATE OF INDIANA
Notes to the Financial Statements
June 30, 2003
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental and proprietary fund types and colleges and universities. This is to emphasize that, as well as being legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 2002, year-end.

Blended Component Units.

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various proprietary funds.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three gubernatorial appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All governmental and proprietary component units are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is governed by a board consisting of the Lieutenant Governor, the Treasurer of State, and seven members appointed by the Governor. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. ISM provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. The unit is reported as a proprietary fund.

The Indiana Board for Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of

Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the $100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the Governor. By statute, the Lieutenant Governor is Director of the Indiana Department of Commerce. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority, the Indiana Bond Bank and the Indiana Development Finance Authority were determined to be significant for note disclosure purposes involving the discretely presented proprietary and governmental component units.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the Governor. The board of trustees administers the following funds: Public Employees Retirement Fund, Judges Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on PERF see Note V(I) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

Effective July 1, 2000, the Teachers Retirement Fund (TRF) became an independent body corporate and politic. TRF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The TRF board is composed of five trustees appointed by the Governor. For more information on TRF see Note V(I) Employee Retirement Systems and Plans.

The Public Employees Retirement Fund and the Teachers Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented fiduciary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities.

Indiana University and Purdue University were determined to be significant for note disclosure purposes involving the colleges and universities.

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints the board members of the Health Facilities Financing Authority.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority
One North Capitol, Suite 900
Indianapolis, IN 46204

Recreational Development Commission
c/o Division of State Parks and Reservoirs
402 W. Washington Street, Rm W298
Indianapolis, IN 46204

State Lottery Commission of Indiana
Pan Am Plaza
201 S. Capitol, Suite 1100
Indianapolis, IN 46225

State Office Building Commission
Government Center South, W478
402 W. Washington Street
Indianapolis, IN 46204

Indiana Development Finance Authority
One North Capitol, Suite 900
Indianapolis, IN 46204

Secondary Market for Education Loans, Inc.
111 Monument Circle, Suite 202
Indianapolis, IN 46204

Board for Depositories
One North Capitol Ave, Suite 418
Indianapolis, IN 46204

Indiana Bond Bank
10 West Market St. Suite 2980
Indianapolis, IN 46204

Indiana Housing Finance Authority
30 South Meridian, Suite 1000
Indianapolis, IN 46204

Accounting Services
Attn: Theresa Ashman, Associate Comptroller
1062 Freehafer Hall
Purdue University
West Lafayette, IN 47907-1062

Diana M. Biggs
Director of Internal Audit
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President and CFO
Attn: Kathleen McNeely
Poplar's Room. 502, 107 S. Indiana Ave.
Indiana University
Bloomington, IN 47405-1202

Mark Husk
Director of Budgeting and Accounting
Indiana Vocational Technical College
Indianapolis, IN 46206-1763

Linda Waldroup, Controller
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 301
2000 West University Avenue
Ball State University
Muncie, IN 47306

Jeffery J. Jacso
Assistant Controller Financial Accounting
Office of the Controller
Indiana State University
200 N. 7th Street
Terre Haute, IN 47809

State of Indiana
Public Employees' Retirement Fund
Harrison Building
143 West Market Street
Indianapolis, IN 46204

Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204-2809

B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as defined under the reporting entity above. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are reported using the statement of net assets, and the statement of changes in net assets. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting.

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the state, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

For the government-wide financial statements and proprietary and fiduciary fund statements, the State applies all applicable FASB pronouncements issued before December 1, 1989, and those issued after that date which do not contradict any previously issued GASB pronouncements.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the State of Indiana, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, inheritance tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month's revenues.

Gaming taxes and fees and vehicle licenses are received daily via electronic funds transfer with a one working day delay, so the first working day in July revenues are reviewed for materiality and accrued accordingly.

Financial Statement Presentation A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It is maintained to account for resources obtained and used for those services traditionally provided by State government, which are not required to be accounted for in another fund. The General Fund is a major fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Motor Vehicle Highway Fund* collects motor fuel taxes, special fuel taxes, motor carrier surtaxes, vehicle license fees and uses them for public safety programs and distributions to local units of government for transportation programs.

- The *Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program.

- The *State Highway Department Fund* receives federal grants and State appropriations that are used for State transportation programs.

- The *Property Tax Replacement Fund* receives corporate income tax and sales tax which is used for education and property tax replacement distributions to local units of government.

- The *Tobacco Settlement Fund* is used to account for funds received under the master tobacco settlement agreement and is used to fund the children's health insurance program.

- The *Build Indiana Fund* receives gaming revenues and uses them to fund local capital projects.

The *capital projects funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

The *permanent funds* are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. For the Unemployment Compensation Fund, operating revenues consist of grants and taxes. For the State Revolving Fund, grant revenue is considered operating revenue. Nonoperating revenues and expenses are those revenues resulting from secondary or auxiliary activities of the fund.

Nonoperating items include interest/investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise funds:

- The *Toll Roads Fund* under the Indiana Transportation Finance Authority, collects tolls that are used to make payments on revenue bonds used to finance the construction of the East-West Toll Road in northern Indiana.

- The *ITFA Aviation Technology Bond Fund* accounts for the financing of a portion of the costs of the Aviation Technology Center located at Indianapolis International Airport.

- The *ITFA Airport Facilities Bond Fund* accounts for the financing of improvements for the airport or aviation-related property or facilities, including the acquisition of real estate.

- The *State Revolving Fund* uses proceeds from bonds issued by the Indiana Bond Bank to assist qualified entities in obtaining below market financing for water pollution control projects.

- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

- The *State Lottery Commission Fund* collects lottery revenues that are distributed to the Pension Relief Fund, the Teachers Retirement Fund and the Build Indiana Fund.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The services provided include fleet management, information technology and communication, printing, debt financing, and self-insurance. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are reported as a separate column on the face of the proprietary fund financial statements.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, and agency funds.

Pension (and other employee benefit) trust funds are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other post-employment benefit plans. Pension trust funds include the Deferred Compensation Plan Fund and the State Police Pension Fund.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Property Custody Fund, the Abandoned Property Fund, the Unclaimed Funds Fund, and the Private Purpose Trust Fund.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate fair value.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teachers' Retirement Fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, venture capital and partnerships, and real estate. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and repurchase agreements. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, mutual funds, asset backed, commercial mortgage backed, international stocks, and real estate.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as an enterprise fund.

2. Receivables and Payables

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

> Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.
>
> Corporate income tax - Due on or before the last day of the month immediately following each quarter of the calendar year.
>
> Sales tax – Due by the 20th day after the end of the month collected.
>
> Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month

collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.

Financial institutions tax – due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.

Alcohol and tobacco taxes – Cigarette distributors purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.

Inheritance tax – due nine months after the decedent's date of death.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July.

The State of Indiana does not collect property tax, which is collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. Interfund Transactions and Balances

The State has the following types of interfund transactions in the governmental fund and proprietary financial statements:

Interfund service provided and used (reciprocal interfund activity) - Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Interfund Transfers (non-reciprocal interfund activity) - Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

The types of assets and liabilities resulting from these transactions are:

Interfund loans - These are balances arising from the short-term and long-term portion of interfund transactions.

Interfund services provided / used - These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units'.

Interfund services provided and interfund loans are eliminated in the government-wide statements if they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another. The net amount of interfund services provided and interfund loans provided by a governmental activity for a business-type activity or by a business-type activity for a governmental activity are presented in the government-wide statement of net assets under the title "Interfund balances".

4. Inventories and Prepaid Items

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Net Assets

Certain net assets are classified as restricted net assets because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

6. Capital Assets

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's $20,000 capitalization threshold is met. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- an average Pavement Quality Index (PQI) of 75 for Interstate and NHS Non-Interstate roads,
- an average PQI of 65 for Non-NHS roads,

- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Division of Program Development of INDOT is responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Condition assessments are determined on an annual basis for interstates and on a biennial basis for other roads. Sufficiency ratings are determined at least on a biennial basis for all bridges and more frequently for certain bridges depending on their design.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements other than buildings	10-20
Infrastructure (not using modified approach)	20
Furniture, machinery and equipment	5-14
Motor Pool Vehicles	10 ¢ / mile

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either prohibits sale or requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State's major collections are:

- The State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.

- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.

- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department of Administrations' Statehouse Collection, and the Indiana Arts Commission's Collection. These collections consist primarily of art objects.

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in government-wide and proprietary and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

9. Fund Equity

In the fund financial statements reservations of fund equity represent those portions of fund balances that are legally restricted by outside parties for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for Tuition Support - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Restricted Purposes – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to be used.

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

Reserve for Interfund Loans - established to recognize short-term and long-term loans issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes - established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation expense. In the fund financial statements, capital outlays are reported as expenditures.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities in the statement of net assets.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Governor submits a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes the Armory Board and the Recreation funds at state institutions and mental facilities. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations; therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

B. Deficit Fund Equity

At June 30, 2003, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
Motor Vehicle Highway Fund	$ (5,263)	$ (18,262)
Property Tax Replacement Fund	-	(682,122)
County Welfare Administration	(6,724)	(8,697)
Patients Compensation	-	(3,346)
Federal Food Stamp Program	(522)	(88)
Major Construction Army National Guard	-	(890)

C. Unreserved Fund Balance

The State of Indiana designates its unreserved fund balance as designated for appropriations, designated for allotments, and undesignated. In order for money to be spent out of a fund it must be appropriated by the legislature and then allotted by the State Budget Agency. The following are the designations of unreserved fund balance at June 30, 2003:

Unreserved Fund Balance

	Designations of Unreserved Fund Balance			
	Designated for Appropriations	Designated for Allotments	Undesignated	Total Unreserved Fund Balance
Governmental Funds				
General Fund	$ 290,013	$ 408,031	$ 173,009	$ 871,053
Motor Vehicle Highway Fund	-	-	(35,677)	(35,677)
Medicaid Assistance	-	42,504	-	42,504
Build Indiana Fund	-	14,045	-	14,045
State Highway Department	-	-	(732,229)	(732,229)
Property Tax Replacement Fund	-	-	(682,122)	(682,122)
Tobacco Settlement Fund	272,810	1,522	-	274,332
Non-Major Special Revenue Funds	181,140	761,228	36,123	978,491
Non-Major Capital Projects Funds	43,619	23,143	11,542	78,304
Non-Major Permanent Funds	-	249,365	1,102	250,467
Total Governmental Funds	$ 787,582	$ 1,499,838	$ (1,228,252)	$ 1,059,168

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name. An exception to this is $68 million in deposits of the Public Employees' Retirement Fund which exceeded federal depository insurance limitations.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section I(A) account for $147.2 million of the primary government's total investments included in these totals.

Primary Government Including Fiduciary Funds

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ -	$ -	$ 4,099	$ 4,099
Corporate debt/equity securities				
Not on securities loan	172,380	-	360,033	532,413
Foreign corporate debt/equity securities				
Not on securities loan	24,384	-	9,647	34,031
Repurchase agreements				
Not on securities loan	-	-	503	503
US Treasury & agency obligations				
Not on securities loan	356,660	405	528,288	885,353
State and municipal obligations				
Not on securities loan	6,813	-	41,392	48,205
Mortgage securities				
Not on securities loan	77	-	-	77
Totals	$ 560,314	$ 405	$ 943,962	1,504,681
Investments - not categorized				
Guaranteed investment contracts and other				715,667
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				2,048,393
Securities lending S-T cash collateral investment pool				2,055,126
Mutual funds				924,132
Annuity/investment contracts				3,801
Total primary government				$ 7,251,800

The categories of investments for the Major Discretely Presented Component Units including colleges and universities at June 30, 2003 are as follows:

Major Discretely Presented Component Units

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ -	$ -	$ 24,967	$ 24,967
Corporate debt/equity securities				
Not on securities loan	8,564,528	110	310,345	8,874,983
On securities loan	523	13,506	-	14,029
Foreign bonds				
Not on securities loan	1,548,794	-	-	1,548,794
On securities loan	-	1,136	-	1,136
Repurchase agreements				
Not on securities loan	-	-	191,195	191,195
US Treasury & agency obligations				
Not on securities loan	954,895	23,185	-	978,080
On securities loan	261,227	167,966	470,168	899,361
State and municipal obligations				
Not on securities loan	3,306	-	-	3,306
Mortgage securities				
Not on securities loan	2,437,558	-	-	2,437,558
Totals	$ 13,770,831	$ 205,903	$ 996,675	14,973,409
Investments - not categorized				
Guaranteed investment contracts and other				921,220
Investments held by broker-dealers under securities loans				
Equity securities				493,597
Corporate bonds				304,426
US Treasury & agency obligations				614,669
Foreign bonds				128,022
Securities lending S-T cash collateral investment pool				968,443
Securities lending S-T non-cash collateral investment pool				11,352
Mutual funds				436,373
Other				375,296
Total				$ 19,226,807

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Transactions

The composition of interfund balances as of June 30, 2003 is as follows:

Interfund Loans

	Loans To Other Funds		Loans From Other Funds	
	Loans To Governmental Funds	Loans To Proprietary Funds	Loans From Governmental Funds	Loans From Proprietary Funds
Governmental Funds				
General Fund	$ 14,916	$ 2,115	$ -	$ 120
Motor Vehicle Highway	-	-	5,263	-
State Highway Department	-	19,716	-	-
Nonmajor Governmental Funds	436	578	10,089	-
Total Governmental Funds	15,352	22,409	15,352	120
Proprietary Funds				
Nonmajor Enterprise Funds	-	-	-	300
Internal Service Funds	120	300	22,409	-
Total Proprietary Funds	120	300	22,409	300
Total Interfund Loans	**$ 15,472**	**$ 22,709**	**$ 37,761**	**$ 420**

Interfund Services Provided/Used

	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	$ -	$ 2,847
Motor Vehicle Highway Fund	-	3,695
State Highway Department	-	190
Nonmajor Governmental Funds	-	2,202
Total Governmental Funds	-	8,934
Proprietary Funds		
Internal Service Funds	8,934	-
Total Proprietary Funds	8,934	-
Total Interfund Services Provided/Used	**$ 8,934**	**$ 8,934**

The composition of interfund balances as of June 30, 2003 is as follows: (continued)

Component Units

	Due From Primary Government	Due To Component Units
Governmental Funds		
General Fund	$ -	$ 96,347
Total Governmental Funds	-	96,347
Proprietary Funds		
State Revolving Fund	-	1,078,634
Total Proprietary Funds	-	1,078,634
Component Units		
Indiana University	38,450	-
Purdue University	26,851	-
Nonmajor Universities	31,046	-
Indiana Bond Bank	1,078,634	-
Total Component Units	1,174,981	-
Total Due From/To	**$ 1,174,981**	**$ 1,174,981**

Within Component Units

	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	$ 5,825	$ 7,479
State Teachers' Retirement Fund	7,479	5,825
Total Discretely Presented Component Units Pension Trust	13,304	13,304
Total Due From / To	**$ 13,304**	**$ 13,304**

A summary of interfund transfers for the year ended June 30, 2003 is as follows:

	Transfers in	Transfers (out)	**Net transfers**
Governmental Funds			
General Fund	$ 3,043,982	$ (2,982,995)	**$ 60,987**
Motor Vehicle Highway Fund	246,447	(315,010)	**(68,563)**
Medicaid Assistance	1,519,347	(29,371)	**1,489,976**
Build Indiana Fund	381,960	(411,212)	**(29,252)**
State Highway Department	456,397	(8,607)	**447,790**
Property Tax Replacement Fund	945,341	(1,822,671)	**(877,330)**
Tobacco Settlement Fund	73,569	(170,986)	**(97,417)**
Nonmajor Governmental Fund	1,690,756	(2,482,511)	**(791,755)**
Proprietary Funds			
Toll Roads	-	-	**-**
State Revolving Fund	-	-	**-**
Unemployment Compensation Fund	1,901	-	**1,901**
State Lottery Commission	-	(108,727)	**(108,727)**
Nonmajor Enterprise Funds	1,029	-	**1,029**
Internal Service Funds	9,292	(37,931)	**(28,639)**
Fiduciary Funds (Discrete)			
Public Employees' Retirement Fund	1,774	(3,847)	**(2,073)**
State Teachers' Retirement Fund	3,847	(1,774)	**2,073**
	$ 8,375,642	$ (8,375,642)	**$ (0)**

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			**Business-type Activites**	
	General Fund	**Special Revenue Funds**	**Capital Projects Funds**	**Enterprise Funds**	**Total Primary Government**
Income taxes	$ 853,498	$ -	$ -	$ -	**$ 853,498**
Sales taxes	281,252	290,240	-	-	**571,492**
Fuel taxes	-	108,662	-	-	**108,662**
Gaming taxes	-	2,221	-	-	**2,221**
Unemployment - employers' contributions	-	-	-	22,734	**22,734**
Inheritance taxes	29,745	-	-	-	**29,745**
Alcohol and tobacco taxes	27,686	3,642	1,553	-	**32,881**
Insurance taxes	4,476	-	-	-	**4,476**
Financial institutions taxes	-	50,329	-	-	**50,329**
Other taxes	6,385	178,109	-	-	**184,494**
Total taxes receivable	1,203,042	633,203	1,553	22,734	**1,860,532**
Less allowance for uncollectible accounts	(178,131)	(102,278)	(50)	-	**(280,459)**
Net taxes receivable	**$ 1,024,911**	**$ 530,925**	**$ 1,503**	**$ 22,734**	**$ 1,580,073**
Tax refunds payable	**$ 56,301**	**$ 5,593**	**$ -**	**$ -**	**$ 61,894**

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2003, was as follows:

Primary Government – Governmental Activities

Governmental Activities:	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 1,067,188	$ 44,771	$ (235)	$ 1,111,724
Infrastructure	7,459,987	12,305	(5,635)	7,466,657
Construction in progress	192,711	175,881	(65,505)	303,087
Total capital assets, not being depreciated	8,719,886	232,957	(71,375)	8,881,468
Capital assets, being depreciated:				
Buildings and improvements	2,126,971	33,150	(10,410)	2,149,711
Furniture, machinery, and equipment	273,134	23,888	(11,564)	285,458
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	2,414,340	57,038	(21,974)	2,449,404
Less accumulated depreciation for:				
Buildings and improvements	(677,961)	(51,280)	7,206	(722,035)
Furniture, machinery, and equipment	(154,342)	(21,255)	8,155	(167,442)
Infrastructure	(11,457)	(326)	-	(11,783)
Total accumulated depreciation	(843,760)	(72,861)	15,361	(901,260)
Total capital assets being depreciated, net	1,570,580	(15,823)	(6,613)	1,548,144
Governmental activities capital assets, net	$ 10,290,466	$ 217,134	$ (77,988)	$ 10,429,612

Primary Government – Business-Type Activities

Business-type Activities:	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 28,213	$ -	$ -	$ 28,213
Infrastructure	180,331	-	-	180,331
Construction in progress	2,858	3,904	(136)	6,626
Total capital assets, not being depreciated	211,402	3,904	(136)	215,170
Capital assets, being depreciated:				
Buildings and improvements	74,132	161	(80)	74,213
Furniture, machinery, and equipment	43,576	7,815	(1,508)	49,883
Total capital assets, being depreciated	117,708	7,976	(1,588)	124,096
Less accumulated depreciation for:				
Buildings and improvements	(46,217)	(1,655)	42	(47,830)
Furniture, machinery, and equipment	(33,969)	(3,296)	1,498	(35,767)
Total accumulated depreciation	(80,186)	(4,951)	1,540	(83,597)
Total capital assets being depreciated, net	37,522	3,025	(48)	40,499
Business-type activities capital assets, net	$ 248,924	$ 6,929	$ (184)	$ 255,669

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	$	27,455
Public safety		17,934
Health		3,181
Welfare		5,002
Conservation, culture and development		8,585
Education		105
Transportation		11,737
Total depreciation expense - governmental activities	$	73,999
Business-type activities:		
Toll Roads	$	3,099
State Revolving Fund		861
State Lottery Commission		1,479
Other enterprise funds		372
Total depreciation expense - business-type activities	$	5,811

Major Discretely Presented Component Units - Governmental and Proprietary

Capital Assets (in thousands)	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, being depreciated:				
Buildings and improvements	$ 57	$ -	$ -	$ 57
Furniture, machinery, and equipment	1,543	24	-	1,567
Total capital assets, being depreciated	1,600	24	-	1,624
Less accumulated depreciation for:				
Buildings and improvements	(50)	(8)	-	(58)
Furniture, machinery, and equipment	(1,268)	(194)	-	(1,462)
Total accumulated depreciation	(1,318)	(202)	-	(1,520)
Total capital assets being depreciated, net	282	(178)	-	104
Business-type activities capital assets, net	$ 282	$ (178)	$ -	$ 104

Major Discretely Presented Component Units - Colleges and Universities

Capital Assets (in thousands)	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 63,132	$ 41	$ (37)	$ 63,136
Art & museum objects	53,135	4,579	-	57,714
Construction in progress	173,725	151,028	(51,439)	273,314
Total capital assets, not being depreciated	289,992	155,648	(51,476)	394,164
Capital assets, being depreciated:				
Land improvements	55,811	3,656	(21)	59,446
Buildings and improvements	2,959,977	132,546	(87)	3,092,436
Furniture, machinery, and equipment	1,024,184	113,810	(256,870)	881,124
Infrastructure	148,104	3,121	-	151,225
Total capital assets, being depreciated	4,188,076	253,133	(256,978)	4,184,231
Less accumulated depreciation for:				
Land improvements	(36,750)	(2,432)	-	(39,182)
Buildings and improvements	(1,227,166)	(74,242)	32	(1,301,376)
Furniture, machinery, and equipment	(597,457)	(85,887)	188,709	(494,635)
Infrastructure	(97,175)	(5,929)	15	(103,089)
Total accumulated depreciation	(1,958,548)	(168,490)	188,756	(1,938,282)
Total capital assets being depreciated, net	2,229,528	84,643	(68,222)	2,245,949
Business-type activities capital assets, net	$ 2,519,520	$ 240,291	$ (119,698)	$ 2,640,113

E. Leases

Investment in Direct Financing Lease
The Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds and the ITFA Aviation Technology Center Lease Bonds have investments in direct financing leases with the Indianapolis Airport Authority.

The future minimum lease receipts together with the amounts representing principal and interest are as follows:

	Business-type Activities		
Year Ending, June 30	Principal	Interest	Total
2004	$ 9,230	$ 11,531	$ 20,761
2005	10,445	10,949	21,394
2006	11,485	10,288	21,773
2007	12,165	9,587	21,752
2008	12,820	8,914	21,734
2008-2013	75,800	32,428	108,228
2013-2018	80,210	9,408	89,618
Total	$ 212,155	$ 93,105	$ 305,260

Operating Leases
The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of $20,000 or more were $38.1 million for the year ended June 30, 2003. A table of future minimum lease payments (excluding executory costs) is presented below.

Capital Leases Liabilities
The State has entered into various lease agreements with aggregate payments of $20,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government wide statements.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2003 and the assets acquired through capital lease during the fiscal year are as follows:

Future minimum lease payments

Year ending June 30,	Operating leases	Capital leases Governmental Activities
2004	$ 35,845	$ 4,155
2005	29,840	3,543
2006	24,433	3,120
2007	19,490	2,289
2008	16,734	2,294
2009-2013	45,871	7,292
2014-2018	14,204	-
2019-2023	2,806	-
2024-2028	750	-
2029-2033	400	-
Total minimum lease payments (excluding executory costs)	**$ 190,373**	**22,693**
Less:		
Amount representing interest		(4,173)
Present value of future minimum lease payments		**$ 18,520**

Assets acquired through capital lease

Machinery and equipment	$ 156
less accumulated depreciation	(59)
	$ 97

Discretely Presented Component Units

The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $0.3 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $146.9 million, of which $56.9 million represents interest.

Indiana University's liability for capital leases is $20.6 million, of which $6.0 million represents interest.

Indiana University has future obligations under operating leases of $46.5 million.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2003 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	$ 121,335	$ 68,126	$ (69,731)	$ 119,730	$ 71,699	$ 48,031
Construction retention	4,878	2,099	(5,742)	1,235	-	1,235
Net pension obligation	662	487	-	1,149	-	1,149
Revenue bonds/notes payable	1,600,865	290,457	(148,499)	1,742,823	52,775	1,690,048
Salaries and benefits payable - SIRP	-	8,724	-	8,724	4,364	4,360
Amount due federal government	153	144	(2)	295	-	295
Capital leases	19,294	5,671	(6,449)	18,516	59	18,457
	$ 1,747,187	$ 375,708	$ (230,423)	$ 1,892,472	$ 128,897	$ 1,763,575
Business-type activities:						
Compensated absences	$ 269	$ 147	$ (138)	$ 278	$ 145	$ 133
Claims liability	13,464	8,875	(1,973)	20,366	1,826	18,540
Accrued prize liability	95,211	8,509	(1,505)	102,215	44,095	58,120
Revenue bonds/notes payable	448,264	2,712	(19,992)	430,984	21,701	409,283
Due to component unit	1,026,925	147,546	(95,837)	1,078,634	21,370	1,057,264
Other	2,316	99	(663)	1,752	341	1,411
	$ 1,586,449	$ 167,888	$ (120,108)	$ 1,634,229	$ 89,478	$ 1,544,751

Changes in long-term obligations for the major discretely presented component units for the year ended June 30, 2003 are as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Compensated absences	$ 34,064	$ 33,454	$ 32,640	$ 34,878	$ 20,221	$ 14,657
Revenue bonds/notes payable	3,865,239	2,281,830	954,430	5,192,639	1,508,305	3,684,333
Capital leases	103,048	12,317	10,806	104,559	6,130	98,429
Other	105,377	10,684	13,462	102,599	29,829	72,770
	$ 4,107,728	$ 2,338,285	$ 1,011,338	$ 5,434,675	$ 1,564,485	$ 3,870,190

Long-term obligations of the governmental activities consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, the State Office Building Commission and Recreational Development Commission. Other long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Section IV(E), net pension obligations for the Prosecuting Attorney's Retirement Fund and Legislators' Retirement System as presented in Section V(I), construction retention, amount due the federal government, compensated absence obligations, and salaries and benefits payable because of the State Incentive Retirement Plan. The General Fund typically has been used to liquidate other long-term liabilities.

Long-term obligations of the business-type activities consists of claims liability of the Indiana Residual Malpractice Insurance Authority. It also includes compensated absences, revenue bonds issued by the Indiana Transportation Finance Authority Aviation Technology, the Indiana Transportation Finance Authority Airport Facilities, and the Indiana Transportation Finance Authority Toll Roads. The State Revolving Fund has obligations due to both a discretely presented component unit and the Indiana Bond Bank. Long-term obligations also includes prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term obligations of the significant discretely presented component units consists of bonds issued or backed by the Indiana Housing Finance Authority, the Indiana Development Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. It also includes capital leases of Indiana University and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

Governmental Activities

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On November 15, 2000, ITFA issued Highway Revenue Bonds, Series 2000 in the par amount of $269.5 million, which included $21.9 million of refunding debt and $247.6 million of new money debt. New refunding debt service requirements required a $2.7 million increase in cash funds needed over the prior debt service requirements. The economic gain, or present value savings, on the refunding was $556,875. The primary purpose of the refunding bond issue was to level out the debt service requirements over time to increase the volume capacity for future bond issuances, as well as present value savings.

The $247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A and 1993A bonds maturing from June 1, 2006 to June 1, 2011. A portion of the proceeds, $22.7 million was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Bank One Trust Company, N.A., and were used to purchase direct obligations of the United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest for the Series 1990A Bonds and the Series 1993A Bonds. As of June 30, 2003, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $9.7 million with total Series 1990A capital appreciation bonds maturing at $14.1 million and total Series 1993A capital appreciation bonds maturing at $9.2 million.

In June 2003, the Authority issued $150.1 million of Highway Bond anticipation Notes to provide interim financing for highway and bridge projects under the Highway Revenue Bond Program. The interest rate on the notes was 1.50 percent (yield was .95 percent), and the notes were due October 3, 2003.

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana State Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

The Hoosier Notes agreement provides interim financing for the acquisition and construction of the various facilities. On October 31, 2002, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998, which reduced the maximum advance of tax exempt commercial paper from $200 million to $150 million. On March 25, 2002, the Commission amended and restated the Hoosier Notes credit agreement and reduced the maximum advance from $250 million to $200 million effective on October 1, 2002. Borrowings outstanding under this facility at June 30, 2003 were $45.4 million, with interest computed at the LIBOR rate plus .25% or 70% of the Bank's prime lending rate. The interest rate in effect was .95% at June 30, 2003. The credit facility expires on December 31, 2005.

Pursuant to prior advance refundings, the Commission had $246.1 of defeased revenue bonds outstanding at June 30, 2003. In accordance with generally accepted accounting principles, these amounts are not included in the accounts of the Commission.

Recreational Development Commission - The Recreational Development Commission was created in 1973 pursuant to I.C. 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued $6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

On December 19, 2002, the Commission issued Revenue Bonds, Series 2002, with a face value of $14.4 million to finance the cost of the development of park facilities at Prophetstown State Park, located near Battle Ground, Indiana, in Tippecanoe County. The project will include construction of picnic areas, campground sites, trails, a gatehouse and maintenance facilities. Proceeds from the bond issue were also used to refund, in advance of their stated maturing dates, a portion of the 1994A Series Revenue Bonds. At June 30, 2003, outstanding revenue bonds of $10.2 million are considered to be defeased. The advance refunding was undertaken to reduce total debt service requirements. Cash funds needed for the new refunding debt decreased by $477,016 from that needed under the prior debt service requirements. The economic gain, or present value savings, on the refunding was $342,252.

Business-type Activities*:*

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued $256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the $259.5 million Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2003, the principal amount of the Series 1980 bonds, which have been defeased in substance, was $108.0 million.

During October 1993, ITFA issued $76.1 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 (Series 1993 Bonds) to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1985. The Series 1993 Bonds are secured by the renewable lease between ITFA and the Indiana Department of Transportation (INDOT).

As a result, the refunded portion of the Series 1985 Bonds are not reported as a debt of the ITFA since repayment of principal and interest will be from escrowed funds and earnings. The advance refunding of the Series 1985 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $14.2 million.

This difference is being charged to interest expense in the amount of $1.2 million through the year 2005 using the straight-line method. Accordingly, $2.4 million through the period ended June 30, 2003 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by $9.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $7.1 million.

During October 1996, ITFA issued $134.8 million of Indiana Transportation Finance Authority Toll Road Lease Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds), to refund a portion of the Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987. Proceeds from the sale of the Series 1996 Bonds were used to purchase assets placed in an irrevocable trust that will be used to pay principal and interest on the Series 1987 Bonds when due. The Series 1996 Bonds are secured by the renewable lease between ITFA and INDOT.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $15.5 million. The difference is being charged to interest expense in the amount of $1.25 million for the year ended June 30, 2003, using the effective interest rate method over the life of the bond. Accordingly $5.7 million through the year ended June 30, 2003, has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by $8.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $4.7 million.

At June 30, 2003, the ITFA was in compliance with all material requirements and restrictions contained in the Trust Indentures.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon.

ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of $201.3 million. Additionally, Series 1995A parity bonds in the amount of $29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, ITFA issued Airport Facilities Lease Revenue Refunding Bonds, Series 1996A, in the amount of $137.8 million with interest rates from 4.5% to 6%. The refunding debt was used to refund in advance of their stated maturity dates the Series 1992A bonds maturing on November 1, 2006 through November 1, 2014. A portion of the proceeds, $136.9 million, was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Bank One, N.A., and was used to purchase direct obligations of United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest on the remaining bonds. During fiscal year 2003 remaining bonds were paid in full. As of June 30, 2003, there was no defeased debt on Series 1992A still outstanding in a separate escrow account.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds - On February 27, 2002, ITFA issued Aviation Technology Center Lease Revenue Refunding Bonds, Series 2002 with a principal amount of $10.1 million. The refunding debt was used to refund in advance of their stated maturity dates all outstanding Series 1992A bonds. A portion of the proceeds totaling $9.9 million, as well as funds available from the Series 1992A bonds totaling $660,717, was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Fifth Third Bank, Indiana, and was used to purchase direct obligations of United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest on the remaining bonds.

The difference in cash flows required between the prior debt service requirements and new refunding debt service requirements resulted in cash flow savings of $780,582. The economic gain, or present value savings, was $660,851. During fiscal year 2003 remaining bonds were paid in full. As of June 30, 2003, there was no defeased debt on Series 1992A still outstanding in a separate escrow account.

The following is a summary of long term-debt including revenue bonds outstanding at June 30, 2003.

Summary of Long-Term Debt including current portion (in thousands)	Interest Rates Range	Maturity Range	Annual Payment Range	Amount
Governmental Activities				
Recreational Development Commission	2.10% - 6.125%	2004 - 2019	$1,405 - 2,976	$ 26,670
ITFA Highway Revenue Bonds	4.25% - 7.40%	2004 - 2026	$20,525 - 42,675	831,651
Indiana State Office Building Commission	2.30% - 7.50%	2004 - 2022	$264 - 13,600	884,502
				$ 1,742,823
Business-type Activities:				
State Lottery Commission	N/A	2004 - 2027	$40 - 2,526	$ 102,215
ITFA East-West Toll Road	3.90% - 9.50%	2004 - 2016	$12,380 - 26,200	218,738
ITFA Airport Facilities Bonds	4.50% - 6.50%	2004 - 2018	$8,965 - 19,890	202,060
ITFA Aviation Technology Center Bonds	2.45% - 5.00%	2004 - 2018	$265 - 920	10,095
State Revolving Fund	3.50% - 7.00%	2004 - 2024	$27,667 - 102,427	1,078,634
Inns and Concessions	5.60%	2004	$91	91
				$ 1,611,833

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of unclaimed instant and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2003, as well as installment amounts payable to past instant, on-line and game show winners. Installment prizes are recorded at a discount based on interest rates that range from approximately 2% to 6% and reflect the interest earned by the investments held to fund the related liabilities. At June 30, 2003, the accrued prize liability was $102.2 million including $44.1 million in current prize liability and $58.1 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity including interest are as follows:

	Governmental Activities		
Year Ending, June 30	Principal	Interest	Total
2004	$ 202,890	$ 83,610	$ 286,500
2005	101,470	80,009	181,479
2006	59,497	77,022	136,519
2007	66,305	73,524	139,829
2008	69,522	70,109	139,631
2009-2013	395,439	289,993	685,432
2014-2018	430,295	171,757	602,052
2019-2023	338,890	77,572	416,462
2024-2028	121,320	10,220	131,540
Premium/(discount)	(42,805)	-	(42,805)
Total	$ 1,742,823	$ 933,816	$ 2,676,639

	Business-type Activities		
Year Ending, June 30	Principal	Interest	Total
2004	$ 87,166	$ 81,894	$ 169,060
2005	55,728	79,139	134,867
2006	61,888	76,384	138,272
2007	65,983	73,214	139,197
2008	70,723	69,838	140,561
2009-2013	435,095	290,219	725,314
2014-2018	493,060	158,652	651,712
2019-2023	339,621	47,502	387,123
2024-2028	32,151	792	32,943
Premium/(discount)	(29,581)	-	(29,581)
Total	$ 1,611,834	$ 877,634	$ 2,489,468

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of $1,478 million with interest rates ranging from 1.35% to 7.85%. The total outstanding debt associated with these bond issues as of December 31, 2002 was $998 million.

During 2002, the Single Family Mortgage Program Fund issued 2002 Bond Series with a face value of $249.9 million and interest rates varying from 1.35% to 5.55%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner-occupied housing.

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor.

The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2003 was $3,204 million with interest rates ranging from 1.10% to 7.0%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $18.2 million.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of $32.9 million. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of $1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by $17.7 million over the 20-year period extending through February 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.9 million.

Special Program Bonds Series 1985A, 1989A, 1991B 1992A, and 1992B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $46.9 million at June 30, 2003.

In April 2002, the Bond Bank issued Special Program Bond Series 2002B with a face amount of $5.8 million with interest rates based on the lowest available rate in the interest period (weekly, monthly, quarterly, annually, or fixed) as selected by the qualified entity, not to exceed 10%. The interest rate was 1.35% at June 30, 2003.

In July 2002, the Bond Bank issued its Special Program Bond Series 2002D with a face amount of $60.0 million at interest rates ranging from 3.0% to 5.375%. Proceeds from this issue were used to refund and redeem the Special Hospital Program Bonds, Series 1992A.

The transaction will reduce the Bond Bank's aggregate debt service payments by $4.7 million over the 20-year period extending through April, 2023, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.8 million.

In July 2002, the Bond Bank issued its Advance Funding Program Notes Series 2002B with a face amount of $19.8 million at an interest rate of 1.6%. This money goes out to all participants who want to receive their funds ahead of the Advance Funding Program Notes. These Advanced Funding Interim Notes are repaid when the Advance Funding Program Notes are issued.

In September 2002, the Bond Bank issued its Special Program Bond Series 2002E in the amount of $10.2 million at interest rates ranging from 1.65 to 5.25%.

In September 2002, the Bond Bank issued School Severance Program Bonds Series 2 with a face amount of $32.3 million at interest rates ranging from 1.98% to 5.72%.

In December 2002, the Bond Bank issued School Severance Program Bonds Series 3 with a face amount of $73.0 million at interest rates ranging from 1.65% to 5.85%.

In December 2002, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2002A in the amount of $75.1 million at interest rates ranging from 1.86 to 4.84%. Proceeds from this issue were used to refund and redeem the State Revolving Fund Program Bonds, Series 1993. The transaction will reduce the Bond Bank's aggregate debt service payments by $12.0 million over the 20-year period extending through February, 2023, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.0 million.

In December 2002, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2002B in the amount of $66.7 million at interest rates ranging from 4.0 to 5.375%.

In January 2003, the Bond Bank issued its Special Program Bond Series 2003B in the amount of $8.9 million at interest rates ranging from 2.0 to 5.0%.

In January 2003, the Bond Bank issued Advance Funding Program Notes Series 2003 Interim with a face amount of $866.4 million and an interest rate of 2.0%.

In February 2003, the Bond Bank issued its Special Program Notes Series 2003A in the amount of $19.0 million at interest rates ranging from 1.6 to 2.0%.

In March 2003, the Bond Bank issued its Special Program Bond Series 2003A in the amount of $40.4 million at interest rates ranging from 2.75 to 5.25%. In May 2003, the Bond Bank issued its Reassessment

Assistance Program Bonds, Series 2003 in the amount of $116.6 million at an interest rate of 1.75%.

In June 2003, the Bond Bank issued Advance Funding Program Notes Series 2003 Midyear with a face amount of $349.2 million and an interest rate of 1.25%.

In June 2003, the Bond Bank issued School Severance Program Bonds Series 4 with a face amount of $50.0 million at interest rates ranging from 1.47% to 5.07%.

In June 2003, the Bond Bank issued its Special Program Bond Series 2003C in the amount of $10.4 million at interest rates ranging from 2.0 to 5.0%.

In June 2003, the Bond Bank issued its Special Program Bond Series 2003D in the amount of $27.5 million at interest rates ranging from 3.0 to 5.0%.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

Indiana University
The outstanding long-term indebtedness from bonds and notes at June 30, 2003 was $548.1 million with interest rates ranging from 0.95% to 7.25%.

On March 6, 2003, Indiana University Student Fee Bonds, Series O were issued in the amount of $111.5 million. This series includes funds for a partial advance refunding of Indiana University Student Fee Bonds, Series K and Series M. The true interest cost for the entire bond issue was 4.26%. Cash flows needed for the new refunding debt decreased by $2,105,110 from that needed under the prior debt service requirements. The economic gain, or present value savings, on the refunding was $2,050,660.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books.

The total amount of defeased debt outstanding at June 30, 2003 was $18.9 million.

Purdue University
The outstanding long-term indebtedness from bonds and notes at June 30, 2003 was $380.6 million with interest rates ranging from 2.0% to 6.0%.

On April 8, 2003, Student Facilities System Revenue Bonds, Series 2003A bonds were issued in the amount of $95.0 million. This series includes funds for the refunding of the Dormitory System Revenue Bonds, Series 1993, the Dormitory System Tax-Exempt Commercial Paper Notes, Series 2000, and for the continuation of the Cary Quad renovation and the Food Service Consolidation. As of June 30, 2003, the balance outstanding on these bonds was $95.0 million. The interest rates were 4.0% to 5.38%. Cash flows needed for the new refunding debt decreased by $2,566,396 from that needed under the prior debt service requirements. The economic gain, or present value savings, on the refunding was $1,975,607.

On May 29, 2003, Student Facilities System Revenue Bonds, Series 2003B bonds were issued in the amount of $24.4 million. This series was issued to finance student housing facilities on the Fort Wayne campus. As of June 30, 2003, the balance outstanding on these bonds was $24.4 million. The interest rates were 2.0% to 5.0%.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2003 was $115.7 million.

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2003, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These restatements are reflected in the beginning net assets in the government-wide statement of activities.

Change in Capitalization Threshold
For discretely presented component units, there is a reduction of $61.6 million in net assets because the capitalization threshold for capital assets was increased from $1,000 to $5,000 for Indiana University. There is also a reduction of $16.0 million in net assets because the capitalization threshold for capital assets was increased from $500 to $5,000 for Ball State University.

Other Changes:

Prior Period Adjustment
For the government wide balance sheet, there is a $142.7 million dollar increase in pension net assets. These were not included with the adoption of GASB Statement No. 34 in FY 2001-2002, and should have been.

For the government wide balance sheet, there is an increase of $106.3 million in net assets for capital assets. This was the result of several State agencies not capitalizing fixed assets acquired prior to June 30, 2002 by that date.

For Internal Service Funds, there is an increase of $18.2 million in net assets for the State Police Benefit Fund. This fund had a deficit net assets of this amount at the end of FY 2002. For FY 2003 it was determined that this deficit was being double counted, in the Governmental Fund statements and in the Internal Service Fund statements.

For Internal Service Funds there is an increase of $4.3 million in net assets in the Administrative Services Revolving Fund due to an accounting error.

For discretely presented component units, there is a decrease in net assets of $3.3 million because certain external grant funds received by Ball State University during the fiscal year ended June 30, 2001, were recorded as revenue in accordance with accepted practice at that time. Under current practice these funds would have been recorded as deferred income and advances on long-term grants.

Reclassification of funds
The following reclassifications took place to the Hoosier Lottery Commission, an enterprise fund: $24.6 million was reclassified from the Build Indiana, $7.5 million from the Teachers Retirement Fund (TRF) and $7.5 million from the Public Employees Retirement Fund (PERF). This resulted in a reclassification to the Hoosier Lottery Commission of $39.6 million. In the past, the Hoosier Lottery Commission had been accruing transfers as a liability to the Build Indiana Fund, TRF and PERF. The State had been accruing a receivable for these transfers.

The Indiana Transportation Finance Authority (ITFA) Aviation Technology Bonds Fund and the ITFA Airport Facilities Bond Fund were reclassified from governmental funds to enterprise funds. This resulted in a decrease of net assets $2.0 million for governmental activities and an increase in net assets of the same amount for business type activities on the government wide statements.

For Fiduciary component units, there was a reclassification of $7.5 million from two agency funds to PERF funds. That increased beginning net assets by $7.5 million.

The following schedule reconciles June 30, 2002 net assets as previously reported, to beginning net assets, as restated, to include the adoption of new pronouncements:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	All Discretely Presented Component Units
June 30, 2002, fund balance/retained earnings/net assets as reported	$ 12,320,675	$ 2,095,481	$ 794,186	$ 20,940,420
Prior period adjustments:				
Changes in accounting principle:				
Change in policy for accrued vacation time	-	-	-	482
Change in capitalization threshold	-	-	-	(77,577)
Correction of errors	273,353	(162)	-	(2,576)
Reclassifications of funds	(27,742)	41,278	-	(7,520)
Balance July 1, 2002 as restated	$ 12,566,286	$ 2,136,597	$ 794,186	$ 20,853,229

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in three individual Internal Service Funds.

The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.)

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	Total
2003				
Unpaid Claims, July 1 As Restated	$ 1,900	$ 9,750	$ 5,092	**$ 16,742**
Incurred Claims and Changes in Estimate	19,803	107,969	26,288	**154,060**
Claims Paid	(19,996)	(102,965)	(26,283)	**(149,244)**
Unpaid Claims, June 30	**$ 1,707**	**$ 14,754**	**$ 5,097**	**$ 21,558**
2002				
Unpaid Claims, July 1	$ 1,600	$ 9,000	$ 7,119	**$ 17,719**
Incurred Claims and Changes in Estimate	16,476	68,425	23,815	**108,716**
Claims Paid	(16,176)	(67,675)	(25,842)	**(109,693)**
Unpaid Claims, June 30	**$ 1,900**	**$ 9,750**	**$ 5,092**	**$ 16,742**

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2003 was $43.5 million.

B. Investment in Joint Venture

To finance the construction of the Indianapolis Maintenance Center (IMC) at Indianapolis International Airport, the Authority, a City of Indianapolis/Marion County-related financing authority (the City) and the Indianapolis Airport Authority (the Airport Authority) entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

Under the Joint Venture, the Authority's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of the Authority's revenue bonds issued to finance the IMC. The City's and the Airport Authority's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

The Authority leases its undivided interest in the IMC to the Airport Authority. Upon termination of that lease, the Airport Authority will succeed to the Authority's interest in the Joint Venture. The Airport Authority is obligated to pay the Authority lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay Authority expenses and ground rent obligations. The Airport Authority expects to pay the lease rentals through appropriations made by the General Assembly.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note I(A).

C. Segment Information - Enterprise Funds

The State of Indiana has six major enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The ITFA Aviation Technology Bond Fund accounts for the financing of a portion of the costs of the Aviation Technology Center located at Indianapolis International Airport. The ITFA Airport Facilities Bond Fund accounts for the financing of improvements for the airport or aviation-related property or facilities, including the acquisition of real estate. The State Revolving Fund uses proceeds from bonds to assist qualified local governments in obtaining below market financing for water pollution control projects. The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects.

Four of these enterprise funds, the Toll Roads, the ITFA Aviation Technology Bond Fund, the ITFA Airport Facilities Bond Fund and the State Revolving Fund, are reported as segments. These four have debt secured by a pledged revenue stream and are externally required to be accounted for separately by their bond indentures.


SEAL OF THE STATE OF INDIANA
1816

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2003.

	Toll Roads	Transportation Finance Authority Aviation Technology Bonds
Type of goods or services provided	Collects tolls used to make payments on revenue bonds to finance construction of toll roads in Northern Indiana	Uses proceeds of bonds to assist airport or aviation related property or facilities referred to by the Aviation Technology Center

Condensed Statement of Net Assets

	Toll Roads	Transportation Finance Authority Aviation Technology Bonds
Assets		
Current assets	$ 110,238	$ 779
Property, plant and equipment net of accumulated depreciation	241,832	-
Other assets	93,121	9,830
Total assets	**445,191**	**10,609**
Liabilities		
Current liabilities	26,040	412
Long-term liabilities	206,358	9,830
Total liabilities	**232,398**	**10,242**
Net Assets		
Invested in capital assets, net of related debt	23,094	-
Restricted	194,495	326
Unrestricted	(4,796)	41
Total net assets	**$ 212,793**	**$ 367**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Toll Roads	Transportation Finance Authority Aviation Technology Bonds
Operating revenues		
Sales/rents/premiums	$ 6,486	$ 713
Grants	-	-
Other operating revenues	82,531	-
Total operating revenue	89,017	713
Depreciation expense	3,099	-
Other operating expenses	70,046	157
Net operating income	15,872	556
Non-operating revenue (expense)		
Interest and other investment income	2,615	3
Interest and other investment expense	(16,071)	(566)
Other non-operating revenue (expense)	(1,550)	-
Total non-operating revenue (expense)	(15,006)	(563)
Change in net assets	866	(7)
Total net assets, July 1, as restated	211,927	374
Total net assets, June 30	**$ 212,793**	**$ 367**

Condensed Statement of Cash Flows

	Toll Roads	Transportation Finance Authority Aviation Technology Bonds
Net cash provided (used) by:		
Operating activities	$ 20,157	$ 528
Noncapital financing activities	-	-
Capital and related financing activities	(33,261)	(567)
Iinvesting activities	(27,667)	4
Net increase (decrease) in cash and cash equivalents	(40,771)	(35)
Cash and cash equivalents, July 1 as restated	170,767	408
Cash and cash equivalents, June 30	**$ 129,996**	**$ 373**

Transportation Finance Authority Airport Facilities Bonds	State Revolving Fund	Total
Uses proceeds of bonds to assist airport or aviation related property or facilities referred to by the Indianapolis Maintenance Center (IMC)	Uses proceeds of bonds issued by Indiana Bond Bank to assist qualified entities in obtaining below market financing for water pollution control projects	
$ 12,167	$ 269,736	$ 392,920
-	-	241,832
193,095	1,431,146	1,727,192
205,262	**1,700,882**	**2,361,944**
10,869	50,559	87,880
193,095	1,058,675	1,467,958
203,964	**1,109,234**	**1,555,838**
-	-	23,094
-	-	194,821
1,298	591,648	588,191
$ 1,298	**$ 591,648**	**$ 806,106**
$ 11,612	$ -	$ 18,811
-	17,807	17,807
-	62,706	145,237
11,612	80,513	181,855
-	861	3,960
415	61,781	132,399
11,197	17,871	45,496
53	-	2,671
(11,620)	-	(28,257)
-	-	(1,550)
(11,567)	-	(27,136)
(370)	17,871	18,360
1,668	573,777	787,746
$ 1,298	**$ 591,648**	**$ 806,106**
$ 11,186	$ (1,032)	$ 30,839
-	(8,112)	(8,112)
(11,612)	-	(45,440)
47	69,252	41,636
(379)	60,108	18,923
1,690	131,775	304,640
$ 1,311	**$ 191,883**	**$ 323,563**

D. Subsequent Events

During the first five months of FY 2003, the State experienced actual revenue shortfalls of $140.3 million.

Subsequent to June 30, 2003, the Bond Bank has closed the following new bond issues: Reassessment Assistance Program Bonds Series 2003B in the amount of $5.1 million, Reassessment Assistance Midyear Program Note in the amount of $22.6 million, and Common School Advancement Purchase Refunding Bonds, Series A and B in the amounts of $35.6 million and $107.9 million, respectively.

During FY 2004, Institutional Industries entered into a lease purchase agreement for the construction of a building that will house its new commissary operation. Total payments over the term of the 30-year lease will total $23,989,180, payments for which will commence in November, 2003, upon completion of the building.

The 2003A Highway Revenue bond anticipation notes in the amount of $150.1 million were refunded in September, 2003, through Highway Revenue bonds, series 2003A, in the amount of $433.2 million. The remaining amount of $282.1 million was used to fund new projects.

E. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims. Judgments and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to $300,000 for injury or death of one person in any one occurrence and $5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities of $4.5 million to $5 million to be made from the Tort Claim Fund during the next fiscal year. During fiscal year ending June 30, 2003 the State paid $6.2 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

The Indiana Attorney General's office is currently handling the following cases that could result in significant liabilities to the State:

In 1998, a group of (1) pediatric dentists who are Medicaid providers, and (2) Medicaid recipients of those services, filed a class action lawsuit against the State and its agent, Electronic Data Systems (EDS). The suit challenged the Medicaid reimbursement system for pediatric dental services under both federal and state law. The Johnson County Superior Court granted summary judgment to the State on the federal law claims. The plaintiffs claim damages against the State in the amount of approximately $17 million. Mediation was not successful. The state law claims are set for a court trial in February 2004.

In 2000, a gaming corporation operating one of the riverboats challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case has been pending before the Tax Court on cross motions for summary judgment since 2001. The potential financial impact of this case is between $5 million and $10 million, with additional impact because of the precedent it would have on other riverboat casino operations.

In 2002, six federal retirees filed a class action complaint claiming that the Indiana method of taxing federal employees' retirement benefits results in greater taxation than is collected from retirees who collect social security, violating federal statutes and the U. S. Constitution. The total exposure exceeds $5 million. Tax Court decision on partial summary judgment, entered in October 2003, upheld limits on who can be class members as stated in IC 6-8.1-9-7, thus significantly reducing potential exposure.

In July 2002, a corporation filed a breach of contract action against the Department of Environmental Management (IDEM) alleging that IDEM failed to abide by the terms of an agreed order relating to clean-up costs directed by the federal government. The plaintiff is seeking $5 million in damages. Both State's Motion to Dismiss and Corporation's Motion for Summary Judgment were denied. Discovery is ongoing. Dispositive motions are due in December 2003 and trial is set for April 2004.

In August 2002, a large accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit seeking $12 million. Plaintiff asserts that the State approved invoices then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices. Plaintiffs have moved for Partial Summary Judgment. Response is due in December 2003. Argument will be held in February 2004.

In January 2003, a large business with facilities in East Chicago filed an amended complaint in Marion Superior Court that claims East Chicago improperly reduced the assessed value it reported from $1.2 billion to $750 million during the process of determining budgets, rates and levies for 2002.

Plaintiff claims that various local and State officials did not follow proper procedures, which resulted in a tax rate that was higher than it should have been and an increased tax burden on the plaintiff. In addition, plaintiff claims that IC 6-1.1-17-0.5 permits an unconstitutional non-uniform and unequal rate of assessment. Claims are asserted against the County and State in unspecified amounts but could be several million dollars. The State filed motion to dismiss in March 2003. The same allegations by the same business were filed as a new case in Tax Court in April 2003. Briefings are scheduled for Tax Court case in October and December 2003.

In October 2003, a large group of financial services companies filed a case claiming that they are not subject to Indiana's financial institutions tax because they have no physical presence in this state and, therefore, the required nexus to tax is lacking. They claim that Indiana's requirements for doing business "within Indiana" are not consistent with recent decisions about what constitutes substantial nexus and that imposition of the financial institutions tax on them violates the Commerce Clause and the Equal Protection Clause of the U. S. Constitution. The State's exposure is approximately $5 million to $6 million.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a suit was filed in Marion County Court seeking class action status on behalf of all persons denied prizes on tickets submitted beyond the final sixty-day (60) claim period. Although the trial court granted the Commission's motion to dismiss the case, the Indiana Court of Appeals reversed that decision and ruled that the plaintiff was entitled to a trial on the merits. The Indiana Supreme Court chose not to alter the appellate decision thereby returning the matter to the original court of trial.

In July 2003, the trial court conditionally certified two classes: (1) A class of all persons who, prior to 1997, purchased and presented winning instant tickets for payment after the sixty (60) day claim period and were denied the associated prizes; and (2) A class of all persons who, prior to 1997, purchased winning instant tickets and have never presented the tickets for payment. Management and its legal counsel intend to vigorously defend the Commission's position and believe the Commission will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

Loss from reimbursement agreement

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (the Bonds). The proceeds of the bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility in Pittsboro, Indiana. The company filed for Chapter 11 bankruptcy in 1999 and the senior lenders purchased the assets of Qualitech in a credit bid. The senior lenders operated Qualitech SBQ, LLC until it ceased operations in January 2001. IDFA and the State are working with local officials to encourage potential purchasers.

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Qualitech to either (1) pay bond and related expenses from certain monies legally available to the IDFA, or (2) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement. The Amended Reimbursement Agreement requires that IDFA maintain the debt service reserve fund at the "fully-funded" level, and it stipulates no declaration of default so long as bond and related payments are made.

In the fiscal year ending June 30, 2003, IDFA made bond and related payments of approximately $2.0 million for Qualitech. In the 2003-2005 biennial budget, the Indiana General Assembly appropriated $5.7 million for Qualitech bond and related payments, negating the need to access any IDFA guaranty funds in either FY 2004 or FY 2005.

IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling $26.3 million as of June 30, 2003. Debt service reserve fund aggregating $3.7 million are currently held in trust and may be available to reduce the contingency obligation.

IDFA is also a party to a Reimbursement Agreement with Heartland Steel Corporation (Heartland) and a bank relating to the $13.8 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (the Bonds).

The proceeds of the bonds were used by Heartland to help construct Heartland's steel mini-mill facility in Vigo County, Indiana. The company filed for Chapter 11 bankruptcy in January 2001 and CSN, a Brazilian steel company, purchased the assets of Heartland.

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Heartland to either (1) pay bond and related expenses from certain monies legally available to the IDFA, or (2) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement. The Amended Reimbursement Agreement requires that IDFA maintain the debt service reserve fund at the "fully-funded" level, and it stipulates no declaration of default so long as bond and related payments are made.

In the fiscal year ending June 30, 2003, IDFA made bond and related payments of approximately $0.8 million for Heartland. In the 2003-2005 biennial budget, the Indiana General Assembly appropriated $2.4 million for Heartland bond and related payments. IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling $11.4 million as of June 30, 2003. Debt service reserve fund aggregating $2.2 million are currently held in trust and may be available to reduce the contingency obligation.

Federal Grants.
The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

F. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

G. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund").

This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature.

In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2003 was $248.1 million. Total outstanding loans were $30.4 million, resulting in total assets of $278.5 million.

H. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in pension and other employee benefit trust funds.

I. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note I(A).

Summary of Significant Accounting Policies (Primary government and discretely presented component units)

The accrual basis is used for financial statement reporting purposes. Contributions are considered due when the related payroll is issued by the employer and recognized as a receivable at that time. Employers are not required to submit the contributions until the month following the end of the quarter. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds. According to the plans' policies, benefits and refunds are due at time of payment. Therefore no liability has been accrued.

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

The state sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust fund.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 20.3% of covered payroll.

Excise Police and Conservation Enforcement Officers' Retirement Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Plan (ECRP) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcohol and Tobacco Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Plan provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first $8,500 of annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 19.0% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990.

These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at six percent (6%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System (Presented as part of PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162. At June 30, 2003, the number of participating political subdivisions was 1,049.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.1% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

(amounts expressed in thousands)	Primary Government	-----------------------------------Discretely Presented Component Unit-----------------------------------					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 9,578.0	$ 72,333.0	$ 104,442.9	$ 2,047.2	$ 10,320.3	$ 906.5	$ 205.5
Interest on net pension obligation	(159.1)	(3,146.0)	(6,735.5)	(61.0)	(233.9)	49.0	(1.0)
Adjustment to annual required contribution	175.5	3,422.0	7,325.1	61.8	237.2	(52.0)	1.2
Annual pension cost	9,594.4	72,609.0	105,032.5	2,048.0	10,323.6	903.5	205.7
Contributions made	(8,387.0)	(76,304.0)	(128,631.9)	(1,903.9)	(12,542.6)	(435.8)	(186.6)
Increase (decrease) in net pension obligation	1,207.4	(3,695.0)	(23,599.4)	144.1	(2,219.0)	467.7	19.1
Net pension obligation, beginning of year	(2,272.2)	(43,397.0)	(92,903.9)	(840.8)	(3,226.8)	675.5	(13.8)
Net pension obligation, end of year	$ (1,064.8)	$ (47,092.0)	$ (116,503.3)	$ (696.7)	$ (5,445.8)	$ 1,143.2	$ 5.3
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	4.60%	3.50% - 17.00%	3.50% - 17.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	6.00%	2.00%	2.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	20.30%	5.60%	6.20%	19.00%	37.10%	7.80%	*
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/2003	7/1/2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002	7/1/2002
Actuarial cost method	entry age	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (from date)	7/1/1997	7/1/1997	7/1/1997	7/1/1997	7/1/1997	N/A	7/1/1992
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of cost value	75% of expected actuarial value plus 25% of market value	smoothed market value	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
Year ended June 30, 2003							
Annual pension cost (APC)	$ 9,594.4	*	*	*	*	*	*
Percentage of APC contributed	87.4%	*	*	*	*	*	*
Net pension obligation (asset)	$ (1,064.8)	*	*	*	*	*	*
Year ended June 30, 2002							
Annual pension cost (APC)	$ 9,218.0	$ 72,609.0	$ 105,032.5	$ 2,048.0	$ 10,323.6	$ 903.5	$ 205.7
Percentage of APC contributed	104.0%	105.1%	122.5%	93.0%	121.5%	48.2%	90.7%
Net pension obligation (asset)	$ (2,272.2)	$ (47,092.0)	$ (116,503.3)	$ (696.7)	$ (5,445.8)	$ 1,143.2	$ 5.3
Year ended June 30, 2001							
Annual pension cost (APC)	$ 9,315.4	$ 66,759.0	$ 104,102.7	$ 1,717.9	$ 10,757.8	$ 372.5	$ 177.8
Percentage of APC contributed	102.9%	114.2%	122.5%	117.9%	114.1%	73.9%	95.7%
Net pension obligation (asset)	$ (1,903.1)	$ (43,397.0)	$ (93,115.8)	$ (840.8)	$ (3,226.8)	$ 675.5	$ (13.8)
Year ended June 30, 2000							
Annual pension cost (APC)	$ 8,583.9	$ 61,824.0	$ 99,429.0	$ 1,702.0	$ 11,491.4	$ 423.7	$ 187.1
Percentage of APC contributed	111.7%	136.4%	129.5%	113.8%	102.5%	65.0%	90.9%
Net pension obligation (asset)	$ (1,631.5)	$ (33,937.0)	$ (69,661.8)	$ (533.0)	$ (1,706.0)	$ 578.3	$ (21.5)

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)
JRS - Judges' Retirement System (Administered by the PERF board of trustees)
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)
N/A - not applicable
* - information not available

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund (Presented as a discretely presented component unit)

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2003, the number of participating employers was 363.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2003, the number of participating employer units totaled 156 (245 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	Discretely Presented Component Units			
	STRF		PFPF*	
Historical Trend Information				
Year ended June 30, 2003				
Annual required contribution	$	638,541.1	$	98,686.9
percentage contributed		94%		85%
Year ended June 30, 2002				
Annual required contribution	$	572,226.2	$	91,914.0
percentage contributed		99%		93%
Year ended June 30, 2001				
Annual required contribution	$	537,789.7	$	82,654.7
percentage contributed		128%		93%

STRF - State Teachers' Retirement Fund
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)

* - year ended December 31

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy For the Legislators' Defined Contribution Plan, each participant is required to contribute five percent of his annual salary. In addition, the State of Indiana is required to contribute twenty percent of the member's annual salary on behalf of the participant.

Discretely Presented Component Units

Governmental and proprietary fund types Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

Colleges and Universities Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends.

Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana University and Purdue University contributed $107.3 million for 13,276 participants for the year ended June 30, 2003. Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 2003 are included in the disclosures for PERF.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
Employee Retirement Systems and Plans

(amounts expressed in thousands)	Primary Government	----Discretely Presented Component Unit----					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Valuation Date: July 1, 2003							
Actuarial value of assets	$ 313,123	*	*	*	*	*	*
Actuarial accrued liability (AAL)	360,502	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(47,379)	*	*	*	*	*	*
Funded ratio	87%	*	*	*	*	*	*
Covered payroll	51,204	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-93%	*	*	*	*	*	*
Valuation Date: July 1, 2002							
Actuarial value of assets	$ 304,773	$ 2,061,790	$ 2,445,113	$ 37,360	$ 121,155	$ 11,957	$ 4,446
Actuarial accrued liability (AAL)	349,772	2,123,779	2,666,590	55,884	188,434	22,386	5,503
Excess of assets over (unfunded) AAL	(44,999)	(61,989)	(221,477)	(18,524)	(67,279)	(10,429)	(1,057)
Funded ratio	87%	97%	92%	67%	64%	53%	81%
Covered payroll	50,895	1,501,201	2,350,458	12,654	25,805	14,538	**
Excess (unfunded) AAL as a percentage of covered payroll	-88%	-4%	-9%	-146%	-261%	-72%	**
Valuation Date: July 1, 2001							
Actuarial value of assets	$ 307,072	$ 2,063,627	$ 2,484,339	$ 36,921	$ 115,040	$ 11,073	$ 4,665
Actuarial accrued liability (AAL)	338,867	1,896,506	2,249,835	52,024	188,610	20,418	5,508
Excess of assets over (unfunded) AAL	(31,795)	167,121	234,504	(15,103)	(73,570)	(9,345)	(843)
Funded ratio	91%	109%	110%	71%	61%	54%	85%
Covered payroll	51,395	1,429,768	2,157,252	12,486	29,748	13,636	**
Excess (unfunded) AAL as a percentage of covered payroll	-62%	12%	11%	-121%	-247%	-69%	**
Valuation Date: July 1, 2000							
Actuarial value of assets	$ 292,383	$ 1,960,018	$ 2,356,058	$ 34,368	$ 103,733	$ 9,781	$ 4,557
Actuarial accrued liability (AAL)	326,016	1,701,091	2,047,213	46,272	182,448	13,943	5,453
Excess of assets over (unfunded) AAL	(33,633)	258,927	308,845	(11,904)	(78,715)	(4,162)	(896)
Funded ratio	90%	115.22%	115.09%	74%	57%	70%	84%
Covered payroll	50,898	1,371,496	2,110,957	11,306	30,428	13,422	**
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	15%	-105%	-259%	-31%	**

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)
JRS - Judges' Retirement System (Administered by the PERF board of trustees)
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)

* - information not available
** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 58 active participants. The unfunded liability per active participant is $18,221

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2003
(amounts expressed in thousands)

	General Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ 5,135,608	$ 5,135,608	$ 4,163,056	$ (972,552)
Sales	2,423,200	2,423,200	2,161,197	(262,003)
Fuels	-	-	-	-
Gaming	-	-	84,308	84,308
Inheritance	160,000	160,000	195,320	35,320
Alcohol and tobacco	68,400	68,400	300,241	231,841
Insurance	160,000	160,000	177,292	17,292
Other	-	-	75,934	75,934
Total taxes	7,947,208	7,947,208	7,157,348	(789,860)
Current service charges	126,457	126,457	202,524	76,067
Investment income	120,000	120,000	34,283	(85,717)
Sales/rents	-	-	2,645	2,645
Grants	-	-	117,343	117,343
Other	9,150	9,150	109,310	100,160
Total revenues	8,202,815	8,202,815	7,623,453	(579,362)
Expenditures:				
Current:				
General government	630,757	1,350,229	891,950	458,279
Public safety	673,610	679,984	609,404	70,580
Health	127,989	111,860	92,327	19,533
Welfare	2,087,795	490,409	377,548	112,861
Conservation, culture and development	119,465	160,370	63,104	97,266
Education	5,628,487	5,514,617	5,456,407	58,210
Transportation	1,136	8,901	5,095	3,806
Other	10,528	-	-	-
Total expenditures	9,279,767	8,316,370	7,495,835	820,535
Excess of revenues over (under) expenditures	(1,076,952)	(113,555)	127,618	(241,173)
Other financing sources (uses):				
Total other financing sources (uses)	(880,718)	(880,718)	60,987	941,705
Net change in fund balances	$ (1,957,670)	$ (994,273)	$ 188,605	$ 1,182,878
Fund balances July 1, as restated			1,040,377	
Fund balances June 30			**$ 1,228,982**	

Motor Vehicle Highway Fund				Medicaid Assistance			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
460,256	460,256	458,760	(1,496)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
460,256	460,256	458,760	(1,496)	-	-	-	-
16,952	16,952	12,677	(4,275)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	15	15	-	-	-	-
11,346	11,346	13,173	1,827	2,507,778	2,507,778	2,607,705	99,927
55,334	55,334	58,145	2,811	-	-	-	-
543,888	543,888	542,770	(1,118)	2,507,778	2,507,778	2,607,705	99,927
6,188	292,357	292,356	1	-	-	-	-
192,014	200,185	188,990	11,195	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	4,114,807	4,073,709	41,098
-	-	-	-	-	-	-	-
259	258	258	-	-	-	-	-
-	7,052	3,042	4,010	-	-	-	-
-	-	-	-	-	-	-	-
198,461	499,852	484,646	15,206	-	4,114,807	4,073,709	41,098
345,427	44,036	58,124	(14,088)	2,507,778	(1,607,029)	(1,466,004)	(141,025)
(70,907)	(70,907)	(68,563)	2,344	1,864,323	1,864,323	1,489,976	(374,347)
$ 274,520	$ (26,871)	$ (10,439)	$ 16,432	$ 4,372,101	$ 257,294	$ 23,972	$ (233,322)
		5,176				18,582	
		$ (5,263)				**$ 42,554**	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2003
(amounts expressed in thousands)

	Build Indiana Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ -	$ -	$ -	$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	106,112	106,112	-	(106,112)
Investment income	13,729	13,729	931	(12,798)
Sales/rents	-	-	-	-
Grants	-	-	-	-
Other	4	4	3,007	3,003
Total revenues	119,845	119,845	3,938	(115,907)
Expenditures:				
Current:				
General government	-	55,966	48,426	7,540
Public safety	-	3	1	2
Health	-	124	2	122
Welfare	-	-	-	-
Conservation, culture and development	-	10,586	3,151	7,435
Education	-	363	87	276
Transportation	-	3,794	3,655	139
Other	-	-	-	-
Total expenditures	-	70,836	55,322	15,514
Excess of revenues over (under) expenditures	119,845	49,009	(51,384)	100,393
Other financing sources (uses):				
Total other financing sources (uses)	26,054	26,054	(29,252)	(55,306)
Net change in fund balances	$ 145,899	$ 75,063	$ (80,636)	$ (155,699)
Fund balances July 1, as restated			101,248	
Fund balances June 30			**$ 20,612**	

State Highway Department				Property Tax Replacement Fund			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
$ -	$ -	$ -	$ -	$ -	$ -	$ 73,486	$ 73,486
-	-	42	42	1,477,895	1,477,895	1,881,946	404,051
35	35	53	18	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
35	35	95	60	1,477,895	1,477,895	1,955,432	477,537
13,314	13,314	12,068	(1,246)	-	-	-	-
179	179	59	(120)	-	-	-	-
-	-	589	589	-	-	-	-
494,255	494,255	654,734	160,479	-	-	-	-
36,387	36,387	120,883	84,496	-	-	-	-
544,170	544,170	788,428	244,258	1,477,895	1,477,895	1,955,432	477,537
-	-	-	-	-	1,078,102	1,078,102	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,173,551	1,433,845	1,195,817	238,028	-	-	-	-
-	-	-	-	-	-	-	-
1,173,551	1,433,845	1,195,817	238,028	-	1,078,102	1,078,102	-
(629,381)	(889,675)	(407,389)	(482,286)	1,477,895	399,793	877,330	(477,537)
538,742	538,742	447,790	(90,952)	(778,009)	(778,009)	(877,330)	(99,321)
$ (90,639)	$ (350,933)	$ 40,401	$ 391,334	$ 699,886	$ (378,216)	$ -	$ 378,216
		193,995				-	
		$ 234,396				**$ -**	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2003
(amounts expressed in thousands)

	Tobacco Settlement Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ -	$ -	$ -	$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	149,250	149,250	147,988	(1,262)
Investment income	4,318	4,318	194	(4,124)
Sales/rents	-	-	-	-
Grants	-	-	-	-
Other	-	-	32	32
Total revenues	153,568	153,568	148,214	(5,354)
Expenditures:				
Current:				
General government	-	258,246	6,533	251,713
Public safety	-	-	-	-
Health	-	52,611	44,905	7,706
Welfare	-	2,368	844	1,524
Conservation, culture and development	-	-	-	-
Education	-	-	-	-
Transportation	-	-	-	-
Other	-	-	-	-
Total expenditures	-	313,225	52,282	260,943
Excess of revenues over (under) expenditures	153,568	(159,657)	95,932	(255,589)
Other financing sources (uses):				
Total other financing sources (uses)	(146,914)	(146,914)	(97,417)	49,497
Net change in fund balances	$ 6,654	$ (306,571)	$ (1,485)	$ 305,086
Fund balances July 1, as restated			277,263	
Fund balances June 30			**$ 275,778**	

Budget/GAAP Reconciliation
Major Funds

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

(amounts expressed in thousands)	**General Fund**	**Special Revenue Funds**	**Total**
Net change in fund balances (budgetary basis)	$ 188,603	$ (28,191)	**$ 160,412**
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:			
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	(893)	126,267	**125,374**
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	(9,082)	(305,442)	**(314,524)**
Net change in fund balances (GAAP basis)	**$ 178,628**	**$ (207,366)**	**$ (28,738)**

Infrastructure - Modified Reporting
Condition Rating of the State's Highways and Bridges

Roads	Average Pavement Quality Index (PQI) 2003	2002	2001
Interstate Roads (including Rest Areas and Weigh Stations)	87	N/A	87
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)	83	N/A	83
Non-NHS Roads	80	N/A	80

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of three distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in excellent condition (90-100), good condition (80-89), fair condition (70-79), and poor condition (less than 70).
It is the State's policy to maintain Interstate and NHS Non-Interstate roads at an average PQI of 75 and Non-NHS roads at an average PQI of 65. Condition assessments are determined on an annual basis for Interstates and on a biennial basis for other roads.

Bridges	Average Sufficiency Rating 2003	2002	2001
Interstate Bridges	91.1%	91.2%	N/A
NHS Bridges - Non-Interstate	90.1%	91.2%	N/A
Non-NHS Bridges	87.8%	88.1%	N/A

The condition of the State's bridges is measured based on a sufficiency rating, which is based on a weighted average of four factors indicative of a bridge's sufficiency to remain in service. The sufficiency rating uses a measurement scale that ranges from zero for an entirely insufficient or deficient bridge to 100 for an entirely sufficient bridge. The sufficiency rating is used to classify bridges in excellent condition (90-100), good condition (80-89), fair condition (70-79), marginal condition (60-69) and poor condition (below 60). It is the State's policy to maintain Interstate bridges at a minimum sufficiency rating of 87%, NHS Non-Interstate bridges at 85%, and Non-NHS bridges at 83%. Sufficiency ratings are determined at least on a biennial basis for all bridges. Sufficiency ratings are determined more frequently for certain bridges depending on their design.

N/A - Information is not available

Infrastructure - Modified Reporting
Comparison of Needed-to-Actual Maintenance/Preservation
(dollars in thousands)

	2003	2002	2001	2000	1999
Roads					
Interstate Roads (including Rest Areas and Weigh Stations):					
Needed	$ 113,469	$ 101,574	N/A	N/A	N/A
Actual	167,472	198,144	N/A	N/A	N/A
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)					
Needed	52,857	67,392	N/A	N/A	N/A
Actual	2,450	2,618	N/A	N/A	N/A
Non-NHS Roads					
Needed	196,063	185,909	N/A	N/A	N/A
Actual	390,020	311,757	N/A	N/A	N/A
Roads at State Institutions and Properties					
Needed	4,000	5,000	N/A	N/A	N/A
Actual	6,044	1,603	N/A	N/A	N/A
Total					
Needed	366,389	359,875	N/A	N/A	N/A
Actual	565,986	514,122	N/A	N/A	N/A
Bridges					
Interstate Bridges					
Needed	$ 11,220	$ 42,634	N/A	N/A	N/A
Actual	36,736	27,838	N/A	N/A	N/A
NHS Bridges - Non-Interstate					
Needed	25,618	35,384	N/A	N/A	N/A
Actual	12,324	11,265	N/A	N/A	N/A
Non-NHS Bridges					
Needed	44,659	41,116	N/A	N/A	N/A
Actual	60,314	74,388	N/A	N/A	N/A
Total					
Needed	81,497	119,134	N/A	N/A	N/A
Actual	109,374	113,491	N/A	N/A	N/A

N/A - Information is not available

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE STATE OF INDIANA

Compliance

We have audited the compliance of the State of Indiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The State of Indiana'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's management. Our responsibility is to express an opinion on the State of Indiana's compliance based on our audit.

The State of Indiana's basic financial statements include the operations of Purdue University, Indiana University, Indiana State University, Ball State University, Vincennes University, University of Southern Indiana, and Ivy Tech State College, which expended a total of $595,055,582 in federal awards that are not included in the schedule for the year ended June 30, 2003. Our audit, described below, did not include the operations of these units because they have separate audits performed in accordance with OMB Circular A-133. See Note 3 of the Notes to the Schedule of Expenditures of Federal Awards for federal funds expended by each unit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Indiana'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 on the State of Indiana's compliance with those requirements.

As described in the findings in the accompanying Schedule of Findings and Questioned Costs or in the Summary Schedule of Prior Findings accompanying this report, the State of Indiana did not comply with certain requirements that are applicable to certain federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Indiana to comply with requirements applicable to each program. The following list includes the findings, federal programs involved, and the requirements affected:

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Finding Number	Federal Program Name	Requirements Not Complied With
2001-FSSA-3	Block Grants for Prevention and Treatment of Substance Abuse	Subrecipient monitoring
2002-FSSA-3	Title XX	Allowable cost/cost principles, Subrecipient monitoring
2002-FSSA-4	Title XX	Subrecipient monitoring

In our opinion, except for the noncompliance described in the findings listed in the preceding paragraph, the State of Indiana 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, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that 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 96-FSSA-33, 2000-FSSA-1, 2000-FSSA-3, 2000-FSSA-5, 2003-FSSA-2, 2003-FSSA-8, 2003-FSSA-18, 2003-FSSA-19, 2003-FSSA-20, 2002-DWD-1, 2003-IDOE-1, 2003-IDOE-2, and 2003-IDOE-3.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Indiana's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questions Costs as Findings 2003-FSSA-1, 2003-FSSA-3, 2003-FSSA-4, 2003-FSSA-5, 2003-FSSA-6, 2003-FSSA-7, 2003-FSSA-9, 2003-FSSA-10, 2003-FSSA-11, 2003-FSSA-12, 2003-FSSA-13, 2003-FSSA-14, 2003-FSSA-15, 2003-FSSA-16, 2003-FSSA-17, and 2003-FSSA-19. Reportable conditions per the prior audit that are still considered a reportable condition are Findings 99-FSSA-7, 2000-FSSA-1, 2000-FSSA-2, 2000-FSSA-3, 2000-FSSA-5, 2001-FSSA-3, 2001-FSSA-9, 2002-FSSA-3, 2002-FSSA-4, and 2002-DWD-1.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider Findings 99-FSSA-7, 2000-FSSA-3, 2000-FSSA-5, 2001-FSSA-3, 2002-FSSA-3 and 2002-FSSA-4 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State of Indiana as of and for the year ended June 30, 2003, and have issued our report thereon dated December 29, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. 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 financial statements. Such information has been subjected to auditing procedures applied in the audit of the major programs and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the State of Indiana's management, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than the specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts.

STATE BOARD OF ACCOUNTS

May 20, 2004

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE					
Food Stamps Cluster					
Food Stamps	10.551	FSSA	N/A	$ 461,009,486	$ -
State Administrative Matching Grants for Food Stamp Program	10.561	FSSA	2001 IS 2514 42	5,500	-
			2002 IS 2514 42	6,641,892	-
			2003 IS 2514 42	23,658,133	-
			2003 2518 42	308,415	-
			2002 2518 42	649,377	-
			2002 2519 42	787,159	-
			2003 IS 2519 42	3,604,887	-
			2002 2520 42	119,594	-
			2003 IS 2520 42	193,410	-
			2002 IS 8036 42	6,585	-
Total for Program				35,974,952	-
Total for Cluster				496,984,438	-
Child Nutrition Cluster					
School Breakfast Program	10.553	IDOE	2003CN109942	22,665,230	22,665,230
National School Lunch Program	10.555	IDOE			
National School Lunch			2003CN109942	106,901,116	106,901,117
Food Commodities			N/A	22,389,677	22,389,677
Total for Program				129,290,793	129,290,794
Special Milk Program for Children	10.556	IDOE	2003CN109942	293,380	293,380
Summer Food Service Program for Children	10.559	IDOE			
Summer Food Service Program			2003CN109942	2,769,851	2,769,851
Summer Food Service State Administration			2003CN109942	89,399	-
Total for Program				2,859,250	2,769,851
Total for Cluster				155,108,653	155,019,255
Emergency Food Assistance Cluster					
Emergency Food Assistance Program	10.568	FSSA	2002 8109 42	86,413	-
			2002 8105 42	206,329	-
			2003 8105 42	499,820	-
Total for Program and Cluster				792,562	-
Plant and Animal Disease, Pest Control, and Animal Care	10.025				
Computer Data and Storage 2002		BOAH	02-9518-0004-CA	3,675	-
Computer Data and Storage 2003		BOAH	03-9518-0004-CA	11,025	-
Homeland Security		BOAH	02-9618-0057CA	43,670	-
Cooperative Agricultural Pest Survey		DNR	03-8218-0332-CA	13,774	13,774
Noxious Weed Surveys for Goatsrue and Giant Hogweed		DNR	02-8218-302-CA	15,889	-
Total for Program				88,033	13,774
Federal-State Cooperation in Warehouse Examination Agreement	10.071	LtGov			
Grain Storage Comprehensive Cooperative Agreement			N/A	6,179	-
Specialty Crop and Agriculture Promotion			N/A	910,404	910,404
Total for Program				916,583	910,404

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (Continued)					
Grants for Agricultural Research - Competitive Research Grants	10.206				
Effect on Vitamin B-6		FSSA	91-32000-6181	$ 400	$ -
State Mediation Grants	10.435	COM			
07-01-01 - 09-30-01			150010355000159	11,706	-
10-01-01 - 06-30-02			150010355000159	23,363	-
Total for Program				35,069	-
Cooperative Agreements With States for Intrastate Meat and Poultry Inspection	10.475	BOAH			
Meat and Poultry Program 2002			318-B-1-983	455,824	-
Meat and Poultry Program 2003			318-B-1-983	1,167,043	-
Total for Program				1,622,867	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	ISDOH			
USDA WIC Program - 2001			MWSSHP2-3:WFM2	382,173	-
USDA WIC Program - 2002			MWSSHP2-3:WFM2	27,137,397	7,000,176
USDA WIC Program - 2003			MWSSHP2-3:WFM2	64,994,911	11,966,784
Total for Program				92,514,481	18,966,960
Child and Adult Care Food Program	10.558	IDOE			
Child Care Food Service Program			2003CN109942	27,384,084	27,384,084
Child Care Audit Program			2003CN109942	322,560	97,097
Total for Program				27,706,644	27,481,181
State Administrative Expenses for Child Nutrition	10.560	IDOE	2003IN253342	1,844,196	-
Nutrition Services Incentive	10.570	FSSA	2002 4F 6111	933,382	-
			2003 IF 6111 42	674,564	-
Total for Program				1,607,946	-
Forestry Research	10.652	DNR			
I & D Plot Research - 2001			00-CA-11231300-083	6,999	-
I & D Plot Research - 2002			00-CA-11231300-083	72	-
Cooperative Law Enforcement Agreement			N/A	7,790	-
Total for Program				14,861	-
Cooperative Forestry Assistance	10.664	DNR			
Conservation Education - 1999			NA-099-0232	1,475	-
Conservation Education - 2000			00-DG-11244225-315	989	-
Conservation Education - 2001			01-DG-11244225-209	(4,422)	-
Conservation Education - 2002			02-DG-11244225-229	9,105	-
Nursery and Tree Improvement - 2001			01-DG-11244225-209	9,956	-
Nursery and Tree Improvement - 2002			02-DG-11244225-229	5,487	-
Forest Stewardship Watershed			NA-99-0310	12,550	12,550
Forest Health Monitoring - 2000			00-DG-11244225-149	24,961	-
Forest Health Monitoring - 2001			01-DG-11244225-209	130	-
Forest Health Monitoring - 2002			02-DG-11244225-229	1,124	-
Slow the Spread - 2000			00-DG-11244225-315	52,703	-
Slow the Spread Foundation			02-01-04	39,253	-
Volunteer Fire - 1999			NA-99-0230	6,634	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (Continued)					
Cooperative Forestry Assistance (Continued)					
Volunteer Fire - 2000			00-DG-11244225-152	$ 5,770	$ 3,580
Volunteer Fire - 2001			01-DG-11244225-226	18,708	18,708
Volunteer Fire - 2001			01-DG-11244225-226	22,316	22,316
Volunteer Fire - 2002			02-DG-11244225-251	23,101	23,101
Volunteer Fire - 2002			02-DG-11244225-251	22,500	22,500
Wild/Urban Interface - 2000			00-DG-11244225-456	8,680	-
State Fire Assistance - 2001			01-DG-11244225-209	20,643	-
State Fire Assistance - 2001			01-DG-1124425-72	8,557	8,557
State Fire Assistance - 2002			02-DG-11244225-229	23,515	-
Urban Forestry - 1998			NA-98-0309	53,402	51,524
Urban Forestry - 1999			NA-99-0120	80,857	80,857
Urban Forestry - 2000			00-DG-11244225-149	51,817	47,355
Urban Forestry - 2001			01-DG-11244225-209	94,866	59,742
Urban Forestry - 2002			02-DG-11244225-229	29,081	-
Urban Forestry (Educ) - 2000			00-DG-11244225-149	5,000	-
State Forestry Life UF (Educ) - 2000			00-DG-11244225-149	705	-
Urban Forestry Health Monitoring Survey - 2001			01-DG-11244225-220	724	-
Stewardship -1999			NA-99-0120	37,130	3,013
Stewardship - 2000			00-DG-11244225-149	42,513	33,068
Stewardship - 2001			01-DG-11244225-209	58,781	-
Stewardship (Con Ed)- 2001			01-DG-11244225-209	8,000	-
Stewardship - 2002			02-DG-11244225-229	54,115	-
Forest Legacy - 1999			NA-99-0231	1,291	-
Forest Legacy - 2000			00-DG-11244225-159	5,020	-
Forest Legacy - 2001			01-DG-11244225-096	3,259	-
Forest Legacy - 2000 (Hills of Gold)			00-DG-11244225-159	1,333	-
Forest Legacy - 2001 (Rivers Edge)			01-DG-11244225-096	126,942	-
Forest Legacy - 2001 (Rattlesnake Creek)			01-DG-11244225-096	97,535	-
Forest Legacy - 2001 (Jack's Defeat Creek)			01-DG-11244225-096	360,171	-
Forest Health Evaluation 2002			02-DG-11244225-359	803	-
Gypsy Moth Survey 2002			02-DG-11244225-246	2,000	-
Forestry Incentives Program 2002			02-DG-11244225-264	4,153	-
Survey and Technical Assistance - 2002			02-DG-11244225-229	242	-
Conservation Reserve Program			01-DG-11244225-398	15,934	-
Total for Program				1,449,409	386,871
Rural Development, Forestry and Communities	10.672	DNR			
Rural Development - 2000			00-DG-11244225-151	1,348	-
Rural Development - 2001			01-DG-11244225-210	8,745	-
Rural Development - 2002			02-DG-11244225-229	467	-
Total for Program				10,560	-
Rural Business Enterprise Grants	10.769	SRDC			
State Rural Development Council 07-01-02 - 12-31-02			43-3157-0-INP14	39,525	-
State Rural Development Council 01-01-03 - 06-30-03			43-3157-0-INP14	9,003	-
Total for Program				48,528	-
Other Assistance					
Scrapie Program	10	BOAH	02-9618-00039CA	87,301	-
			03-9618-00039CA	88,751	-
Total for Program				176,052	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (Continued)					
Other Assistance (Continued)					
Meat Source Safety	10	BOAH	FSIS-C-27-2002	$ 29,475	$ -
Fresh Fruit and Vegetable Pilot Program	10	IDOE	2002IN452042	629,721	629,721
WIC/CHIP Demonstration Project (Hoosier Healthwise) - 2001	10	ISDOH	58-31198-01-033	198,962	23,850
Mammography Inspection Program - 2002	10	ISDOH	223-01-4413	108,093	-
Total for Other Assistance				1,142,303	653,571
Total U.S. Department of Agriculture				781,887,533	203,432,016
U.S. DEPARTMENT OF COMMERCE					
Coastal Zone Management Administration Awards	11.419	DNR			
Coastal Program Development			NA970Z0225	65,554	-
Great Lakes Coastal Restoration Grant			NA170Z1381	7,184	-
Total for Program				72,738	-
Total U.S. Department of Commerce				72,738	-
U.S. DEPARTMENT OF DEFENSE					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	IDEM			
Defense Environmental Restoration					
DERA Air Force			IN 02-1	40,245	-
BRAC 91 Air Force			IN 02-1	17,902	-
BRAC 88 Army			IN 02-1	8,440	-
BRAC 95 Navy			IN 02-1	6,863	-
DERA Air Force			IN 00-1	(59,081)	-
BRAC 91 Air Force			IN 00-1	39,801	-
BRAC 88 Army			IN 00-1	61,734	-
BRAC 95 Navy			IN 00-1	46,635	-
Payroll Holding			N/A	(11,346)	-
Newport Army Chemical Demilitarization			N/A	115,055	-
Total for Program				266,248	-
Military Construction, National Guard	12.400	MD			
Multi Purpose Training Range - ARFTA			NGB12-99-C-0002	753,486	-
Water System Improvement - ARFTA			DAHA12-00-2-2001	5,475,037	-
Organization Maintenance Shop Parking/Addition/Alteration			DAHA12--01-2-2005	3,521,567	-
Battle Simulation Center - ARFTA			DAHA12-02-2-2001	623,700	-
Total for Program				10,373,790	-
National Guard Military Operations and Maintenance Projects	12.401	MD			
Real Property Operation and Maintenance			DAHA 12-00-2-1001	6,120,163	-
ARNG Environmental			DAHA 12-00-2-1002	715,646	-
ARNG Security Personnel			DAHA 12-00-2-1003	538,128	-
ARNG Electronic Security			DAHA 12-00-2-1004	537,453	-
ARNG Telecommunications			DAHA 12-00-2-1005	1,078,384	-
Ranges and Training Land Program			DAHA 12-00-2-1007	822,265	-
ARNG Store Front Recruiting			DAHA 12-00-2-1009	42,959	-
ANG Real Property Operation and Maintenance - Baer Field			DAHA 12-00-2-1021-0001	428,757	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF DEFENSE (Continued)					
National Guard Military Operations and Maintenance Projects (Continued)					
ANG Real Property Operation and Maintenance - Hulman Field			DAHA 12-00-2-1021-0002	$ 495,043	$ -
ANG Security Guard Activities - Baer Field			DAHA 12-00-2-1023-0001	317,723	-
ANG Security Guard Activities - Hulman Field			DAHA 12-00-2-1023-0002	393,771	-
ANG Fire Protection Activities - Baer Field			DAHA 12-00-2-1024-0001	484,635	-
ANG Fire Protection Activities - Hulman Field			DAHA 12-00-2-1024-0001	1,049,511	-
Total for Program				13,024,438	-
Total U.S. Department of Defense				23,664,476	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Section 8 Project-Based Cluster					
Lower Income Housing Assistance Program - Section 8	14.856	FSSA			
Moderate Rehabilitation - Voucher Housing Program			IN 901 V0008210	19,541,894	1,058,891
Total for Program and Cluster				19,541,894	1,058,891
Manufactured Home Construction and Safety Standards	14.171	IDFBS	N/A	160,249	
Community Development Block Grants/State's Program	14.228	COM			
			B-95-DC-180001	3,800	-
			B-96-DC-180001	77,534	74,685
			B-97-DC-180001	19,344	11,640
			B-98-DC-180001	101,463	100,000
			B-99-DC-180001	1,873,277	1,259,573
			B-00-DC-180001	4,568,363	4,530,382
			B-01-DC-180001	25,902,400	25,902,400
			B-02-DC-180001	4,632,698	4,598,815
Total for Program				37,178,879	36,477,495
Emergency Shelter Grants Program	14.231	FSSA	S-01DC180001	160,598	-
			S-02DC180001	1,540,351	-
Total for Program				1,700,949	-
Shelter Plus Care	14.238	FSSA	IN36C80-4005	253,919	253,919
			IN36C103018	26,812	26,812
			IN36C903002	11,690	11,690
			IN36C97-0503	74,156	74,156
Total for Program				366,577	366,577
HOME Investment Partnerships Program	14.239	IGPC	SR-02-06	94,207	89,521
Housing Opportunities for Persons with AIDS -2001	14.241	ISDOH	IN36H00-F999	8,889	8,889
Fair Housing Assistance Program - State and Local	14.401	ICRC	N/A	59,500	-
Fair Housing Initiatives Program (FHIP) Education and Outreach Initiative	14.409	ICRC	FH400G00025	131,657	-
Total U.S. Department of Housing and Urban Development				59,242,801	38,001,373

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF INTERIOR					
Fish and Wildlife Cluster					
Sport Fish Restoration	15.605	DNR			
Statewide Fisheries Management			F-10-D-35	$ 1,061,637	$ -
Statewide Fisheries Management			F-10-D-36	387,012	-
Indiana Waters - Riverfront Park Boat Ramp Improvement			F-15-D-64	97,595	97,595
Indiana Waters - Troy Boat Ramp			F-15-D-66	97,705	97,705
Margaret Prickett Marina Park			F-15-D-67	340,323	340,323
Rockville Lake Pier			F-15-D-68	53,977	53,977
Fish Hatchery Research			F-18-R-15	75,659	75,659
Fish Hatchery Research			F-18-R-16	204,086	204,086
Fish Hatchery Operations			F-21-D-12	831,291	-
Fish Hatchery Operations			F-21-D-13	784,821	-
Aquatic Education Program			F-24-E-07	52,812	-
Aquatic Education Program			F-24-E-08	69,369	-
Federal Aid Coordination			FW-14-C-49	53,857	-
Public Access			FW-21-D-34	21,862	-
Public Access			FW-21-D-35	438,226	-
Public Access			FW-21-D-36	307,820	-
Fish and Wildlife Area Development			FW-22-D-35	7,590	-
Fish and Wildlife Area Development			FW-22-D-36	18,986	-
Technical Assistance			FW-26-T-11	108	-
Technical Assistance			FW-26-T-12	153,367	-
Total for Program				5,058,103	869,345
Wildlife Restoration	15.611	DNR			
Federal Aid Coordination			FW-14-C-49	53,857	-
Fish and Wildlife Area Development			FW-22-D-35	1,208,533	-
Fish and Wildlife Area Development			FW-22-D-36	1,086,132	-
Technical Assistance			FW-26-T-11	72	-
Technical Assistance			FW-26-T-12	90,000	-
Statewide Wildlife Research			W-26-R-33	135,636	-
Statewide Wildlife Research			W-26-R-34	406,162	-
Ideal Fish and Game Club			W-32-S-07	19,115	19,115
Club			W-32-S-08	150,527	150,527
St Joe Valley Conservation Club 2			W-32-S-09	140,250	140,250
Total for Program				3,290,284	309,892
Total for Cluster				8,348,387	1,179,237
Payments in Lieu of Taxes	15.226	AOS	N/A	122,941	-
Abandoned Mine Land Reclamation Program	15.252	DNR			
Administration and Enforcement - 2002			GR203183	659,169	-
Administration and Enforcement - 2003			GR303183	547,367	-
Abandoned Mine Lands Simplified Grant - 2000			GR007180	1,196,286	-
Abandoned Mine Lands Simplified Grant - 2001			GR107180	1,812,468	-
Abandoned Mine Lands Simplified Grant - 2002			GR207180	3,715,507	-
Abandoned Mine Lands Simplified Grant - 2003			GR307180	504,991	-
Total for Program				8,435,788	-
Endangered Species Conservation	15.612	DNR	301810G049A	1,400	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF INTERIOR (Continued)					
Cooperative Endangered Species Conservation Fund	15.615	DNR			
Indiana and Ohio Status of Copperbelly			E-1-12	$ 29,204	$ 29,204
Eastern Massasauga CCA			E-1-13	13,500	13,500
Indiana and Ohio Status of Copperbelly			E-1-14	19,830	19,830
Kissel Tract HCP Land Acquisition			E-2-HL-1	204,750	-
Habitat Conservation/Indiana Bat			E-3-HP-1	653	-
Total for Program				267,937	62,534
Clean Vessel Act	15.616	IDEM			
Clean Vessel Pumpout			CV-1-6	11,324	-
Clean Vessel Pumpout			CV-1-7	22,637	-
Clean Vessel Pumpout			CV-1-8	1,493	-
Clean Vessel Pumpout			Y-1-B-1	129,375	-
Total for Program				164,829	-
Wildlife Conservation and Restoration	15.625	DNR			
WCRP Surveys and Monitoring			R0101	56,645	-
WCRP Surveys and Monitoring			R0102	38,397	5,653
WCRP Research			R0201	30,089	-
WCRP Research			R0202	53,333	2,347
WCRP Management			R0301	9,516	1,346
WCRP Management			R0302	21,143	953
WCRP Education			R0401	3,194	-
Total for Program				212,317	10,299
Historic Preservation Fund Grants-In-Aid	15.904	DNR			
2001 NPS - HPF Grant			18-01-16414	565,702	429,527
2002 NPS - HPF Grant			18-02-17544	384,507	281,016
Total for Program				950,209	710,543
Outdoor Recreation - Acquisition, Development and Planning	15.916	DNR			
NPS-LWCF			1800532	145,000	145,000
NPS-LWCF			1800521	159,938	159,938
NPS-LWCF			1800520	93,528	93,528
NPS-LWCF			1800523	125,330	125,330
NPS-LWCF			1800525	58,117	58,117
NPS-LWCF			1800526	159,494	159,494
NPS-LWCF			1800528	180,000	180,000
Total for Program				921,407	921,407
Total U.S. Department of Interior				19,425,215	2,884,020
U.S. DEPARTMENT OF JUSTICE					
Juvenile Accountability Incentive Block Grants	16.523	ICJI	98JBVX0018	1,802	1,802
			99JBVX0018	610,206	40,242
			00JBVX0018	1,870,910	1,640,942
			01JBBX0018	2,312,426	2,256,743
Total for Program				4,795,344	3,939,729

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (Continued)					
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	ICJI			
JJDP Formula Grant			99JFFX0018	$ 4	$ -
JJDP Formula Grant			00JFFX0018	149,794	114,949
JJDP Formula Grant			01JFFX0018	1,065,346	1,010,312
JJDP Formula Grant			02JFFX0018	207,280	204,674
Total for Program				1,422,424	1,329,935
Missing Children's Assistance	16.543	IDSP	2003-MC-CX-K002	522,690	-
Title V - Delinquency Prevention Program	16.548	ICJI			
Incentive Grants for Local Prevention Programs			00-JP-FX-0018	100,954	100,954
Incentive Grants for Local Prevention Programs			01-JP-FX-0018	756,372	756,372
Total for Program				857,326	857,326
Part E - State Challenge Activities	16.549	ICJI			
Juvenile Challenge Grant - 2000			01-JE-FX0018	135,904	135,904
Juvenile Challenge Grant - 2001			02-JE-FX-0018	44,638	44,638
Total for Program				180,542	180,542
National Criminal History Improvement Program	16.554				
		ICJI	95RURXK041	554,805	396,698
		ICJI	00RGCXK006	689,915	689,915
		IDSP	NCHIP1999-003	316,019	-
Total for Program				1,560,739	1,086,613
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	IDSP			
Project Hoosier Safe-T			2001-LT-BX-K3	508,928	-
Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	16.564	IDSP	2002-DN-BX-K015	210,869	-
Crime Victim Assistance	16.575	ICJI	97-VA-GX-0018	59,089	1,596
			98-VA-GX-0018	22,633	-
			99-VA-GX-0018	216,226	69,087
			00-VA-GX-0018	471,981	196,845
			01-VA-GX-0018	1,124,415	1,115,344
			02-VA-GX-0018	6,169,604	6,098,624
Total for Program				8,063,948	7,481,496
Crime Victim Compensation	16.576	ICJI	02-VC-GX-0018	120,911	-
Byrne Formula Grant Program	16.579	ICJI			
Drug Control and System Improvement			96-DB-MU-0018	354,177	-
Drug Control and System Improvement			98-DB-MU-0018	28,385	-
Drug Control and System Improvement			99-DB-MU-0018	1,005,399	313,068
Drug Control and System Improvement			00-DB-MU-0018	2,543,734	2,459,594
Drug Control and System Improvement			01-DB-BX-0018	4,617,413	4,513,460
Drug Control and System Improvement			02-DB-BX-0018	693,284	693,284
Total for Program				9,242,392	7,979,406

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (Continued)					
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	DOC	96-CV-VX-0018	$ 2,082,750	$ -
Violence Against Women Formula Grant	16.588	ICJI	98-WF-NX-0018	1,361	1,361
			99-WF-NX-0018	20,100	-
			00-WF-NX-0050	310,198	310,198
			01-WF-NX-0054	207,095	177,187
			02-WF-NX-0052	2,183,348	2,091,029
Total for Program				2,722,102	2,579,775
Local Law Enforcement Block Grants Program	16.592	ICJI	99-LB-VX-0325	8,680	8,680
			00-LB-VX-1876	17,664	-
			02-LB-BX-0453	704,301	704,301
Total for Program				730,645	712,981
Residential Substance Abuse Treatment for State Prisoners	16.593	ICJI	99-RT-VX-0018	113,032	113,032
			00-RT-VX-0018	825,000	825,000
Total for Program				938,032	938,032
State Criminal Alien Assistance Program	16.606	DOC	FY2001	195,505	-
Public Safety Partnership and Community Policing Grants	16.710	IDSP	2001-CK-WX-0175	373,932	-
			2002-CK-WX-0171	142,131	-
Total for Program				516,063	-
Enforcing Underage Drinking Laws Program	16.727	ICJI			
Combating Underage Drinking			00AHF8-0018	118,164	69,480
Combating Underage Drinking			01AHF8-0018	208,427	9,627
Total for Program				326,591	79,107
Other Assistance	16				
Marijuana Eradication		IDSP	ME 2002-55	670,702	-
Marijuana Eradication		IDSP	ME 2003-55	58,538	-
Total Other Assistance				729,240	-
Total U.S. Department of Justice				35,727,041	27,164,942
U.S. DEPARTMENT OF LABOR					
Employment Services Cluster					
Employment Services	17.207	DWD			
SESA National Award			916000	5,205	-
WOTC			ES-11528-01-55	278,626	-
WOTC			ES-12131-02-55	49,000	-
ES-99			920599	(2,736)	(2,736)
ES-00			ES-10671-00-55	4	-
ES-01			ES-11528-01-55	3,724,733	9,298
ES-02			ES-12131-02-55	9,927,813	530,321
One Stop LMI			ES-11528-01-55	30,539	-
One Stop LMI			ES-12131-02-55	758,085	-
One Stop OES			ES-10671-00-55	93,497	-
Amer Ser Loc			ES-11444-01-60	4,705	-
Total for Program				14,869,471	536,883

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (Continued)					
Disabled Veterans' Outreach Program	17.801	DWD	E-9-5-2-5064	$ 392,702	$ 1,151
			E-9-5-3-5064	832,589	28,742
Total for Program				1,225,291	29,893
Local Veterans' Employment Representative Program	17.804	DWD	E-9-5-2-5064	498,063	3,896
			E-9-5-3-5064	1,301,414	37,841
Total for Program				1,799,477	41,737
Total for Cluster				17,894,239	608,513
WIA Cluster					
WIA Adult Program	17.258	DWD			
WIA Program Supplement			A-7361-9-00-87-50	30,129	6,774
WIA Program Supplement			A-7361-9-00-87-50	7,933	(17,704)
WIA ADM STAT AC			AA-10297-00-50	8,008	8,008
WIA Program Supplement			AA-10297-00-50	486,475	323,893
WIA Administration			AA-11250-01-50	446,304	446,304
Adult WIA			AA-11250-01-50	1,438,209	1,438,209
WIA ADM STAT AC			AA-11250-01-50	16,009	16,009
WIA Administration			AA-11250-01-50	172,810	-
WIA Program Supplement			AA-11250-01-50	159,591	159,591
WIA Administration			AA-12009-02-50	470,616	470,616
Adult WIA			AA-12009-02-50	6,205,147	6,205,147
WIA ADM STAT AC			AA-12009-02-50	2,461	2,461
WIA Administration			AA-12009-02-50	232,575	-
WIA Program Supplement			AA-12009-02-50	35,842	22,341
Total for Program				9,712,109	9,081,649
WIA Youth Activities	17.259	DWD			
WIA Program Supplement			A-7361-9-00-87-50	38,876	8,740
WIA Program Supplement			A-7361-9-00-87-50	10,236	(22,844)
WIA ADM STAT AC			AA-10297-00-50	1	-
WIA Youth			AA-10297-00-50	8,250	8,250
WIA Program Supplement			AA-10297-00-50	501,216	333,708
WIA Administration			AA-11250-01-50	557,880	557,880
WIA ADM STAT AC			AA-11250-01-50	2,657,358	2,657,358
WIA Youth			AA-11250-01-50	20,012	20,012
WIA Administration			AA-11250-01-50	216,013	-
WIA Program Supplement			AA-11250-01-50	199,488	199,488
WIA Administration			AA-12009-02-50	662,349	662,349
WIA Youth			AA-12009-02-50	7,643,845	7,643,845
WIA ADM STAT AC			AA-12009-02-50	3,464	3,464
WIA Administration			AA-12009-02-50	327,328	-
WIA Program Supplement			AA-12009-02-50	50,444	31,443
Total for Program				12,896,760	12,103,693
WIA Dislocated Workers	17.260	DWD			
Rapid Response W			A-7361-9-00-87-50	(21)	(21)
WIA Program Supplement			A-7361-9-00-87-50	28,185	6,337
WIA Program Supplement			A-7361-9-00-87-50	7,421	(16,562)
Rapid Response W			AA-10297-00-50	63,315	63,315
WIA ADM STAT AC			AA-10297-00-50	8,008	8,008

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (Continued)					
WIA Dislocated Workers (Continued)					
WIA Program Supplement			AA-10297-00-50	$ 486,475	$ 323,893
WIA Administration			AA-11250-01-50	390,516	390,516
Adult Dislocated Worker W			AA-11250-01-50	5,967,531	5,967,531
Rapid Response W			AA-11250-01-50	408,129	408,129
WIA ADM STAT AC			AA-11250-01-50	14,008	14,008
WIA Administration			AA-11250-01-50	151,209	-
WIA Rapid Response			AA-11250-01-50	50,943	-
WIA Program Supplement			AA-11250-01-50	139,641	139,642
WIA Administration			AA-12009-02-50	610,058	610,058
WIA ADM STAT AC			AA-12009-02-50	3,190	3,190
WIA Administration			AA-12009-02-50	301,486	-
WIA Rapid Response			AA-12009-02-50	349,675	-
WIA Program Supplement			AA-12009-02-50	46,462	28,961
Rapid Response W			EM-11649-02-60	1,802,712	1,802,712
TAA Neg Duel EN			EM-11649-02-60	1,249,999	-
Tornadoes Disaster			EM-11649-02-60	238,983	233,499
Tornadoes Disaster			EM-11649-02-60	37,078	35,129
Air National RE			EM-11649-02-60	283,446	273,192
Air National RE			EM-11649-02-60	1,251,739	1,251,739
NW Steel & Manu			EM-11649-02-60	1,270,269	1,257,480
Total for Program				15,160,457	12,800,756
Total for Cluster				37,769,326	33,986,098
Labor Force Statistics	17.002	DWD			
BLS-CES			W9J380183A	287,711	-
BLS-LAUS			W9J380183B	93,672	-
BLS-OES			W9J380183L	235,970	-
ES 202			W9J380183D	377,004	-
BLS-MLS			W9J380183E	40,218	-
BLS-CES			W9J28018	101,064	-
BLS-LAUS			W9J28018	28,049	-
BLS-OES			W9J28018	(46,358)	-
BLS-OES			W9J28018	145,849	-
ES 202			W9J28018	118,664	-
BLS-MLS			W9J28018	17,268	-
Total for Program				1,399,111	-
Labor Certification for Alien Workers	17.203	DWD			
Alien Labor Certification			ES-11528-01-55	(29,113)	-
Alien Labor Certification			ES-12131-02-55	66,184	-
Total for Program				37,071	-
Unemployment Insurance	17.225	DWD			
State Unemployment Benefits			N/A	862,762,023	-
FECA-UCFE, UCPE, and UCS			N/A	157,369,953	-
UI Operations			921099	(961)	(961)
FUBA			922600	(1)	-
Internet Grant			UI-10934-00-55	163,960	-
UI Operations			UI-11818-02-55	16,373,367	66,004

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (Continued)					
Unemployment Insurance (Continued)					
UI Teuc			UI-11818-02-55	$ 1,154,286	$ -
FUBA			UI-11818-02-55	1,253,348	-
UI Icon			UI-11818-02-55	43,985	-
FEMA 1418-DR DU			UI-11818-02-55	268	-
UI Operations			UI-12637-03-55	22,206,747	400,960
FUBA			UI-12637-03-55	36,997	-
FEMA 1433-DR-TO			UI-12637-03-55	57,282	-
UI Icon			UI-12637-03-55	6,520,514	-
Total for Program				1,067,941,768	466,003
Senior Community Service Employment Program	17.235	FSSA			
			AD 12314 HWO	1,868,496	1,868,496
			AD 11679 FK	307,012	255,822
Total for Program				2,175,508	2,124,318
Trade Adjustment Assistance - Workers	17.245	DWD			
Trade Adjustment Assistance			917099	249	-
Trade Adjustment Assistance			TA-1117-01-60	(249)	-
Trade Adjustment Assistance			TA-11886-02-55	2,284,142	-
Trade Adjustment Assistance			TA-12690-03-55	1,342,271	-
NAFTA Trade Benefits			UI-11818-02-55	51,656	-
NAFTA Trade Benefits			UI-12637-03-55	148,966	-
NAFTA Trade Act			917099	(11)	-
NAFTA Trade Act			TA-1117-01-60	127,642	-
Total for Program				3,954,666	-
Employment and Training Assistance - Dislocated Workers	17.246	DWD			
Clean Air			A7361-9-00-87-50	63,053	62,875
Employment Services and Job Training Pilot - Demonstration and Research Programs	17.249				
Juvenile Workforce Demo		DOC	F-7453-9-00-80-60	518,482	-
JTPA School to Work		DWD	U-4410-4-00-88-60	944,118	679,966
Total for Program				1,462,600	679,966
Welfare-to-Work Grants to States and Localities	17.253	DWD			
WTW State Administration			Y-6654-8-00-81-50	(195,709)	-
WTW Req Benefits - 7			Y-6654-8-00-81-50	2,716,221	2,716,221
WTW Tech Comp S			Y-6654-8-00-81-50	1,917	-
WTW Req Benefits - 7			Y-7415-9-00-81-50	4,095,350	4,095,350
WTW State Administration			Y-7415-9-00-81-50	457,216	50,000
Total for Program				7,074,995	6,861,571
One-Stop Career Center Initiative	17.257	DWD			
WIA Faith Based			ES-11444-01-60	437,008	211,161
WIA Incentive			IG-11709-01-55	1,066,305	1,036,578
Total for Program				1,503,313	1,247,739

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (Continued)					
Employment and Training Admin. Pilots, Demonstrations and Research	17.261	DWD	AK-12252-02-60	$ 39,986	$ -
WIA Incentive Grants Sec. 503	17.267	DWD	IG-12356-02-60	707,876	652,398
Consultation Agreements	17.504	DOL			
Occupational Safety and Health Program OSHA/IH/Training			60F2-0051	1,049,049	-
Occupational Safety and Health Program OSHA/IH/Training			60F3-0051	1,422,760	-
Occupational Safety and Health Program OSHA Consult			E9F2-0951	209,224	-
Occupational Safety and Health Program OSHA Consult			E9F3-0951	454,348	-
Occupational Safety and Health Program OSHA Survey			E9F3-3751	63,440	-
Statistical Grant Program			E9J28118	21,598	-
Statistical Grant Program			E9J38118	65,635	-
Total for Program				3,286,054	-
Veterans' Employment Program	17.802	DWD			
Title IV-C, Veterans' Employment			E-9-5-2-0018	838,422	-
Total U.S. Department of Labor				1,146,147,988	46,689,481
U.S. DEPARTMENT OF TRANSPORTATION					
Highway Planning and Construction Cluster					
Highway Planning and Construction	20.205				
Highway Planning and Construction		INDOT	N/A	635,689,438	-
Transportation and Community System Preservation Pilot Project		DNR	TCSP	91,520	91,520
Total for Program and Cluster				635,780,958	91,520
Federal Transit Cluster					
Federal Transit-Capital Investment Grants	20.500	INDOT	IN-03-0073	130,972	130,972
			IN-03-0109	46,311	46,311
Total for Program and Cluster				177,283	177,283
Highway Safety Cluster					
State and Community Highway Safety	20.600				
NHTSA Section 402		ICJI	N/A	2,833,036	2,833,036
Odometer Fraud Investigation		AG	DTNH22-01-H-01141	24,814	-
Total for Program				2,857,850	2,833,036
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	ICJI	N/A	1,071,228	1,071,228
Occupant Protection	20.602	ICJI	N/A	252,611	252,611
Federal Highway Safety Data Improvement Incentive Grants	20.603	ICJI	N/A	445,530	445,530
Safety Incentive Grants for Use of Seatbelts	20.604	ICJI	N/A	540,144	540,144
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	ICJI	N/A	5,008,920	5,008,920
Total for Cluster				10,176,283	10,151,469

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (Continued)					
Boating Safety Financial Assistance	20.001	DNR	12.01.18	$ 659,228	$ -
Airport Improvement Program	20.106	INDOT	3-18-1800-SI	18,847	15,988
National Motor Carrier Safety	20.218				
Motor Carrier Assistance		IDSP	MC-02-18-001	3,839,057	-
Motor Carrier Assistance		IDSP	MC-03-18-001	3,367,023	-
Motor Carrier Assistance		IDOR	MC-01-18-444	68,062	-
Total for Program				7,274,142	-
Recreation Trails Program	20.219	DNR	RTP-1999-0006	61,356	-
			RTP-1999-0007	30,782	-
			RTP-1999-0004	59,660	-
			RTP-1998-0001	134	-
			RTP-2001-0001	8,317	-
			RTP-2001-0003	110,309	-
			RTP-2000-0002	50,553	-
			RTP-2000-0007	39,247	-
			RTP-2001-0005	150,000	-
			RTP-1997-0001	56,825	-
Total for Program				567,183	-
Federal Transit - Metropolitan Planning Grants	20.505	INDOT	80-2006	8,236	6,184
			80-2007	(2,739)	(2,739)
			80-2008	63,053	22,149
			80-2009	207,018	73,669
			80-2010	201,661	73,074
			80-2011	360,593	360,593
Total for Program				837,822	532,930
Formula Grants for Other Than Urbanized Areas	20.509	INDOT	IN-18-X018	278,031	278,031
			IN-18-X019	389,586	389,586
			IN-18-X020	4,357,822	4,357,822
			IN-18-X021	1,494,871	1,484,871
Total for Program				6,520,310	6,510,310
Capital Assistance Program for Elderly Persons and Persons With Disabilities	20.513	INDOT	16-0024	50,060	48,077
			16-0025	2,127	1,702
			16-0027	627,480	627,480
			16-0028	1,179,987	1,028,427
Total for Program				1,859,654	1,705,686
Interagency Hazardous Material Public Sector Training and Planning Grants	20.703	SEMA	N/A	247,079	247,079
Other Assistance					
Child Passenger Protection Education (NHTSA Section 2003B)	20	ICJI	N/A	194,436	194,436
Crash Data Outcome Evaluation	20	SEMA	DTNH22-02-H-17270	31,883	-
Total U.S. Department of Transportation				664,345,108	19,626,701

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	ICRC	N/A	$ 160,900	$ -
Total Equal Employment Opportunity Commission				160,900	-
GENERAL SERVICES ADMINISTRATION					
Donation of Federal Surplus Personal Property	39.003	IDOA	N/A	2,788,598	358,946
Total General Services Administration				2,788,598	358,946
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES					
Promotion of the Arts - Partnership Agreements	45.025	IAC			
Basic State Grant			01-6100-2037	231,713	76,985
Basic State Grant			02-6100-2024	318,711	195,538
Arts In Education			01-6100-2037	45,560	45,560
Arts In Education			02-6100-2024	52,800	52,800
Underserved			02-6100-2024	38,300	38,300
Challenge America			02-6100-2024	90,000	90,000
Total for Program				777,084	499,183
Promotion of the Arts - Leadership Initiatives	45.026	IAC	01-5500-3043	18,000	18,000
			02-5500-3098	15,700	15,700
Total for Program				33,700	33,700
State Library Program	45.310	ISL			
LSTA Grant - 2001			LS-10015-01	147,279	147,279
LSTA Grant - 2002			LS-00020015-02	3,125,885	3,029,323
LSTA Grant - 2003			LS-00030015-03	209,436	191,164
Total for Program				3,482,600	3,367,766
Total National Foundation on the Arts and the Humanities				4,293,384	3,900,649
U.S. DEPARTMENT OF VETERANS AFFAIRS					
Veterans State Domiciliary Care	64.014	IDOH	N/A	240,309	-
Veterans State Nursing Home Care	64.015	IDOH	N/A	4,667,525	-
All-Volunteer Force Educational Assistance	64.124				
Veteran Education		IDVA	V101 (223B) P4217	37,649	-
Veteran Education		IDVA	V101 (223B) P4317	129,114	-
Veteran Education		ICPE	V101 (223B) P4273	25,498	-
Veteran Education		ICPE	V101 (223B) P4373	24,370	-
Total for Program				216,631	-
State Cemetery Grants	64.203	IDVA	A89-0601	2,477,459	-
Total U.S. Department of Veterans Affairs				7,601,924	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY					
Survey, Studies and Investigations relating to the Clean Air Act	66.034	IDEM	X975889-01	$ 26,455	$ -
State Underground Water Source Protection	66.433				
Underground Injection Control Program		DNR	G995901-02	29,225	-
Underground Injection Control Program		DNR	G995901-03	86,175	-
Total for Program				115,400	-
Water Quality Management Planning	66.454	IDEM			
Water Quality Management 205(j)(1)			C6975152-01	40,856	-
Water Quality Management 205(j)(1)			C6975219-00	64,461	-
Water Quality Management 205(j)(1)			C6975496-01	138,412	-
Water Quality Management 205(j)(1)			C6975750-01	108,283	-
Water Quality Management 205(j)(1)			C6975750-02	5,988	-
Total for Program				358,000	-
Capitalization Grants for State Revolving Funds	66.458	IDEM			
Revolving Loan Fund			CS180001-03	9,784,452	9,784,452
Nonpoint Source Implementation Grants	66.460	IDEM			
319 NPS Surface Water			C9995008-95	85,784	-
319 NPS Surface Water			C9995008-96	45,499	-
319 NPS Surface Water			C9995008-97	20,686	-
319 NPS Surface Water			C9995008-98	55,055	-
319 NPS Surface Water			C9995008-99	519,345	-
319 NPS Surface Water			C9995008-00	971,347	-
319 NPS Surface Water			C9975482-01	1,391,156	-
319 NPS Surface Water			C9975482-02	998,945	-
319 NPS Surface Water			C9975482-03	113,111	-
319 NPS Groundwater			C9995008-96	12,232	-
319 NPS Groundwater			C9975482-02	165,186	-
Total for Program				4,378,346	-
Wetlands Grants					
Wetlands	66.461				
Wetlands		IDEM	CD985482-01	7,214	-
Wetlands		IDEM	CD005518-01	(128)	-
Wetland Conservation Grant - 2000		IDEM	CD975308-01	14,811	-
Wetlands Floristic		IDEM	CD975586-01	546	-
Wetlands Conservation Grant - 2000		DNR	CD975138-01	8,858	8,858
Total for Program				31,301	8,858
Water Quality Cooperative Agreements	66.463				
Watershed		IDEM	CP985898-01	50,520	-
Watershed		IDEM	CP975064-01	37,591	-
Watershed		IDEM	CP975291-01	136,125	-
Watershed		IDEM	CP975649-01	168,612	-
Total for Program				392,848	-
Capitalization Grants for Drinking Water State Revolving Fund	66.468	IDEM			
Drinking Water SRF - Administration			FS985655-98	163,805	-
Drinking Water SRF - Source Water			FS985655-98	824,574	-
Drinking Water SRF - Technical Assistance			FS985655-98	68,295	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (Continued)					
Capitalization Grants for Drinking Water State Revolving Fund (Continued)					
Drinking Water SRF - Grants			FS985655-98	$ 1,056,664	$ -
Drinking Water SRF - Grants			FS985655-00	8,022,272	8,022,272
Drinking Water SRF - Technical Assistance			FS975486-02	3,810	-
Drinking Water SRF - PWSS			FS975486-02	136	-
Total for Program				10,139,556	8,022,272
Beach Monitoring and Notification Program Implementation Grants	66.472	IDEM	CU975678-01	1,220	-
Water Protection Grants - Counter Terrorism	66.474	IDEM	WP975634-01	40	-
Water Pollution Control Research, Development and Demonstration					
CEM - Grand Calument Watershed	66.500	IDEM	X985334-01	24,075	-
Performance Partnership Grants	66.605	IDEM	BG985432-99	113,266	-
			BG985432-99	12,267	-
			BG985432-99	217,514	-
			BG985432-99	5,194	-
			BG985432-99	303,642	-
			BG985432-99	31,503	-
			BG985432-99	186,454	-
			BG985432-00	5,943	-
			BG985432-00	39,786	-
			BG985432-00	152,651	-
			BG985432-00	13,411	-
			BG985432-00	220,377	-
			BG985432-00	262,815	-
			BG985432-00	168,486	-
			BG985432-01	588,517	-
			BG985432-01	43	-
			BG985432-01	2,541	-
			BG985432-01	5,980	-
			BG985432-02	57,179	-
			BG985432-02	505,326	-
			BG985432-02	1,107,281	-
			BG985432-02	47,764	-
			BG985432-02	24,946	-
			BG985432-02	150,018	-
			BG985432-03	1,284,703	-
			BG985432-03	83,963	-
			BG985432-03	1,668,533	-
			BG985432-03	2,833,912	-
			BG985432-03	42,519	-
			BG985432-03	1,330,059	-
			BG985432-03	17,768	-
			BG985432-03	195,843	-
Total for Program				11,680,204	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	IDEM			
Air Toxics Monitoring			X975735-01	57,673	-
National Performance Track			X828698-01	17,513	-
E-Coli Monitoring			X975267-01	5,110	-
Tools for Schools			X975459-01	5,730	-
Auto Salvage			X975270-01	35,421	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (Continued)					
Surveys, Studies, Investigations and Special Purpose Grants (Continued)					
Watershed TMDL			X995484-01	$ 106,847	$ -
Drinking Water Web			X975760-01	53,241	-
Diesel School Bus Retro			X975736-01	28,928	-
Ambient Air Monitoring			PM985773-01	1,317,660	-
Ambient Air Monitoring			PM985773-02	32,517	-
Lakewide Management Plan			X975548-01	64,143	-
Lakewide Management Plan			X975933-01	26,342	-
Total for Program				1,751,125	-
Training and Fellowships for the Environmental Protection Agency	66.607	IDEM			
Outreach Operator Training			T975633-01	23,377	-
Outreach Operator Training			T985627-01	7,863	-
Total for Program				31,240	-
One Stop Reporting	66.608	IDEM	OS985886-01	35,141	-
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707	IDEM			
Lead-Based Paints			PB975551-01	143,468	-
HUD Lead			PB985526-02	43,560	-
Lead-Based Paints			PB985526-03	6,781	-
Total for Program				193,809	-
Pollution Prevention Grants Program	66.708	IDEM			
Pollution Prevention			NP985074-04	37,143	-
Capacity Building Grant - Drinking Water Watch	66.709	IDEM	EA975534-01	95,124	-
State and Tribal Environmental Justice	66.713	IDEM	ES975102-01	(966)	-
Superfund State Site - Specific Cooperative Agreements	66.802	IDEM			
RCRA NW Brownfield			V005849-01	-	-
RCRA 3012 Program			V005849-01	529,761	-
Ninth Avenue Dump			V005995-01	6	-
Elkhart Main Street Well Field - East			V005995-01	26	-
Elkhart Main Street Well Field - West			V005995-01	1,316	-
Core Superfund			V005990-01	767,716	-
Galen Myers Remedial Action			V985768-01	69,751	-
Continental Steel - Remedial Design			V985768-01	78,449	-
Continental Steel - Remedial Action			V985768-01	41,359	-
Waste			V005995-01	269	-
Conrail Yard Site			V005899-01	5,734	-
Third Site			V005899-01	6,287	-
Prestolite Battery			V005899-01	8,423	-
Himco Dump			V005899-01	5,836	-
International Minerals and Chem			V005899-01	189	-
American Chemical Services			V005899-01	12,479	-
Douglas Road Landfill			V005899-01	3,383	-
Lemon Lane			V005899-01	17,573	-
Lakeland Disposal			V005995-01	19,647	-
Neal's Landfill			V005899-01	9,380	-
Bennet Stone			V005899-01	7,073	-
Cam-Or			V005899-01	10,206	-
Total for Program				1,594,863	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (Continued)					
Leaking Underground Storage Tank Trust Fund Program	66.805	IDEM			
Leaking Underground Storage Tank			LS005981-10	$ (209,479)	$ -
Leaking Underground Storage Tank			LS005981-11	942,371	-
Leaking Underground Storage Tank			LS005981-12	266,020	-
Total for Program				998,912	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	IDEM	BL985740-01	33	-
Total Environmental Protection Agency				41,668,321	17,815,582
U.S. DEPARTMENT OF ENERGY					
State Energy Program	81.041	COM			
State Energy Program			DE-FG45-02R530542	894,567	355,966
State Energy Program/Special Project Rebuild America			DE-FG45-98R530387	1,603	-
Total for Program				896,170	355,966
Weatherization Assistance for Low-Income Persons	81.042	FSSA	Y-G00R530350	5,920,081	-
Regional Biomass Energy Program	81.079	COM	CGL-89-009	77,435	77,435
Conservation Research and Development	81.086	COM			
Alternative Fuel Program			DE-FG45-95R530305	8,855	-
NICE3-Hot Eye In-Process Steel Quality	81.105	COM	DE-FG45-02R530540	67,401	67,401
State Energy Program Special Projects	81.119	COM			
Evansville Clean Cities E-85 Refueling Infrastructure			DE-FG45-99R530414	13,580	13,580
BIOENERGY/Crops of Marsh Land in Indiana			DE-FG45-99R530417	1,233	1,233
Energy Information Administration			DE-FC01-96E129058	4,880	4,880
Energy Code Training Program			DE-FG45-00R530452	30,989	30,989
Northwest IN 3-85 Transportation - Alternative Fuels/Clean Cities			DE-FG45-01R530487	15,000	15,000
Northwest IN 3-85 Transportation - Industrial Technologies			DE-FG45-01R530489	136,686	136,686
Northwest IN 3-85 Transportation - Codes and Standards			DE-FG45-01R530491	76,213	76,213
Research & Development of Switched Reluctance Machine			DE-FC36-02GO12020	216,240	216,240
Total for Program				494,821	494,821
Other Assistance					
Petroleum Violation Escrow Funds	81	COM			
Stripper Well			N/A	486,090	57,981
Exxon - New Energy			N/A	80,125	80,125
Total for Program				566,215	138,106
Council of State Governments Cooper Sub Grant Agreement	81	SEMA	CSGMW-RM-IN-01-01	147,356	-
Total Other Assistance				713,571	138,106
Total U.S. Department of Energy				8,178,334	1,133,729

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION					
Special Education Cluster					
Special Education - Grants to States	84.027	IDOE	H027A980084	$ (51,907)	$ (51,907)
			H027A990084	(33,188)	(33,188)
			H027A000084	154,499	62,665
			H027A010084	16,750,217	16,483,809
			H027A020084	139,007,793	137,445,968
Total for Program				155,827,414	153,907,347
Special Education - Preschool Grants	84.173	IDOE	H0173A98014	14,654	14,654
			H0173A99014	6,664	6,664
			H0173A00014	(21,549)	(21,549)
			H0173A01014	500,649	500,649
			H0173A02014	8,251,151	8,251,151
Total for Program				8,751,569	8,751,569
Total for Cluster				164,578,983	162,658,916
Adult Education - State Grant Program	84.002	IDOE	V002A000015	(322)	(322)
			V002A010014	(185,300)	(185,300)
			V002A020014	10,367,685	9,789,401
Total for Program				10,182,063	9,603,779
Title 1 Grants to Local Educational Agencies	84.010	IDOE	S010A990014	(351,715)	(351,715)
			S010A000014	191,840	11,481,776
			S010A010014	19,985,110	108,825,559
			S010A020014	129,078,020	-
Total for Program				148,903,255	119,955,620
Migrant Education - Basic State Grant Program	84.011	IDOE	S011A010014	2,959,656	2,078,562
			S011A020014	1,158,956	878,045
Total for Program				4,118,612	2,956,607
Title 1 Program for Neglected and Delinquent Children	84.013	IDOE	S013A020014	770,967	770,967
Vocational Education - Basic Grants to States	84.048	DWD			
CP SECONDARY B/			V048A990014	(461,021)	(461,021)
CP SECONDARY B/			V048A990014	(98,930)	(98,930)
State Leadership			V048A000014	953,601	-
CP SECONDARY B/			V048A000014	113,080	-
POST 2ND VOC E			V048A000014	495,884	-
State Leadership			V048A010014A	800,719	-
CP SECONDARY B/			V048A010014A	3,532,420	-
POST 2ND VOC E			V048A010014A	2,126,491	-
COMM TECH ED			V048A020024A	458,428	-
State Leadership			V048A020024A	331,512	-
CP SECONDARY B/			V048A020024A	10,993,644	-
POST 2ND VOC E			V048A020024A	6,582,987	-
Total for Program				25,828,815	(559,951)
Leveraging Education Assistance Partnership	84.069	SSACI			
Special Leveraging Education Assistance Partnership			P069B020012	739,491	-
Leveraging Education Assistance Partnership			P069B010016	599,588	-
Total for Program				1,339,079	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)					
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FSSA			
			H126A010019	$ 855	$ -
			H126A020019	28,918,793	28,918,793
			H126A030019	33,830,580	17,400,843
Total for Program				62,750,228	46,319,636
Rehabilitation Services - Client Assistance Program	84.161	IPAS			
			H161A020015	93,143	-
			H161A030015	115,265	-
Total for Program				208,408	-
Independent Living - State Grants	84.169	FSSA	H 169A 010020	161,854	161,854
			H 169A 020020	246,038	215,908
Total for Program				407,892	377,762
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	FSSA	H177B010014	217,331	217,331
			H177B020014	338,060	316,253
Total for Program				555,391	533,584
Special Education - Grants for Infants and Families With Disabilities	84.181	FSSA	H181A000030	1,420,115	-
First Steps Program			H181A010030	5,326,483	-
First Steps Program			H181A020030	796,840	-
Total for Program				7,543,438	-
Community Service Expelled/Suspended Students	84.184	IDOE	S184C020015	21,000	21,000
Byrd Honors Scholarships	84.185	IDOE	P185A010015	200,000	200,000
			P185A020015	650,000	650,000
Total for Program				850,000	850,000
Safe and Drug-Free Schools and Communities - State Grants	84.186				
		FSSA	S186000015	3,751	3,751
		FSSA	S186010015	802,538	802,538
		FSSA	S186020015	659,766	659,766
		IDOE	S186A990015	(486)	(486)
		IDOE	S186A000015	(3,383)	(3,383)
		IDOE	S186A010015	1,211,043	1,211,043
		IDOE	S186A020015	3,939,795	3,739,309
Total for Program				6,613,024	6,412,538
Supported Employment Services for Individuals With Severe Disabilities	84.187	FSSA	H187A020020	740,575	740,575
			H187A030020	730,389	730,389
Total for Program				1,470,964	1,470,964
Bilingual Education Support Services	84.194	IDOE	T194Q010010	30,404	-
Education for Homeless Children	84.196	IDOE	S196A000015	(4,803)	-
			S196A010015	122,623	32,974
			S196A020015	534,044	534,044
Total for Program				651,864	567,018

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)					
Javits Gifted and Talented Education Act	84.206	IDOE	S206A020001	$ 249,305	$ 248,023
Even Start - State Educational Agencies	84.213	IDOE	S213C000015	23,770	-
			S213C010015	1,365,377	1,342,318
			S213C020015	1,975,664	1,952,593
Total for Program				3,364,811	3,294,911
Capital Expenses	84.216	IDOE	S216A990014	2,177	2,177
			S216A000014	(2,177)	(2,177)
			S216A010014	38,152	38,152
Total for Program				38,152	38,152
Assistive Technology	84.224	FSSA	H224A900027	38,937	34,152
		IPAS	H343A020015	40,147	-
		IPAS	H343A030015	609,127	-
Total for Program				688,211	34,152
Program of Protection and Advocacy of Individual Rights	84.240	IPAS	H240A020015E	137,598	-
			H240A030015E	48,827	-
Total for Program				186,425	-
Tech-Prep Education	84.243	DWD			
			V243A970085	(5,362)	-
COM TECH ED-PRE 2000			V243A000014	304,086	-
COM TECH ED-PRE 2001			V243A010014	1,686,656	-
COM TECH ED-PRE 2002			V243A020014	30,244	-
Total for Program				2,015,624	-
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	FSSA	H 265A 00 0040	51,240	-
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	IDOE	S276A000014	656,212	574,920
Eisenhower Professional Development State Grants	84.281				
State Grant 99		IDOE	S284A980014	(200)	(200)
State Grant 2000		IDOE	S284A990014	(5,406)	(5,406)
State Grant 2001		IDOE	S281A000014	191,541	100,191
State Grant 2002		IDOE	S281A010014	4,283,271	4,129,335
Standard, Assessment and Accountability		IDOE	S281C010014	314,717	190,705
Mathematics and Science Grants		CHE	S281B990014	251,417	251,417
Mathematics and Science Grants		CHE	S281B000014	730,633	730,633
Mathematics and Science Grants		CHE	S281B010014	15,433	15,433
Total for Program				5,781,406	5,412,108
Charter Schools	84.282	IDOE	S282A010058	1,735,898	1,724,422
After School Learning Centers Formula	84.287	IDOE	S287C020014	1,880,573	1,759,514
Innovative Education Program Strategies	84.298	IDOE	S298A990014	(7,104)	(7,104)
			S298A000014	(12,553)	(12,553)
			S298A010014	3,502,635	2,924,649
			S298A020014	3,699,438	3,261,215
Total for Program				7,182,416	6,166,207

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (Continued)					
Technology Literacy Challenge Fund Grants	84.318	IDOE	S318X000014	$ (4,000)	$ -
			S318X010014	151,887	78,090
			S318X020014	2,472,926	2,247,384
Total for Program				2,620,813	2,325,474
Advanced Placement Incentive Program	84.330	IDOE	S330A000034-0	47,624	8,869
Comprehensive School Reform Demonstration	84.332	IDOE	S332A980014	276,540	276,540
			S332A010014	3,554,587	3,554,587
			S332A020014	558,485	558,485
Total for Program				4,389,612	4,389,612
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				
Gear-Up		SSACI	P334A990352	3,936,625	-
Teacher Quality Enhancement Grants	84.336	IPSB	P336A 990018-00	782,982	-
Reading Excellence	84.338	IDOE	S338A010016	14,942,704	14,622,353
Class Size Reduction	84.340	IDOE	S340A000015	102,014	102,014
			S340A010015	2,503,925	2,503,925
Total for Program				2,605,939	2,605,939
Occupational and Employment Information State Grants	84.346	DWD			
Career Resource 2001			V346A000018	40,695	-
Career Resource 2002			V346A000018	162,957	-
Total for Program				203,652	-
Title I Accountability Grants	84.348	IDOE	S348A000014	(38,141)	(38,141)
			S348A010014	1,263,927	1,263,927
Total for Program				1,225,786	1,225,786
Transition to Teaching	84.350	IDOE	S250B010069	157,527	87,207
School Renovation Grants	84.352	IDOE	S352A010015	7,812,848	7,808,152
Reading First	84.357	IDOE	S357A020015	567,910	457,673
Rural and Low Income Schools	84.358	IDOE	S358B020014	294,604	294,604
English Language Acquisition	84.364	IDOE	S365A020014	3,050,545	3,001,146
Improving Teacher Quality	84.367	IDOE	S367A020013	23,666,183	23,410,354
State Assessments and Related Activities	84.369	IDOE	S369A020015	4,017,592	-
Total U.S. Department of Education				530,977,606	431,428,018

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Aging Cluster					
Special Programs for the Aging -Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	FSSA			
			02AA IN 1320	$ 5,291,389	$ -
			03AA IN 1320	1,422,889	-
Total for Program				6,714,278	-
Special Programs for the Aging -Title III, Part C - Nutrition Services	93.045	FSSA			
			02 AA IN 1712, 1713	9,313,979	-
			03 AA IN 1712, 1713	2,867,499	-
Total for Program				12,181,478	-
Total for Cluster				18,895,756	-
Child Care Cluster					
Child Care and Development Block Grant	93.575	FSSA		-	39,349,811
			G 02 01 IN TANF	7,541,312	-
			G 02 01 IN CCDF	36,774,305	-
			G 03 01 IN CCDF	8,894,143	-
			G 00 01 IN CCD2	2,671,413	-
			G 01 01 IN CCD2	33,345,958	-
Total for Program				89,227,131	39,349,811
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF)	93.596	FSSA		-	33,520,210
Child Care Development Fund (CCDF)			G 01 01 IN CCD3	1,797,112	-
Child Care Development Fund (CCDF)			G 03 01 IN CCDF	25,723,528	-
Child Care Development Fund (CCDF)			G 02 01 IN CCDF	20,367,397	-
Total for Program				47,888,037	33,520,210
Total for Cluster				137,115,168	72,870,021
Medicaid Cluster					
State Medicaid Fraud Control Units	93.775	AG	01-0201-IN-5050	243,641	-
			01-0301-IN-5050	966,546	-
Total for Program				1,210,187	-
State Survey and Certification of Health Care Providers and Suppliers	93.777				
State Survey and Certification of Health Care Providers		FSSA	5 01 05 IN 5001	152,745	-
State Survey and Certification of Health Care Providers		FSSA	5 02 05 IN 5001	2,891,891	-
State Survey and Certification of Health Care Providers		FSSA	5 03 05 IN 5001	1,810,771	-
Medicare Title XVIII - 2001		ISDOH	05-0005-IN-5001	(82,335)	-
Medicare Title XVIII - 2002		ISDOH	05-0005-IN-5002	1,219,129	209,803
Medicare Title XVIII - 2003		ISDOH	05-0005-IN-5003	3,091,187	329,169
Clinical Lab Improvement Act - 2002		ISDOH	05-0005-IN-5002	65,934	-
Clinical Lab Improvement Act - 2003		ISDOH	05-0105-IN-5002	161,206	-
Total for Program				9,310,528	538,972

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
Medicaid Cluster (Continued)					
Medical Assistance Program	93.778	FSSA			
Assistance			5 02 05 IN 5028	$ 644,142,855	$ -
Assistance			5 03 05 IN 5028	2,077,768,894	-
Administration			5 02 05 IN 5048	25,913,673	-
Administration			5 03 05 IN 5048	86,209,435	-
Total for Program				2,834,034,857	-
Total for Cluster				2,844,555,572	538,972
Public Health and Social Services Emergency Fund	93.003	ISDOH			
Bioterrorism Hospital Planning			6 U3R MC 000151-01	358,277	266,374
Minority HIV/AIDS Demonstration Program	93.006	ISDOH	D92MP02001-01-0	1,601	-
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	FSSA	02 AA IN 1716, 1716	1,556	-
Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	FSSA			
			01 AA IN 1715	16,845	-
			02 AA IN 1715	172,176	-
Total for Program				189,021	-
Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	93.043	FSSA			
			01AA IN 1717	3,679	-
			02AA IN 1717	318,292	-
Total for Program				321,971	-
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048	FSSA		-	312,777
Disaster Assistance			90 AM 226402	37,286	-
Alzheimer's Disease Grant			90 AZ 245901	297,500	-
Alzheimer's Disease Grant			90 AZ 245902	1,572	-
Alzheimer's Disease Grant			90 AM 250601	25,973	-
Alzheimer's Disease Grant			90 AM 241101	35,495	-
Alzheimer's Disease Grant			90 AM 226403	32,458	-
Total for Program				430,284	312,777
National Family Caregiver Support (NFCSP)	93.052	FSSA	01 AA IN 1719	(52,940)	(52,940)
			02 AA IN 1719	1,724,571	1,724,571
Total for Program				1,671,631	1,671,631
Nutrition Services Incentive Program	93.053	FSSA	2 03 AA IN NSIP	258,466	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	FSSA			
Child MH Initiative			C H5 SM 52893 A	1,441,581	1,441,581
Maternal and Child Health Federal Consolidated Programs	93.110	ISDOH			
MCH Services Federal Set-Aside Program - 2002			6 H18 MC 00017-06	89,947	-
MCH Services Federal Set-Aside Program - 2003			6 H18 MC 00017-06	34,049	3,000
Genetic Diseases Services Program - 2002			1 H46 MC 00178-02	2,493	-
Genetics Implementation Grant - 2003			1 H46 MC 00222-01	58,865	4,450
Integrated Services Children with Special Health Care Needs - 2001			6 H02 MC 00013-04	99,587	98,452
Total for Program				284,941	105,902

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	ISDOH			
Tuberculosis Control Program - 2002			U52/CCU500520-19	$ 565,573	$ 460,497
Tuberculosis Control Program - 2003			U52/CCU500520-20	235,557	182,035
Total for Program				801,130	642,532
Performance Indicator Pilot Study	93.119	FSSA	C H1 SM 52514 A	28,959	28,959
Primary Care Services - Resource Coordination and Development - Primary Care Offices	93.130	ISDOH			
Primary Care Offices - 2003			2 U68 CS 00182-13	140,350	57,397
Injury Prevention and Control Research	93.136	ISDOH	9 OCCU5222371	16,286	13,747
Protection and Advocacy for Individuals With Mental Illness	93.138	IPAS	CSMX189700G	408,666	-
			CSMX189700H	141,049	-
Total for Program				549,715	-
Projects for Assistance in Transition From Homelessness	93.150	FSSA	S MX 060015 K	137,052	137,052
			S MX 060015 L	401,882	401,882
Total for Program				538,934	538,934
Health Program for Toxic Substances and Disease Registry	93.161	ISDOH			
Building State Capacity to Conduct Health Assessments - 01			U5O/ATU502884-13	83,284	-
Building State Capacity to Conduct Health Assessments - 03			U5O/ATU502884-13	173,248	-
Total for Program				256,532	-
Community Prevention Coalitions (Partnership) Demonstration Grant	93.194	FSSA	C UFSP 08186 A	1,494,147	-
Indiana Grassroots Prevention Coalition					
Childhood Lead Poisoning Prevention Program	93.197	ISDOH			
State-Based Program for Prevention of Lead Poisoning			US7/CCU518545-03	180,512	19,278
Research on Healthcare Costs, Quality and Outcomes	93.226	ISDOH			
Cooperative Health Statistics - 2002			200-2000-07214	203,594	3,841
Cooperative Health Statistics - 2003			200-2000-07214	194,761	-
Total for Program				398,355	3,841
Consolidated Knowledge Development and Application Program	93.230	FSSA		-	229,232
Indiana Statewide Treatment Needs Assessment			U1 TI 13458A	251,058	-
MI DIG			HR1 SM54201-01	138,271	-
Total for Program				389,329	229,232
Abstinence Education	93.235	ISDOH			
Abstinence Education Block Grant - 2002			2 X01 MC 00009-04	317,520	317,520
Abstinence Education Block Grant - 2003			2 X01 MC 00009-05	438,105	435,903
Total for Program				755,625	753,423
SDI Project	93.238	FSSA	U1TI 14631A	5,839	3,387

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
State Rural Hospital Flexibility Program	93.241	ISDOH			
RHFP-Critical Access Hospitals - 2002			1 H54 RH 0042-02	$ 377,472	$ 375,920
Indiana All Hazards Project	93.243	FSSA	H9 SM 55157A	3,654	3,654
Universal Newborn Hearing Screening	93.251	ISDOH			
Universal Newborn Hearing Screening - 2003			1 H61 MC 00059-01	89,341	87,941
Universal Newborn Hearing Screening - 2004			1 H61 MC 00059-02	8,982	8,982
Rape Prevention and Education - 2002			VF1/CCV1992-01	680,845	680,845
Rape Prevention and Education - 2003			VF1/CCV1992-01	380,560	380,560
Total for Program				1,159,728	1,158,328
Health Care Access Planning	93.256	FSSA	P09 OA 00050A	514,957	-
Rural Access to Emergency Devices	93.259	IDSP	1H3DRH00025-01	3,066	-
Immunization Grants	93.268	ISDOH			
Immunization Program - 2002			H23/CCH504476-12	2,212,290	1,050,098
Immunization Program - 2003			H23/CCH504476-12	1,166,928	610,976
Immunization Program Noncash assistance			H23/CCH504476	21,652,609	-
Total for Program				25,031,827	1,661,074
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	ISDOH			
Behavior Risk Factor Surveillance - 2002			U58/CCU500569-17	42,313	42,228
Behavior Risk Factor Surveillance - 2003			U58/CCU500569-18	96,703	93,812
State Epidemiology and Laboratory Surveillance and Response - 2002			U50/CCU514402-03	183,714	4,441
State Epidemiology and Laboratory Surveillance and Response - 2003			U50/CCU514402-04	293,528	51,638
Tobacco Use Prevention and Control - 2002			U1A/CCU516947-02	603,904	603,607
Tobacco Use Prevention and Control - 2003			U1A/CCU516947-03	668,122	664,706
Bioterrorism Preparedness & Response Supplemental - 2003			U90/CCU517024-03	4,609,854	473,507
Bioterrorism Preparedness & Response Non Cash Assistance			N/A	45,000	45,000
Bioterrorism Grant - 2003			U90/CCU517024-03	182,394	33,851
Addressing Asthma - 2003			U59/CCU520860-01-1	14,999	1,613
Birth Defects Surveillance Program			U50/CCU521144-01	57,579	-
National Program of Cancer Registries - 2002			U75/CCU510699-06	126,264	67,602
National Program of Cancer Registries - 2003			U55/CCU521884-01	319,951	203,354
Total for Program				7,244,325	2,285,359
Small Rural Hospital Improvement Grant - 2003	93.301	ISDOH	HCHRH00003-A0	78,628	78,055
Promoting Safe and Stable Families	93.556	FSSA	G 01 01 IN OOFP	2,256,873	-
			G 02 01 IN OOFP	3,625,560	-
Total for Program				5,882,433	-
Temporary Assistance for Needy Families (TANF)	93.558	FSSA	G 01 01 IN TANF	14,197,649	-
			G 02 01 IN TANF	67,502,157	-
			G 03 01 IN TANF	123,495,900	-
Total for Program				205,195,706	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
Child Support Enforcement	93.563	FSSA		$ -	$ 299,999
			G 01 04 IN 4004	76,193	-
			G 02 04 IN 4004	4,630,020	-
			G 03 04 IN 4004	16,689,279	-
			90 FD 007501	5,793	-
Total for Program				21,401,285	299,999
Refugee and Entrant Assistance - State Administered Programs	93.566	FSSA	G 02 AA IN 5110	194,998	-
			G 02 AA IN 5100	229,143	-
			G 03 AA IN 5100	106,287	-
Total for Program				530,428	-
Low Income Home Energy Assistance	93.568	FSSA		-	22,397,918
REACH Program			G 97 IN LIEA	(96,091)	-
REACH Program			G 98 IN LIEA	34,232	-
REACH Program			G 99 IN LIEA	134,041	-
REACH Program			G 00 IN LIEA	5,921	-
REACH Program			G 01 IN LIEA	144,064	-
REACH Program			G 02 IN LIEA	10,164,499	-
REACH Program			G 03 IN LIEA	48,770,824	-
Total for Program				59,157,490	22,397,918
Community Services Block Grant	93.569	FSSA	G 01 IN COSR	(8,810)	-
			G 02 IN COSR	8,223,983	-
			G 03 IN COSR	1,111,577	-
Total for Program				9,326,750	-
CSBG T and TA	93.570	FSSA	90 EZ 001401	75,000	-
Refugee and Entrant Assistance - Discretionary Grants	93.576	ISDOH			
Health Programs for Refugees - 2002			90RX0064/02	45,477	45,396
Health Programs for Refugees - 2003			90RX0064/03	52,969	52,112
Total for Program				98,446	97,508
Empowerment Zones Program	93.585	FSSA	G 95 01 IN ECUR	31,733	-
Community-Based Family Resource and Support Grants	93.590	FSSA	G 00 01 IN FRPG	480,524	-
			G 01 01 IN FRPG	123,453	-
Total for Program				603,977	-
Welfare Reform Research, Evaluations and National Studies	93.595	FSSA			
State Welform ABT Evaluation			G 90 PE 000305	227,172	-
Grants to States for Access and Visitation Programs	93.597	FSSA			
Access and Visitation			G 00 01 IN SAVP	132,694	132,694
Access and Visitation			G 01 01 IN SAVP	48,574	48,574
Total for Program				181,268	181,268

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
Head Start	93.600	FSSA	G 05 CD 000503	$ 44,869	$ -
			G 05 CD 001201	64,963	-
			G 05 CD 001202	78,036	-
Total for Program				187,868	-
New Assets for Independence Demonstration Program	93.602	COM	90EY0001/03	411,800	-
Adoption Incentive Payments	93.603	FSSA	02 01 IN AIPP	534,264	-
Developmental Disabilities Basic Support and Advocacy Grants	93.630				
		IGPC	G-0001INBS15	272,784	272,783
		IGPC	G0101INBS15	528,390	441,005
		IGPC	G-0201INBS15	715,279	487,798
		IGPC	G-0301INBS15	518,344	181,144
		IPAS	G0201INPA15	662,982	-
Total for Program				2,697,779	1,382,730
Family Support Project	93.631	FSSA	90 DF 007001	9,623	-
Child Welfare Services - State Grants	93.645	FSSA	G 01 01 IN 1400	1,801,713	-
			G 02 01 IN 1400	6,213,379	-
Total for Program				8,015,092	-
Foster Care - Title IV-E	93.658	FSSA	G 02 01 IN 1401	10,474,021	-
			G 03 01 IN 1401	34,028,675	-
Total for Program				44,502,696	-
Adoption Assistance	93.659	FSSA	G 02 01 IN 1407	6,198,332	-
			G 03 01 IN 1407	19,888,898	-
Total for Program				26,087,230	-
Social Services Block Grant	93.667	FSSA		-	41,339,312
			G 02 01 IN SOSR	11,637,887	-
			G 03 01 IN SOSR	24,860,450	-
			G 02 01 IN TANF	4,732,013	-
			G 03 01 IN TANF	2,000,000	-
Total for Program				43,230,350	41,339,312
Family Violence Protection and Services/Grants for Battered Womens' Shelters - Grants to States and Indian Tribes	93.671	FSSA	G 01 01 IN FVPS	347,677	-
			G 02 01 IN FVPS	1,141,219	-
Total for Program				1,488,896	-
Independent Living	93.674	FSSA			
			G 00 01 IN 1420	673,050	-
			G 01 01 IN 1420	907,267	-
			G 02 01 IN 1420	708,552	-
Total for Program				2,288,869	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
State Children's Insurance Program	93.767	FSSA	5 00 05 IN 5019	$ 16,253,518	$ -
			5 01 05 IN 5021	44,466,279	-
Total for Program				60,719,797	-
Med Works Program	93.768	FSSA	05 00000 91781	40,000	-
Health Care Financing Research, Demonstration and Evaluations	93.779				
Nursing Facility Transition		FSSA	05 00000 91655	45,750	-
Comm Integrated Personal Assist Service		FSSA	05 00000 91654	4,096	-
Real Choice Systems Change		FSSA	05 00000 91653	452,510	-
PAMP		FSSA	05 0205 IN PAMP	93,713	-
DMHA OLMSTEAD		FSSA	Direct	5,208	5,208
State Health Insurance Advisory Grants Program		IDOI	11-P-20202/5-11	136,633	-
MEDIGAP Demonstration Project		IDOI	11-P-91691/5-01	49,775	-
Total for Program				787,685	5,208
Grants to States for Operation of Offices of Rural Health	93.913	ISDOH			
State Office of Rural Health - 2002			5 H95 RH 00136-10	45,053	30,403
State Office of Rural Health - 2003			5 H95 RH 00136-10	102,274	11,000
Total for Program				147,327	41,403
HIV Care Formula Grants	93.917	ISDOH			
Title II HIV Care Grants - 2003			5 X07 HA 00033-11	10,415,003	958,592
Title II HIV Care Grants - 2004			5 X07 HA 00033-12	627,400	-
Total for Program				11,042,403	958,592
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	ISDOH			
Breast and Cervical Cancer Early Detection - 2002			U57/CCU512851-05	934,400	538,898
Breast and Cervical Cancer Early Detection - 2003			U57/CCU512851-01	1,658,947	836,945
Total for Program				2,593,347	1,375,843
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	IDOE			
HIV-AIDS Education			CCU509016-10	31,586	12,475
HIV-AIDS Education			CCU509016-01	9,227	-
Total for Program				40,813	12,475
HIV Prevention Activities - Health Department Based	93.940	ISDOH			
HIV Prevention Project - 2002			U62/CCU502048-16	1,894,592	1,386,334
HIV Prevention Project - 2003			U62/CCU502048-17	895,921	573,329
Total for Program				2,790,513	1,959,663
HIV/AIDS Surveillance	93.944	ISDOH			
HIV/AIDS Surveillance and Seroprevalence - 2002			U62/CCU506227-10	270,485	103,167
HIV/AIDS Surveillance and Seroprevalence - 2003			U62/CCU506227-11	194,679	41,849
Total for Program				465,164	145,016

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)					
Assistance Programs for Chronic Disease Prevention and Control	93.945	ISDOH			
Reducing the Impact of Arthritis - 2002			U58/CCU520313-01	$ 15,679	$ 11,250
Reducing the Impact of Arthritis - 2003			U58/CCU520313-01	51,434	40,786
Water Fluoridation Assistance Program - 2002			H75/CCH517458-03	50,458	40,500
Total for Program				117,571	92,536
Block Grants for Community Mental Health Services	93.958	FSSA		-	6,116,887
			02 B1 IN CMHS	3,788,927	-
			03 B1 IN CMHS	2,710,629	-
Total for Program				6,499,556	6,116,887
Block Grants for Prevention and Treatment of Substance Abuse	93.959	FSSA	01 B1 IN SAPT	1,048,834	1,048,834
			02 B1 IN SAPT	31,164,792	30,297,086
			03 B1 IN SAPT	500,268	500,268
Total for Program				32,713,894	31,846,188
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	ISDOH			
Sexually Transmitted Disease Accel Prevention Campaign - 02			H25/CCH504340-11	1,790,209	1,381,348
Sexually Transmitted Disease Accel Prevention Campaign - 03			H25/CCH504340-12	702,746	556,908
Sexually Transmitted Disease - Noncash Assistance			H25/CCH504340	550,754	550,754
Total for Program				3,043,709	2,489,010
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	ISDOH			
Diabetes Grant - 2003			U32/CCU510612-08	302,548	84,684
Diabetes Grant - 2004			U32/CCU510612-08	16,959	-
Total for Program				319,507	84,684
Preventative Health and Health Services Block Grant	93.991	ISDOH			
Preventative Health and Health Services Block Grant - 2002			2000-BI-IN-PRVS-05	1,109,890	850,351
Preventative Health and Health Services Block Grant - 2003			2000-BI-IN-PRVS-06	893,474	645,998
Total for Program				2,003,364	1,496,349
Maternal and Child Health Services Block Grant to the States	93.994	ISDOH			
Maternal and Child Health Block Grant - 2002			6 B04 MC 00292-05	4,318,481	2,490,750
Maternal and Child Health Block Grant - 2003			6 B04 MC 00292-06	6,395,967	3,137,308
Total for Program				10,714,448	5,628,058
Total U.S. Department of Health and Human Services				3,611,700,448	203,011,025
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					
State Commissions	94.003	CCSV			
Administrative			01SCIN015	3,269	-
Administrative			01SCIN015	129,701	-
Administrative			01SCIN015	110,176	-
Total for Program				243,146	-
Learn and Serve America - School and Community Based Programs	94.004				
Learn and Serve America		CCSV	95LCSIN005	(971)	(971)
Learn and Serve America		CCSV	98LCSIN015	15,935	15,935
Learn and Serve Grant 2003		IDOE	00LSHIN013-3	367,924	367,924
K-12 Formula Grant 2003		IDOE	00LSFIN102	308,545	241,224
Total for Program				691,433	624,112

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE (Continued)					
AmeriCorps	94.006				
America Reads		CCSV	98ARCIN011	$ 13,382	$ 13,382
Americorps		CCSV	94ASCIN015	(55,657)	(55,657)
Americorps Competitive		CCSV	00ASCIN015	365,403	365,403
Americorps Competitive		CCSV	00ASCIN015	1,210,933	1,210,933
Americorps Formula		CCSV	00ASFIN015	(8,126)	(8,126)
Americorps Formula		CCSV	00ASFIN015	624,487	624,487
Americorps Formula		CCSV	00ASFIN015	610,885	610,885
Total for Program				2,761,307	2,761,307
Planning and Program Development Grants	94.007	CCSV			
AC Promise Fellows			01APSIN015	50,499	45,568
CCSV Disability			01DSCIN016	668	-
Total for Program				51,167	45,568
Training and Technical Assistance	94.009	CCSV			
CCSV Program Development and Technical Assistance			02PDSIN015	103,862	-
Total Corporation for National and Community Service				3,850,915	3,430,987
SOCIAL SECURITY ADMINISTRATION					
Disability Insurance/SSI Cluster					
Social Security - Disability Insurance	96.001	FSSA		-	233,189,718
			97 04 IND 100A	421,000	-
			Prior Year IND I	2,094,604	-
			02 04 IND I00	8,929,621	-
			03 04 IND I00	19,708,617	-
Total for Program and Cluster				31,153,842	233,189,718
Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	96.009	IPAS	17-A-20018-5-3	125,628	-
Other Assistance					
Reimbursement of Vocational Rehabilitation Funds	96	FSSA	N/A	1,771,213	-
Total Other Assistance				1,771,213	-
Total Social Security Administration				33,050,683	233,189,718
FEDERAL EMERGENCY MANAGEMENT AGENCY					
State Domestic Preparedness Equipment Support Program	97.004	SEMA			
FY 1999			1999-TE-CX-0174	932,962	932,637
FY 2000			2000-TE-CX-0069	404,561	404,561
FY 2002			2002-TE-CX-0145	711,110	711,110
Total for Program				2,048,633	2,048,308
Hazardous Materials Assistance Program	97.021	SEMA	EMC-2002-GR-0026	4,500	-
CERCLA 2002					
Community Assistance Program-State Support Services Element	97.023	SEMA	EMC-2002-GR-7010	38,535	-
			EMC-2003-GR-7008	29,904	-
Total for Program				68,439	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2002 to June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
FEDERAL EMERGENCY MANAGEMENT AGENCY (Continued)					
Flood Mitigation Assistance	97.029	SEMA			
FMAP 99			EMC-99-PA-1342	$ 61,042	$ 61,042
FMAP 00			EMC-2000-GR-0017	226,337	226,337
Total for Program				287,379	287,379
Crisis Counseling	97.032	SEMA	EMC-2001-GR-0063	63,643	-
Individual and Family Grants	97.035	SEMA			
1418			N/A	222,847	222,847
1433			N/A	638,945	638,945
Total for Program				861,792	861,792
Public Assistance Grants	97.036	SEMA			
1418			N/A	3,820,705	3,820,705
1433			N/A	3,358,402	3,358,402
Total for Program				7,179,107	7,179,107
Hazard Mitigation Grant	97.039	SEMA			
1217			N/A	89,547	89,547
1234			N/A	124,363	124,363
1165			N/A	(58,647)	(58,647)
Total for Program				155,263	155,263
Chemical Stockpile Emergency Preparedness Program	97.040	SEMA			
CAC			N/A	2,729	-
Chemical Stockpile - 2003			EMC-2003-GR-7032	697,603	490,237
Chemical Stockpile - 2002			EMC-2002-GR-7008	3,481,713	610,216
Chemical Stockpile - 2001			EMC-2001-GR-0008	608,221	42,156
Chemical Stockpile - 2000			EMC-2000-GR-0009	167,465	-
Total for Program				4,957,731	1,142,609
National Dam Safety Program	97.041	DNR	EMW-2000-GR-0129	90,241	-
Emergency Management Performance Grants	97.042	SEMA	EMC-2003-GR-7002	360,170	-
			EMC-2002-GR-7002	1,961,868	1,438,749
TCMA - Terrorism 2002			EMC-2002-GR-7002	361,386	-
Total for Program				2,683,424	1,438,749
Pre-Disaster Mitigation	97.047	SEMA	EMC-2002-GR-7028	29,187	29,187
State and Local All Hazards Emergency Operations Planning	97.051	SEMA	EMC-2003-GR-7016	159,383	156,051
Emergency Operations Centers	97.052	SEMA	EMC-2003-GR-7017	50,000	-
Citizen Corps	97.053	SEMA	EMC-2003-GR-7018	97,345	89,591
Other Assistance					
EMS Children	97	SEMA	EMC-2001-GR-0063	129,160	129,160
Terrorism	97	PSTI	EME-1998-GR-0429	80,088	-
Total Other Assistance				209,248	129,160
Total Federal Emergency Management Agency				18,945,315	13,517,196
Total Federal Awards Expended				$ 6,993,729,328	$ 1,245,584,383

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Scope of Schedule

All federal awards received by the State of Indiana, as a governmental unit, have been included in the Schedule of Expenditures of Federal Awards except for the programs administered by the component units listed in Note 3.

Note 2. Basis of Presentation

a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the State of Indiana and is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of Federal Awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

b. The source of information for the schedule was obtained from the various agencies' grant records while the financial statements were prepared from the records of the Auditor of State. Therefore, the schedule may not necessarily coincide with the financial statements.

Note 3. Component Units

The entities listed below are component units for financial statement purposes and receive federal financial assistance. The federal transactions of these entities are not reflected in this schedule. Each of these entities has their own independent audits in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Component Unit	Federal Funds Expended
Purdue University	$ 199,703,389
Indiana University	264,350,699
Indiana State University	14,859,072
Ball State University	18,903,311
Vincennes University	14,852,087
University of Southern Indiana	6,278,258
Ivy Tech State College	76,108,766
Total	$ 595,055,582

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Note 4. State Agencies

The initials in the Agency column indicate the agency that receives the federal funds directly. The following table identifies the state agencies.

Agency	Agency Name
AG	Attorney General, Office of the
AOS	Auditor of State
BOAH	Board of Animal Health
CCSV	Governor's Commission on Community Service and Volunteerism
CHE	Commission for Higher Education
COM	Indiana Department of Commerce
DNR	Indiana Department of Natural Resources
DOC	Indiana Department of Correction
DOL	Indiana Department of Labor
DWD	Indiana Department of Workforce Development
FSSA	Family and Social Services Administration
IAC	Indiana Arts Commission
ICJI	Indiana Criminal Justice Institute
ICPE	Indiana Commission on Proprietary Education
ICRC	Indiana Civil Rights Commission
IDEM	Indiana Department of Environmental Management
IDFBS	Indiana Department of Fire and Building Services
IDOA	Indiana Department of Administration
IDOE	Indiana Department of Education
IDOI	Indiana Department of Insurance
IDOR	Indiana Department of Revenue
IDSP	Indiana Department of State Police
IDVA	Indiana Department of Veterans' Affairs
IGPC	Indiana Governor's Planning Council for People With Disabilities
INDOT	Indiana Department of Transportation
IPAS	Indiana Protection and Advocacy Services Commission
IPSB	Indiana Professional Standards Board
ISDOH	Indiana State Department of Health
ISL	Indiana State Library
LtGov	Lieutenant Governor – Office of Commissioner of Agriculture
MD	Military Department of State of Indiana
PSTI	Public Safety Training Institute
SEMA	State Emergency Management Agency
SRDC	State Rural Development Council
SSACI	State Student Assistance Commission of Indiana

Note 5. State Unemployment Insurance Benefits

State Unemployment Insurance Benefits represent the funds returned from the U.S. Treasury for nonfederal unemployment benefits. The State collects unemployment taxes from employers and deposits them in the Unemployment Insurance Trust Fund to be used by the State.

Note 6. Noncash Assistance

The State expended the following amount of noncash assistance for the year. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Noncash Assistance Expended
School Lunch	10.555	$ 23,389,677
Donation of Federal Surplus Personal Property	39.003	2,788,598
Immunization Grants	93.268	21,652,609
Bioterrorism Preparedness and Response	93.283	45,000
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	550,754

Note 7. Social Security Vocational Rehabilitation Funds

The Social Security Administration (SSA) reimburses FSSA for counseling and tracking cost of Vocational Rehabilitation clients who have been successfully rehabilitated and have been removed from Social Security Disability Insurance. (The original costs were paid with Vocational Rehabilitation and state funds.) These reimbursements are considered and treated as program income by the federal government. The reimbursements from SSA have certain uses and restrictions. We consider these funds to be additional program money and thus have included them on the schedule.

There are certain time limits on the disbursement of these funds. If the Indiana Family and Social Services Administration (FSSA) do not disburse these funds within the time limits, the funds become program income and FSSA must use the funds and reduce their draw of Vocational Rehabilitation funds.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:	
Material weaknesses identified	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified	Yes
Reportable conditions identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs: Qualified for Block Grants for Prevention and Treatment of Substance Abuse (93.959) and Title XX (93.667). Unqualified for all others.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Dollar threshold used to distinguish between Type A and Type B programs: $20,981,188

Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA No.	Program Title
FSC	Food Stamp Cluster (10.551, 10.561)
WIA	WIA Cluster (17.258, 17.259, 17.260)
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants
MC	Medicaid Cluster (93.778, 93.775, 93.777)
CCC	Child Care Cluster (93.575, 93.596)
93.268	Immunization Grants
93.563	Child Support Enforcement

CFDA No.	Program Title
93.558	Temporary Assistance to Needy Families
93.658	Foster Care –Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant (Title XX)
93.767	State Children's Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Section II - Financial Statement Findings

The audit of the State of Indiana's financial statements disclosed reportable conditions that are required to be reported. Their response to the findings start on Page 273.

FINDING 2003 - CAFR-1 CAPITAL LEASES

The Procurement Division of the Indiana Department of Administration maintains a database of lease activity. Procedures in place to update the lease database do not ensure that all qualifying leases are entered into the lease database. This results in the database not being complete.

Adequate lease records should be maintained by the Department of Administration to ensure that lease obligations are properly presented in the State's financial statements in accordance with standards issued by the Financial Accounting Standards Board.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FINDING 2003 - CAFR-2 INFRASTRUCTURE

The Indiana Department of Transportation (INDOT) does not have complete written internal procedures to ensure that all applicable infrastructure assets are capitalized on the Auditor of State's capital asset system. INDOT has not documented procedures that would enable employees to determine which costs and at what point in the process these costs should be capitalized. This results in an understatement of the State's capital assets.

The Governmental Accounting Standards Board requires the capitalization of additions and improvements of a government's infrastructure assets.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FINDING 2003 - CAFR-3 TRANSFERS

The Auditor of State did not have procedures in place during the audit period to ensure the proper recording of net transfer amounts in the financial statements. Journal Vouchers (JVs) are used throughout the year by the Auditor's office and various state agencies to record corrections, transfers between fund/centers, and adjustments to the state's accounting records. Procedures in place at the Auditor's office were insufficient to ensure that transfers within the same fund were reduced to appropriate net transfer amounts in the financial statements.

Upon our identification of transfers entries that were not properly recorded at net, the Auditor's office implemented changes in its procedures that should effectively resolve this condition.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Section III - Federal Award Findings and Questioned Costs

The findings are numbered with the state year, then the initials of the state agency responsible (the initials are defined in Note 4 of the Notes to the Schedule of Expenditures of Federal Awards) and then a sequential number. Unless otherwise noted, prior report references are to the State of Indiana Single Audit Report for the period of July 1, 2001, to June 30, 2002, Report Number B20468.

PRIOR FINDINGS

Prior audit findings regarding procedures, compliance, or internal controls that continued to be findings per the criteria of OMB Circular A-133 during this audit period are not repeated in this Schedule of Findings and Questioned Costs. They are disclosed in the Summary Schedule of Prior Audit Findings. These findings include:

96-FSSA-33	Fund Balances - Child Support Enforcement Fund Centers
99-FSSA-7	ISETS Information Technology (IT) Controls
2000-FSSA-1	Lack of and Improper Supporting Documentation
2000-FSSA-2	Overpayment of Adoption Assistance Subsidies
2000-FSSA-3	Foster Care Provider Licensure
2000-FSSA-5	Child Support Enforcement Program Federal Reporting
2001-FSSA-3	Pass-Through Entity Responsibilities, Division of Mental Health
2001-FSSA-9	Child Support Accounting System Weakness
2002-FSSA-3	Title XX and Validation of Day Services Claims
2002-FSSA-4	Pass-Through Entity Responsibilities at Division of Mental Health for Title XX
2002-DWD-1	Grant Receipts

Our test of the Summary Schedule of Prior Audit Findings found the schedule to be materially correct except as noted in the current findings.

Findings 2003-FSSA-1 through 2003-FSSA-20 relate to programs administered by the Indiana Family and Social Services Administration (FSSA). Their response to the findings starts on Page 232.

FINDING 2003 - FSSA-1 FOSTER CARE PAYMENTS

Federal Agency:	Department of Health and Human Services
Federal Programs:	Foster Care Program
CFDA Numbers	93.658
Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director, Division of Budget and Finance
Phone Number:	317-234-0197
Compliance Requirement:	Activities Allowed or Unallowed, Reporting
Internal Control:	Reportable Condition

Eligibility of children for the Foster Care, Foster Care Waiver, and Adoption Assistance programs are determined at FSSA's local offices of Family and Children. The claims for reimbursement from these programs are also prepared by these local offices. These claims are sent to FSSA's central office of Financial Management for processing. Financial Management makes payments from the appropriate program funds as indicated on the claims. There are separate federal funds for the Adoption Assistance Program and the Foster Care Program. Foster Care and Foster Care Waiver are both paid from the same federal program, but the amount that may be paid for Foster Care Waiver children is limited and must be identified for reporting and analysis purposes.

We tested ten payments to verify allowability and found two exceptions. One case had been identified on a claim as eligible for Foster Care and should have been identified as a Foster Care Waiver case. This resulted in the under reporting of Waiver payments. Another case had been identified on a claim as eligible for Foster Care and should have been Adoption Assistance. This resulted in $511.50 being paid from Foster Care funding instead of Adoption Assistance funding. Through further research we found that both cases had been properly classified on claims the following month. However, no corrections for the prior improper claims had been made. Through inquiry we found that there is no formal mechanism in place for the local offices to inform the central office of incorrect claims for these programs.

45 CFR 74.20 states that: ". . . (b) Recipients' financial management systems shall provide for the following: . . . (2) Records that identify adequately the source and application of funds for HHS-Sponsored activities. . . . (3) Effective control over and accountability for all funds, property and other assets."

We recommended that FSSA implement a process for the local offices to apprise financial management of incorrect claims.

Finding 2003 - FSSA-2 NONCUSTODIAL PARENT LOCATION EFFORTS

Federal Agency:	Department of Health and Human Services – OCSE – ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Karla Mantia
Title of Contact Person:	Deputy Director, Child Support Bureau
Phone Number:	317-233-4482
Compliance Requirement	Special Tests and Provisions

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), under 42 U.S.C. 653a, requires each State to develop a State Directory of New Hires (SDNH) that meets Federal requirements. The SDNH is used to gather information concerning the location of absent, non-custodial parents and their employment.

Under 45 CFR, Part 303.3 Section (b) provides that the IV-D agency must attempt to locate all noncustodial parents or sources of income:

- Subsection (1) requires the use of location sources, such as "current or past employers and State agencies and departments . . . which maintain records of . . . wages and employment, unemployment insurance . . .;"

- Subsection (2) requires the establishment of working relationships with all appropriate agencies in order to utilize locate resources effectively;

- Subsection (3) requires that: "Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources . . .;" and,

- Subsection (5) further requires that although repeat location attempts may be limited to automated sources, they must include accessing State employment security files.

42 U.S.C. 503 (e) (1) (A) requires the State agency charged with the administration of the State law (DWD) "to disclose upon request . . . any wage information contained in the records of such State agency." These records can be referred to as information contained in the agency's UC-1, UC-5a and UC-5b reports filed quarterly by employers.

We found that the Child Support Bureau (CSB) had requested access to employment information maintained by DWD. However, CSB failed to follow up and successfully gain such access as required. Consequently, CSB is not in compliance with the above cited code and regulations.

We recommended that CSB follow-up with DWD for proper access.

FINDING 2003-FSSA-3 ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency:	Department of Health and Human Services
Federal Programs:	Child Support, Foster Care, TANF
CFDA Numbers:	93.563, 93.658, 93.558
Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director, Division of Budget and Finance
Phone Number:	317-234-0197
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

During our audit of the FSSA Cost Allocation Plan (CAP) for the Division of Family and Children (DFC), we found that FSSA lacks adequate procedures for monitoring contract work. FSSA contracts with an independent contractor, Maximus, to develop and maintain their DFC CAP including compilations of various sampling and allocation measurements to support the allocation of program costs. Monthly, Maximus generates allocation reports which FSSA uses to charge indirect costs to their federal programs.

In April 2003, FSSA implemented a new email Random Moment Survey (RMS) process. The contractor selects the sample of employees to be surveyed, compiles the responses, and uses the results to determine the percentage of time employees worked on federal grants. Through our testing, we found that some caseworkers were unable to place a toll free phone call from their desk to answer the survey after their email link expired and, therefore, must disrupt their work to use their supervisor's phone when it is available. Neither FSSA nor Maximus were aware of this potential problem. Through further inquiry, we found that neither FSSA nor Maximus had made inquiries at the DFC offices for potential implementation issues.

As a result of our testing, a phone access survey was conducted. Results revealed that limited phone access affected twenty-seven of 130 offices; twenty-six of twenty-seven were among the thirty-nine Marion County offices. Although phone surveys are not done frequently, sufficient data has not been captured to determine the impact on the RMS sample results.

In addition, FSSA has not maintained adequate oversight of the monthly allocation reports generated by the contractor. Monthly cost reports prepared by FSSA Financial Management are given to Maximus for their compilation of allocated costs. The Maximus allocation reports are used by Financial Management to charge indirect costs via journal voucher. Financial Management does not verify that the costs on their cost reports submitted to Maximus agree with the costs in the Maximus allocation reports. This lack of monitoring could lead to errors made by Maximus that were not detected by FSSA Financial Management. Financial Management also does not review the contractor's allocation reports once necessary quarterly or bi-yearly updates are made due to revised sampling and allocation measurements.

45CFR302.10(c) states that: "The IV-D agency will assure that the plan is continuously in operation in all appropriate offices or agencies through . . . Regular planned examination and evaluation of operations in local offices by regular assigned State staff, including regular visits by such staff; and through reports, controls, or other necessary methods."

Plan requirements in 45CFR95.505(i), state: "That the information contained in the proposed cost allocation plan was prepared in conformance with Office and Management and Budget Circular A-87."

Per OMB A-87 Attachment A, "Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices."

We recommended that FSSA implement procedures to adequately monitor all aspects of the contractor's work on the DFC CAP.

FINDING 2003 - FSSA-4 CHILD CARE AND DEVELOPMENT FUND (CCDF) – PROVIDER AGREEMENTS

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

The FFY 2002-2003 Child Care and Development Fund (CCDF) Plan for Indiana (the State Plan) states: "Providers, at the time of registration with the local voucher agent, sign an agreement that states parents will have unlimited access to their children while being cared for by the provider." This provision of the State Plan fulfills the requirements of 45 CFR 98.31 that the "Lead Agency shall provide a detailed description" of its "procedures to ensure that providers of child care services for which assistance is provided afford parents unlimited access to their children, and to the providers caring for their children, during normal hours of provider operation and whenever the children are in the care of the provider."

In voucher agent counties, each provider signed a Provider Statement with the voucher agent to acknowledge its responsibilities under the CCDF voucher program. The agreement included the statement: "I agree to allow the parents of children in my care to visit their children at all times and to see all areas used for child care." In intake agent counties, no corresponding agreement was executed between providers and intake agents or FSSA. Subsequent to the audit period, the Bureau of Child Development transitioned a limited number of counties to a new electronic debit card payment system managed by an outside contractor. In these CRO (Central Reimbursement Office) counties, providers have executed a Provider Statement with the CRO vendor.

We recommended that all providers be required to sign a provider agreement in accordance with the State Plan.

FINDING 2003 - FSSA-5 CHILD CARE AND DEVELOPMENT FUND (CCDF) – VERIFICATION OF REGISTERED MINISTRIES

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

IC 12-17.2-2-8(7) exempts from licensure "a child care ministry registered under IC 12-17.2-6." IC 12-7-2-28.8 states: " 'Child care ministry,' for purposes of IC 12-17.2, means child care operated by a church or religious ministry that is a religious organization exempt from federal income taxation under Section 501 of the Internal Revenue Code."

To verify that an applicant for registration as a ministry is a tax-exempt organization, FSSA's Bureau of Child Development (BCD) requires the applicant to submit a copy of the IRS letter that states: "we have determined you are exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3)." Section 501(c)(3) of the Internal Revenue Code authorizes a broad umbrella of purposes, including religious, charitable and educational purposes, for tax-exempt activity.

We found that BCD did not have a process to verify that an applicant for registration as a ministry is a religious organization. Formerly, the IRS stated for which purpose tax-exempt status was being granted in the 501(c)(3) determination letter. However, the IRS no longer differentiates among the various purposes for which tax-exempt status may be granted in the text of the 501(c)(3) determination letter, nor has it done so for a number of years. In the absence of an explicit IRS determination, BCD did not promulgate a rule regarding what constitutes a "religious organization" under IC 12-17.2-2-8(7). Neither did BCD require applicants for registered ministry status to submit a copy of their 501(c)(3) application, which contains detailed information regarding the nature and purpose of the applicant. Instead, BCD accepted an applicant's self-declaration that it is a religious organization.

Since 1990 the volume of registered ministries operating statewide has climbed from under 100 in 1990 to over 500 in 2003. Many of these ministries are independent ministries (not associated with a church or its auxiliary).

We requested copies of the 501(c)(3) application from a sample of registered ministries. Even though the 501(c)(3) application is a public record per IRS regulations, four of the ten tested did not respond to our request and an additional two responded with only partial documentation, refusing to provide the complete application. One independent ministry provided a copy of a Form 1023 which described its primary purpose as "to provide affordable childcare services" and did not otherwise indicate any criteria by which the organization might be considered religious. This ministry had previously operated as a licensed center until it failed its inspection.

Upon further inquiry we found that overall the requirements for licensed centers are more stringent than for registered ministries. We also found that during the audit period applicants that passed a sanitation inspection were allowed to operate under a temporary six-month permit upon submission of a letter acknowledging that the IRS had received their 501(c)(3) application. As a result, if a licensed daycare center failed its licensing inspection, it could reopen as a registered ministry with little delay.

The FFY 2002-2003 Child Care and Development Fund (CCDF) Plan for Indiana (the State Plan) states: "Procedures are in effect to ensure that child care providers that provide services for which assistance is provided under the Child Care and Development Fund comply with all applicable State or local health and safety requirements." This provision of the State Plan fulfills the requirement of 45 CFR 98.41 that the "Lead Agency shall certify that procedures are in effect to ensure that child care providers for which assistance is provided . . . comply with all applicable State, local or tribal health and safety requirements."

IC 12-17.2-2-4 requires the Division of Family and Children (DFC) to adopt rules concerning the licensing and inspection of child care centers and child care homes. Child care centers, as defined under IC 12-7-2-28.4, can be located in nonresidential buildings. Child care homes, as defined under IC 7-2-28.6, must be located in a residential structure. If DFC chooses to exempt a child care program from licensure, it must be one of the programs enumerated under IC 12-17.2-2-8. Nonresidential programs exempted from licensure under IC 12-17.2-8 include various after-school programs, recreation/scouting programs, and "a child care ministry registered under IC 12-17.2-6." According to IC 12-7-2-28.8, " 'Child care ministry,' for purposes of IC 12-17.2, means child care operated by a church or religious ministry that is a religious organization exempt from federal income taxation under Section 501 of the Internal Revenue Code."

By not having a procedure in effect to ensure that registered ministries for which CCDF assistance is provided are in fact religious organizations, the Lead Agency does not have a procedure in effect to ensure that registered ministries comply with State requirements for licensing exemptions.

We recommended that FSSA implement adequate procedures to ensure that child care providers granted an exemption from licensing requirements under IC 12-17.2-2-8(7) qualify for such an exemption as a religious organization.

FINDING 2003 - FSSA-6 CHILD CARE AND DEVELOPMENT FUND (CCDF) – MONITORING OF REGISTERED MINISTRIES

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Of the four major classes of child care providers that participate in Indiana's CCDF voucher program (licensed centers, licensed homes, registered ministries, and legally licensed-exempt in-home providers), only registered ministries are not subject to minimum staff/child ratios or total capacity limitations. In addition, the Bureau of Child Development (BCD) does not routinely verify attendance records against CCDF enrollment records during its periodic inspections of registered ministries. The absence of staff/child or total capacity restrictions, combined with the absence of cross-verification of records, creates unique opportunities for manipulation of enrollment records at registered ministries that participate in the CCDF voucher program. During the audit period, an investigation of a registered ministry by FSSA's Bureau of Investigation resulted in twenty-six felony charges related to the manipulation of enrollment records.

45 CFR 98.11 states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended FSSA monitor registered ministries for allowable costs.

FINDING 2003 - FSSA-7 CHILD CARE AND DEVELOPMENT FUND (CCDF) – COMPLAINT DISCLOSURES

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Section 4.2 of the FFY02-FFY03 CCDF Plan for Indiana (the "State Plan") states: "Substantiated parental complaints on providers are maintained by the State at local Offices of Family and Children, and at the Central Office in Indianapolis. The information is available upon request or through the Indiana Family and Social Services Administration website at *www.carefinderindiana.org*. The public can access information on the site concerning the status of a child care provider's license, read about the latest inspections and any problems uncovered. Complaints filed by parents are also listed, along with whether the complaint was substantiated, and what action was taken." This section of the State Plan fulfills the requirement of 45 CFR 98.32 for the Lead Agency to provide a detailed description of its plans to "(a) Maintain a record of substantiated parental complaints; (b) Make information regarding such complaints available to the public on request."

During the audit period, we found the following circumstances contradicted the State Plan regarding disclosure of substantiated complaints at CCDF providers:

- Information regarding substantiated complaints maintained at local Offices of Family and Children (OFCs) is not available to the public on request. This information is considered confidential per IC 31-33-18-1.

- No information is maintained regarding legally licensed-exempt in-home providers (LLEPs) at www.carefinderindiana.org. LLEPs provide a significant portion of CCDF services.

- The only information disclosed at www.carefinderindiana.org regarding registered ministries, another significant category of CCDF providers, concerns complaints that do not involve abuse or neglect. If a parent makes a complaint alleging abuse or neglect, the complaint will be referred to the Child Protection Service (CPS) at the local OFC for substantiation. Such complaints are covered by Indiana's confidentiality statutes. If a parent makes a complaint concerning a matter that does not involve abuse or neglect (such as sanitation violation), the complaint will be referred to Health Section inspectors from the Bureau of Child Development (BCD) for substantiation. Such complaints can be freely disclosed.

What www.carefinderindiana.org does disclose regarding abuse or neglect complaints is whether or not an action has been taken to revoke the license of a licensed home or center. When a local CPS substantiates a complaint against a licensed facility, it notifies the Licensing Section, and the Licensing Section issues a revocation letter to the facility. Although the facility can remain open during the appeals process, the action to revoke, and the reason for it, is disclosed at www.carefinderindiana.org. However, due to FSSA's understanding of confidentiality statutes, the local CPS will not notify BCD if it substantiates a complaint against an unlicensed facility, including an LLEP or registered ministry.

In addition, based on FSSA's understanding of confidentiality provisions, BCD will not disclose any information about a parental complaint substantiated by CPS even if it has independent knowledge of the complaint. For example, if a complaint involving abuse or neglect is made by a parent to a member of the Health Section staff, Health Section will refer the complaint to CPS for substantiation. Even if BCD finds out from the parent that the complaint has been substantiated by CPS, this information will not be disclosed to the public.

Prior to the audit period, the model provider agreement recommended by BCD for use by voucher agents included (1) a waiver by the provider of confidentiality rights in cases of substantiated cases of abuse and (2) an acknowledgement that the provider's rights to participate in the CCDF voucher program may be terminated at the voucher agent's discretion under various circumstances, including a "pending abuse/neglect charge." However, based on the advice of the Office of General Counsel, during the audit period the local OFC directors were instructed by BCD program staff that they could not share information regarding substantiated cases of abuse with voucher/intake agents unless the information was included in the central registry defined under IC 31-33-17. The central registry only contains a strictly defined subset of substantiated abuse cases, such as cases for which formal charges have been brought. The waiver language has been removed from the new version of the Provider Agreement being used in counties served by a Central Reimbursement Office (CRO).

We recommended that BCD disclose substantiated parental complaints for unlicensed providers which participate in the CCDF voucher program as required by 45 CFR 98.32 and the State Plan.

FINDING 2003 - FSSA-8 CHILD CARE DEVELOPMENT FUND (CCDF) – FIRE MARSHALL

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles

Lead agencies receiving CCDF funding must certify: ". . . that procedures are in effect to ensure that child care providers of services for which assistance is provided . . . comply with applicable . . . safety requirements . . ." (45CFR98.41(d)). FSSA is the lead agency for the State of Indiana. Section 6.6 of FSSA's state plan for CCDF has as part of its assurance for building and physical premises safety, inspections by the State Fire Marshall. Specifically, the inspection of licensed centers and registered ministries are required by Indiana Code.

The Office of State Marshall has historically experienced difficulty in performing daycare inspec-ions in a timely manner. To address this issue, FSSA's Bureau of Child Development (BCD) used CCDF quality funds to contract with the Fire Marshall to hire additional staff dedicated to daycare inspections, beginning in 2001. A total of $1.4 million in CCDF quality funds was awarded for the four-year period from FFY01-FFY04. Despite hiring 6 additional staff members with CCDF quality funds, the Fire Marshall still failed to perform timely inspections of daycare facilities during the audit period.

Because of the backlog in fire inspections, the Health Section at BCD began issuing certificates to new ministries whether an inspection had been performed or not. It also began renewing certificates for existing ministries who had not received a timely inspection. The Licensing Section at BCD continued to withhold licenses for new centers until a fire inspection had been performed, but permitted existing facilities to operate without a timely inspection.

We recommended that FSSA determine that safety procedures are in effect before certification or disclose in the state plan that such certification is not possible due to lack of timely inspections.

FINDING 2003 - FSSA-9 CHILD CARE AND DEVELOPMENT FUND (CCDF) – LOCAL OFFICES OF FAMILY AND CHILDREN

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition

During the audit period, to determine child care eligibility for a Temporary Aid to Needy Families (TANF) recipient, the voucher or intake agent examined a referral provided by the local Office of Family and Children (OFC).

We found that the Division of Family and Children (DFC) does not impose statewide standards on the TANF referral process other than to require in the CCDF Policies and Procedures Manual that the referral (1) be written and (2) include the identification number assigned to the applicant by the Indiana Client Eligibility System (ICES).

During the audit period, voucher agents were required by contract to execute a Memorandum of Understanding (MOU) with the County Team, which includes representative(s) of the local OFC, to outline the roles and responsibilities of members of the County Team. Intake agents were only required to appoint a liaison with the local OFC to facilitate communication.

We inspected the MOUs and procedures governing TANF referrals for a sample of voucher and intake agents. We found that procedures were inconsistently documented from county to county. In addition, several counties did not have a procedure in place to ensure that the local OFC communicated changes in TANF status to the voucher/intake agent after the initial referral. CCDF vouchers have a potential life of six months, and a change in TANF status should trigger an eligibility redetermination. In addition, we found that the Bureau of Child Development (BCD) does not monitor whether TANF referrals are updated in a timely manner.

45 CFR 98.11(a)(1) states: "The Lead Agency shall retain overall responsibility for the administration of the program."

45 CFR 98.20(a) states: "In order to be eligible for services under §98.50, a child shall: (2) Reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size."

45 CFR 98.50(e) states: "Not less than 70 percent of the Mandatory and Matching Funds shall be used to meet the child care needs of families who: (1) Are receiving assistance under a State program under Part A of title IV of the Social Security Act, (2) Are attempting through work activities to transition off such assistance program and (3) Are at risk of becoming dependent on such assistance program."

We recommended that DFC implement consistent standards and controls to ensure that local OFCs supply adequate and timely information to CCDF intake agents to verify and monitor the child care eligibility of TANF recipients.

FINDING 2003 - FSSA-10 CHILD CARE AND DEVELOPMENT FUND (CCDF) – AUDIT DIVISION

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles, Subrecipient Monitoring
Internal Control:	Reportable Condition

During the audit period, we found that management overrides of Audit Division recommendations regarding subrecipient (voucher agent) and vendor (intake agent) contracts were not sufficiently documented. The Audit Division performs a high-level role in the monitoring of voucher/intake agents. Each voucher/intake agent is inspected annually by program monitors, who examine a sample of records from the current federal fiscal year. Based on the results of the annual inspections, the Audit Division selects a sample of high risk voucher/intake agents for an in-depth audit of the prior federal fiscal year.

We identified the following circumstances during the audit period in which the Audit Division recommended the Bureau of Child Development (BCD) not enter into a contract with a voucher or intake agent:

1. In one county, the Audit Division subcontracted with an independent CPA to audit a voucher agent at which a staff member had embezzled over $200,000 in CCDF funding. The CPA issued the following recommendation in its July 2002 report: "It is our belief that [the voucher agent] was reckless in its management of CCDF monies . . . we believe [the voucher agent] had sufficient knowledge to correct the internal control deficiencies . . . we are recommending [the voucher agent's] contract be terminated." BCD renewed the voucher agent's contract for FFY03, after imposing a repayment agreement, a change in management, and new internal controls on the voucher agent.

2. In another county, audit staff raised concerns verbally and by e-mail regarding renewal of a contract with a voucher agent which also owned multiple provider sites. The voucher agent was converted into an intake agent prior to renewing its contract for FFY03. BCD instructed its staff that "because of audit's concerns regarding possible conflicts of interest leading to internal control weaknesses we must carefully monitor their contract performance."

3. When the Audit Division was asked to review the financial statements of a new intake agent proposed for Marion County (the largest user of CCDF funding), the Audit Division recommended in an e-mail that BCD not contract with the intake agent based on the Audit Division's concerns regarding the proposed intake agent's (1) solvency and (2) conflicts of interest posed by its ownership of multiple daycare provider sites. BCD entered into a contract with the proposed intake agent, after assuring the Audit Division that "[conflict-of-interest] . . . situations would be monitored systematically to determine whether there was a high registration of children to [the intake agent's] services."

In order to verify procedures for issuing management overrides of internal controls at BCD, we requested documentation of these decisions. We discovered that no formally documented process existed for issuing management overrides of internal controls at BCD. In addition, no formally articulated guidelines existed for such a process. Instead, the only available documentation consisted of e-mails, some of which had been accidentally deleted and had to be retrieved from electronic archives at our request. In the case of the voucher agent at which a significant embezzlement occurred, the only documentation provided to us consisted of a staff member's recollections.

In addition, we found that the additional monitoring measures related to conflict-of-interest situations, promised in response to concerns raised by the Audit Division, were not implemented.

The State Board of Accounts relies on the existence of the Audit Division in its evaluation of FSSA's internal controls, including the control environment maintained by management. To justify this reliance, the substantial recommendations of the Audit Division regarding fraud-related or internal control concerns at subrecipients or vendors should be issued and evaluated according to a formally documented set of procedures. Any follow-up procedures should be monitored and followed through.

45 CFR 98.11 states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended that the Audit Division implement a formal process for communicating to management fraud-related or internal control concerns that rise to the level of making a recommendation for further action. We recommended that FSSA implement a formal process for reviewing fraud-related or internal control concerns raised by the Audit Division, articulate appropriate review criteria and document decisions accordingly. If a decision is conditioned on the implementation of additional procedures such as monitoring, the implementation should be followed through.

FINDING 2003 - FSSA-11 CHILD CARE AND DEVELOPMENT FUND (CCDF) – OFFICE OF GENERAL COUNSEL

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

During the audit period, we found that control weaknesses in the communications process between the Office of General Counsel and program staff at the Bureau of Child Development (BCD) resulted in legal advice being issued that was not based on all available facts and/or not reviewed by senior program management prior to implementation. We found that some legal advice could no longer be located. In some cases advise had been issued by e-mail without taking steps to preserve a hard copy or archived electronic copy in easily retrievable form. In addition, we found that the communications process at times resulted in divergent perceptions among program and legal staff regarding the content of legal advice provided.

We identified the following instances during the audit period in which the Office of the General Counsel provided legal advice to the BCD under circumstances that indicate control weaknesses in the communications process:

- After losing its appeal of a license revocation issued in response to a child's death while in the provider's care, a provider continued to provide daycare to CCDF clients for approximately three weeks after the provider's license revocation was final. BCD sought advice from the Office of General Counsel when the provider threatened to sue for payment for services provided. The attorney who advised BCD was not aware that appeals procedures at the Licensing Section also affected the provider's status under IC 12-17.2-3.5 (the "minimum standards" statute), which sets eligibility standards for the CCDF voucher program. Specifically, the Licensing Section grants an automatic extension of the annual minimum standards inspection pending the outcome of an appeal. If the decision to revoke the license is upheld, the minimum standards inspection lapses at the same time the license revocation is final, unless the provider has made separate arrangements to qualify as a legally-licensed exempt in-home (LLEP) provider. Minimum standards inspections for LLEPs were performed during the audit period by the local Community and Childcare Resource & Referral (CCR&R) agent. Because the attorney did not have all available facts, based on the attorney's advice BCD issued a manual override of electronic payment controls to authorize payment.

- Based on the advice provided by the Office of General Counsel, during the audit period BCD program staff instructed local Office of Family and Children (OFC) directors that they could not share information regarding substantiated cases of abuse with voucher/intake agents unless the information was included in the central registry defined in IC 31-33-17. This registry contains a strictly defined subset of substantiated abuse cases, such as cases for which formal charges have been brought. Prior to the audit period, the model provider agreement recommended by BCD for use by voucher agents included (1) a waiver of the signing provider's confidentiality rights in cases of substantiated cases of abuse and (2) an acknowledgement that the provider's rights to participate in the CCDF voucher program may be terminated at the voucher agent's discretion under various circumstances, including a "pending abuse/neglect charge." This change in policy was implemented without the knowledge of senior management at the Division of Family and Children (DFC).

- Based on due process concerns raised by the Office of General Counsel, during the audit period the Licensing Section would not close down a licensed facility after revoking its license until after the appeals process was exhausted or abandoned by the provider. For the same reason, BCD would not deactivate any of the provider's CCDF vouchers during the same time frame unless the provider had committed a minimum standards violation under IC 12-17.2-3.5. The exception for minimum standards violations was based on additional legal research, completed by the Office of General Counsel, regarding how due process issues are affected by the minimum standards statute. However, neither the original nor additional research could be located when we requested it from the Office of General Counsel.

- During internal correspondence regarding BCD's decision to terminate a provider from the CCDF voucher program, legal staff from the Office of General Counsel raised multiple concerns regarding the consistency of BCD's criteria and procedures for following through allegations of fraud. The concerns of legal staff were interpreted by program staff as a directive to stand down from the decision to terminate the provider from the CCDF voucher program. Instead, a repayment agreement was set up for approximately $18,000 in services that had been billed but not provided. In the correspondence, legal staff cited as precedent another situation in which a repayment agreement "only" had been negotiated with a voucher agent, without reference to additional consequences imposed by BCD (including a change in executive management, internal controls, and organizational structure) on this voucher agent. The correspondence was documented by e-mail only. No follow-up communication addressed the ongoing issue of establishing reasonable criteria that would resolve legal staff's concerns and preserve program staff's discretion to implement additional penalties for fraud.

The Office of General Counsel performs a critical role in establishing the control environment for management decisions at FSSA. Any control weaknesses in the communications process which potentially affect the content and implementation of legal advice provided by the Office of General Counsel weaken this environment.

45 CFR 98.11(a)(1) states: "The Lead Agency shall retain overall responsibility for the administration of the program." 45 CFR 98.11(b) states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended that FSSA implement sufficient communication and review procedures to ensure that legal advice is (1) based on a thorough knowledge of the programs affected, (2) formally documented, and (3) implemented with the full knowledge of management. Such procedures should ensure that any ongoing concerns raised by legal staff are resolved in a manner which preserves program staff's discretion to act within appropriately set parameters.

FINDING 2003 - FSSA-12 MEDICAID REPORTING – RECONCILIATION ERRORS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Kathy Moses; Pat Nolting
Title of Contact Person:	Director of SCHIP, FSSA and Director of Program Operations, OMPP, FSSA
Phone Number:	317-233-7346; 317-232-4318
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

During our audit of FSSA's SCHIP/Medicaid federal report, CMS-64, we found that FSSA reported $9,659,261.60 less on the CMS-64 than the supporting financial records. The effect of this error on reporting could not be determined due to the inadequacy in the process of the supporting financial records. This is a control weakness. FSSA recognizes this inadequacy and is correcting the supporting financial records process.

45 CFR 74.21(b) "Recipients' financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each HHS-sponsored project or program . . ."

We recommend that FSSA implement procedures to verify that amounts reported on the CMS-64 properly reconcile to accounting source records.

FINDING 2003 - FSSA-13 RISK ALLOCATION/AUDIT LOG – MONITORING OF CONTRACTOR

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Audit Contact Person:	Pat Nolting; Karen Filler
Title of Contact Person:	Director of Program Operations, OMPP, FSSA; Long-Term Care Supervisor, OMPP, FSSA
Phone Number:	317-232-4318; 317-232-4651
Compliance Requirement:	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
Internal Control:	Reportable Condition

FSSA contracts with an independent contractor, Clifton Gunderson, to perform audits of Medicaid eligible long-term care facilities. Clifton Gunderson generates an audit schedule monthly and provides it to FSSA. Based on various risk factors Clifton Gunderson informally rates each long-term-care facility as high, moderate or low audit risk. Each facility's audit risk rating is then used to determine the frequency of their audit schedule. However, each facility is to be audited at least once every three (3) years. During our audit of FSSA's Medicaid program, we found that FSSA does not monitor Clifton Gunderson's audit risk determination process of each long-term care facility. We also found that FSSA does not monitor the audit schedule to verify that all long-term care facilities have been audited at least once every three (3) years. As a result, FSSA could not determine that a long-term facility's assessed audit risk level was adequate nor could they verify that every long-term care facility was being audited at least once every three (3) years. This is a monitoring control weakness.

45 CFR 74.51 (a) states: "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

We recommended that FSSA monitor its contractor's audit risk determination process for long-term care facilities. In addition, we also recommended that FSSA monitor the audit schedules generated by their independent contractor to verify that all long-term care facilities are being audited at least once every three (3) years.

FINDING 2003 - FSSA-14 MONITORING RECIPIENT FRAUD

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions - Utilization Control
Internal Control:	Reportable Condition

During our audit of FSSA's Medicaid Program we found that when a suspected case of recipient fraud is identified by Office of Medicaid Policy and Planning's (OMPP') surveillance and utilization review (SUR) contractor, it is referred to the Bureau of Investigation (B of I) located in FSSA's Office of General Counsel. However, the majority of potential Medicaid recipient fraud referrals are received by B of I from the local Offices of Family and Children (OFCs) managed by the Division of Family and Children (DFC).

DFC has established methods and criteria for local OFCs to identify, investigate, and where appropriate, refer for prosecution suspected cases of Medicaid recipient fraud. Caseworkers refer suspected cases of recipient fraud to the local Fraud Referral Coordinator (FRC) for initial review. The FRC may refer the case on to the B of I for additional investigation or directly to the county prosecutor, using criteria set by the county prosecutor.

DFC's Bureau of Program Integrity (BPI) performs quality control projects during which a sample of recipient files are tested to determine if the recipient's eligibility has been correctly determined. If BPI detects an error that may be due to misrepresentation by the recipient, BPI refers the file back to the local OFC. Neither BPI nor OMPP monitor the ultimate disposition of such files.

We found that, under the terms of the 1992 Memorandum of Understanding (MOU) between DFC and OMPP, DFC does not have any responsibility to report to OMPP regarding its Medicaid fraud referral activities. In addition, although the MOU provides for a liaison between DFC and OMPP, no liaison had been designated during the audit period.

Overall, methods and criteria for identifying suspected fraud cases are devised by the DFC, methods for investigating these cases are performed by the B of I, and procedures for referring suspected fraud cases to law enforcement officials are handled by DFC, B of I, and OMPP's SUR contractor. All of the above functions are not monitored by OMPP, with the exception of OMPP's SUR contractor. This is a monitoring control weakness.

42 CFR 455.13 thru 17 provides that the Medicaid agency must have - (a) methods and criteria for identifying suspected fraud cases; (b) methods for investigating these cases . . .; (c) procedures, developed in cooperation with State legal authorities for referring suspected fraud cases to law enforcement officials; and (d) responsibility for the oversight of all the recipient fraud activities.

We recommended that FSSA-OMPP monitor all Medicaid recipient fraud activities of the DFC, B of I, and BPI regarding the identification, investigation, and referral to law enforcement of suspected cases of Medicaid recipient fraud in order to fulfill its duties as the Lead Agency under 42 CFR 455 Subpart A. In addition, we further recommended that OMPP monitor the establishment of all methods and criteria for identifying suspected fraud cases, methods for investigating those cases, and procedures, developed in cooperation with State legal authorities for referring suspected fraud cases to law enforcement officials.

FINDING 2003 - FSSA-15 PROVIDER APPLICATION DISCLOSURES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions - Provider Eligibility
Internal Control:	Reportable Condition

During our audit of FSSA's Medicaid Program, we found that certain required disclosures were not contained in the Medicaid provider application. Specifically the application did not include disclosures requiring the applying provider to disclose any information regarding the provider's relationship with its subcontractors, other Medicaid providers, or the relationships of the provider's owners to each other. In addition, we found that none of the required disclosures were being obtained from providers applying under the Waiver Program administered by the Division of Disability, Aging and Rehabilitative Services (DDARS). This is a control weakness.

42 CFR 455.104 states: "The Medicaid agency must require each disclosing entity to disclose the following information. . . :" prior to entering into a contract with a provider:

- "the name and address of each person with an ownership or control interest … in any subcontractor in which the disclosing entity has direct or indirect ownership of 5% or more"

- whether any persons so disclosed are "related to one another as spouse, parent, child or sibling" and

- "the name of any other disclosing entity in which a person with an ownership or control interest in the disclosing entity also has an ownership or control interest."

We recommended that FSSA require each provider to disclose all information as set out in the above disclosures from currently enrolled providers not subjected to the required disclosure process and all future applicant providers.

FINDING 2003 - FSSA-16 ONGOING VERIFICATION OF PROVIDER MEDICAL LICENSES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions - Provider Eligibility
Internal Control:	Reportable Condition

FSSA's Medicaid Program contracts with an outside contractor, EDS, for determining provider eligibility. During our audit of FSSA's Medicaid Program, we found that the current status of provider medical licenses was not verified by EDS on a consistent basis. The Indiana Health Professions Bureau (IHPB) maintains a centralized database of health profession licenses. IHPB transmits to EDS on a monthly basis an electronic list of active licenses. EDS used this file to verify that new Medicaid providers applying for enrollment were licensed. However, EDS did not use this file to verify that the licenses of active providers were current. In one instance, we discovered a provider that remained actively enrolled whose license had been revoked more than two years previously. Upon inquiry, we found that EDS performed a limited verification of license revocations using manual procedures. However, these manual procedures were insufficient to assure that providers without a current license would be determined ineligible on a consistent basis. This is a control weakness.

42 CFR 440 Subpart A includes definitions of the various medical services eligible for reimbursement under Medicaid. 42 CFR 440.50 defines physicians' services as "services furnished by a physician . . . by or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

We recommended that FSSA implement procedures to ensure that providers whose medical licenses are not current do not remain eligible for participation in Medicaid.

FINDING 2003 - FSSA-17 COST REPORT LISTS – MONITORING OF CONTRACTOR

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	State Children’s Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Audit Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
Internal Control:	Reportable Condition

FSSA contracts with an independent contractor, Myers and Stauffer, to receive cost reports from Medicaid hospital providers and perform desk review audits of those cost reports. The cost reports are used to calculate Medicaid reimbursement rates for inpatient hospital services known as Diagnosis Related Groups (DRG). During our audit of FSSA’s Medicaid program, we found that FSSA does not monitor Myers and Stauffer to verify that all cost reports are received and that all cost reports received are also reviewed. As a result, FSSA did not confirm that cost reports supporting the DRG data were actually audited. This is a monitoring control weakness.

45 CFR 74.51 (a) states: "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

We recommended that FSSA monitor its contractor to verify that all cost reports are received and all cost reports received are also reviewed.

FINDING 2003-FSSA-18 UNSUPPORTED CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	FSSA and Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed

Family and Social Services Administration (FSSA) Medicaid Program contracts with an outside contractor, EDS, for Medicaid claims processing. During our audit of FSSA's Medicaid program we found two claims where EDS could not provide the supporting documentation. Upon further review, we found that all supporting documentation for all 'Day versus Humphrey' lawsuit claims prior to November 18, 2002, were not available for audit. We were told by EDS staff that the supporting documentation was discarded. Upon further inquiry of FSSA, no evidence to the contrary could be provided. As a result, we then requested a list from FSSA of all applicable payments prior to November 18, 2002. Subsequent to our exit conference with FSSA, FSSA notified us that all claims prior to November 18, 2002, except for twelve claims totaling $10,976.19 ($6,809.63 federal portion), were located. The located claims were made available for inspection. The allowability of the twelve unlocated claim payments could not be determined.

42 CFR 433.32 provides that the Medicaid agency must maintain the supporting fiscal records to assure that claims for Federal funds are in accord with applicable Federal requirements.

We recommended that FSSA ensure that EDS retains all necessary supporting claim documentation and that all claims be available for timely audit.

FINDING 2003 - FSSA-19 DUPLICATE FORCED LONG-TERM CARE CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	FSSA and Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Family and Social Services Administration (FSSA) Medicaid Program contracts with an outside contractor, EDS, for Medicaid claims processing. During our audit of FSSA's Medicaid program we found a long-term care claim that was erroneously paid by the Medicaid claims processing system (AIMS) for a bedroom accommodation service code for the same recipient and the same dates of service as another previously paid claim. Thus, the provider billed and was paid for the same recipient occupying more than one bed for the same dates of service. AIMS properly suspended this claim as a possible duplicate claim. However, the duplicate claim was then erroneously forced to be paid by an EDS resolutions analyst. We found multiple duplicate claims that were forced to be paid under similar circumstances. Medicaid Policy allows a provider to be reimbursed a maximum of one unit of service for an accommodation code for long-term care claims. Upon further review we found that EDS stated that the resolutions analyst had not been properly trained in such circumstances. This is a control weakness. These claims totaled $417,058.37 for state fiscal year 2003. All but $28,081.42 have been recouped.

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA ensure that resolution analysts are adequately trained to properly audit claims in compliance with Medicaid policy. We consider the amount of $17,402.06 (the federal portion of the $28,081.42) to be a questioned cost.

FINDING 2003 - FSSA-20 MEDICAID – NON-COMMUNITY MENTAL HEALTH CENTERS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed

During our audit of FSSA's Medicaid program we found that FSSA certified non-Community Mental Health Center (non-CMHC) claims for state match for Medicaid federal reimbursement under the authority of 42 CFR 433.51. This CFR cite only allows certification for state match for public agencies. non-CMHCs are not public agencies. Therefore, certifying claims for state match for a non-CMHC is an unallowable process. In addition, non-public agencies are not allowed to provide Medicaid administrative services, unless it is under contract. The State did not have a contract with the non-CMHCs to provide Medicaid administrative services. Because the non-CMHCs were not public agencies and they did not have a contract to provide Medicaid administrative services, all Medicaid federal reimbursement for administrative services paid to the non-CMHCs are unallowable.

Furthermore, FSSA retained a 10% administrative fee of the federal portion claimed by the non-CMHCs. The corresponding 10% administrative fee was based on the unallowable federal portion of the claims and would therefore also be unallowable.

Effective for the quarter ending June 30, 2003, FSSA ceased paying non-CMHCs for Medicaid administrative claims and claiming the 10% administrative fee. These claims totaled $685,849.86 for state fiscal year 2003.

42 CFR 433.51 requires that certified claims are only allowable for public agencies. In addition, 45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA not allow non-CMHCs to certify claims for state match for federal reimbursement, not reimburse the non-CMHCs with federal monies for Medicaid administrative services, and that FSSA not retain an administrative fee based on the corresponding unallowable claims. We consider the amount of $ 685,849.86 to be a questioned cost.

Finding 2003-IDOE-1 through 2003-IDOE-3 relate to programs administered by the Indiana Department of Education (IDOE). Their response to the findings starts on Page 266.

FINDING 2003 - IDOE -1 ALLOWABLE COSTS

Federal Agency:	Department of Education
Federal Program:	Title 1
CFDA Number:	84.010
Auditee Contact Person:	Alice Harpel
Title of Contact Person:	Director of Title 1, Division of Compulsory Education
Phone Number:	317-232-2595
Compliance Requirement:	Allowable Costs/Cost Principles

The Indiana Department of Education (DOE) is the state educational agency (SEA) who administers Title 1 funds to the local educational agencies (LEAs). DOE incurs Title 1 administrative costs associated with the program and pays settlements through claims processed by the Auditor of State.

During our audit of the Title 1 allowable costs requirement, we found that DOE has been paying for personal services through claims for "honorariums" to a retired DOE employee. The individual retired as of May 23, 2003, and began "honorarium" services on May 27, 2003. DOE processes these claims through their internal Request for Approval of Nonpayroll Personal Services form, which DOE refers to as the "yellow sheet." The "yellow sheet" contains objectives and activities for "honorarium" services and department approval for authorization of such services.

Per OMB A-87, costs must be reasonable and necessary for the performance and administration of Federal awards. The daily rate for services on these "honorarium" claims is $500 per day. That is more than twice the rate the individual was being paid as an employee when the cost of fringe benefits is considered. The objectives and activities stated on the claims for services provided are virtually identical to those services the individual performed as an employee. In addition, the documentation does not support that payments of these "honorarium" services are only temporary. As of February 1, 2004, for the period June 6, 2003, to January 8, 2004, DOE has paid claims to this individual in the amount of $48,500.00.

We determined that a reasonable rate of pay should be based on the individual's salary at time of retirement and, since the cost of fringe benefits are allowable, if reasonable, the cost of fringe benefits at an estimated forty percent of his/her salary. We calculated that a reasonable payment for the ninety-seven days of service from May 27 to December 30, 2003, should be $21,327.39.

OMB A-87, Attachment B, Selected Items of Cost, Compensation for Personal Services (11b), states in part: "Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit."

As of February 1, 2004, we consider the amount of $27,172.61 to be a questioned cost. We recommended that DOE ensure that Title 1 funds are used only for reasonable costs.

FINDING 2003 - IDOE -2 ALLOCATION OF EXPENDITURES

Federal Agency:	Department of Education
Federal program:	Improving Teacher Quality State Grants, Title 1
CFDA Number:	84.367, 84.010
Auditee Contact Person:	Yvette Hauser
Title of Contact Person:	Director of Accounting, IDOE
Phone Number:	317-232-0511
Compliance Requirement:	Allowable Costs/Cost Principles

During our testing of expenditures, we found disbursements for computer hardware and software, some of which was allocated across various federal programs that benefited from the items purchased. There was no calculation method with a reasonable allocation base used to determine the amounts charged to the Improving Teacher Quality State Grants or Title 1 programs.

According to OMB Circular A-87, Attachment A, to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of OMB Circular A-87 and be determined in accordance with generally accepted accounting principles. A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

According to OMB Circular A-87, Attachment C, indirect costs allocations must be allocated based on a reasonable and consistent basis, and supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

The amount of costs assigned to the Improving Teacher Quality State Grants program is $10,000.00. The amount of costs assigned to the Title 1 program is $60,000. These amounts are questioned costs for the respective programs.

We recommended that IDOE use a cost allocation base and calculation that complies with the requirements of OMB Circular A-87 and determine if any funds need to be returned to the respective programs.

FINDING 2003 - IDOE -3 ALLOCATION OF SALARY EXPENSE

Federal Agency:	Department of Education
Federal program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Auditee Contact Person:	Tracy Brown
Title of Contact Person:	Fiscal Officer, Center for School Improvement, IDOE
Phone Number:	317-232-6974
Compliance Requirement:	Allowable Costs/Cost Principles

During our testing of expenditures, we found five employees paid completely out of the Improving Teacher Quality State Grants [ITQSG] program that were not working solely on the program. Four of these worked on the ITQSG program and other Federal programs. One did not work on any Federal program, but was paid from the ITQSG program between July 2003 and February 2004.

According to OMB Circular A-87, Attachment B, section 11(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards of section 11(h)(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency as defined in section 11(h)(6).

According to OMB Circular A-87, Attachment B, section 11(h)(1), charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

The amount of salaries and fringe benefits, calculated at an estimated 32% of salary paid, for the four employees working on the ITQSG program and other Federal programs is $127,402.61 for the year ending June 30, 2003. The amount of salaries and fringe benefits, calculated at an estimated 32% of salary, for the employee working solely on non-Federal activities is $18,173.38. This is a total questioned cost to the ITQSG program of $145,575.98.

We recommended that IDOE determine the distribution of these employees' salaries and fringe benefits that complies with the requirements of OMB Circular A-87 and determine the amount of funds to be returned to the Improving Teacher Quality State Grants program.

FINDING 96 - FSSA-33 FUND BALANCES – CHILD SUPPORT ENFORCEMENT FUND CENTERS

Federal Agency:	Department of Health and Human Services—ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Patti Perkins
Title of Contact person:	Asst. Deputy Director, Child Support Bureau
Phone Number:	317-232-4922

Finding:

The Child Support Bureau of Family and Social Services Administration is responsible for the implementation of the Child Support Enforcement Program (IV-D) (93.563), including the collecting and the distribution of child support payments. The Bureau receives collections that must be either held as reimbursements to Federal, County and State governments to offset AFDC costs or forwarded to the child support client. 45 CFR S 302.15 states that the IV-D agency will maintain the records necessary to identify the amount, source, and distribution of collections.

As of June 30, 1996, Family and Social Services was holding $34,861,131 in several accounts identified for distribution to select entities or custodial parents. A reconcilement tying these funds to the Terminal Communication Access Method (TCAM) system which identify the amount, source and distribution had not been completed by the agency. We requested an accounting to identify the proper recipients of these funds. The agency responded by identifying potential reconciling items as follows:

Description of Funds Held	Amount
Federal AFDC Reimbursements	$ 6,827,069
State AFDC Reimbursements	3,456,123
County AFDC Reimbursements	919,195
Other Reimbursements in Process	4,086,144
Returned Monies Held by Agency	2,932,082
Potential Refunds to Payors and Other Undistributed Funds	10,387,617
June, 1996 Receipts Distributed in July, 1996	5,984,327
Unexplained Difference	286,574
Total	$ 6,270,901

We recommended that the funds in these accounts be reconciled to detailed source records. We also recommended that an aging account be maintained for funds that are held because the proper recipient either cannot be identified or located. We instructed that any funds deemed to be abandoned property as detailed in Indiana Code 32-9-1.5-20 and 4-10-10 be transferred to the Attorney General's Unclaimed Property Division.

Status of Finding as of October 2003:

We have four different aspects of SBOA reconciliation issues actively being worked on by ISETS Project staff. The target date for completion of these issues is April 2004. There are also two SBOA reconciliation issues (Auditor Warrants and Book Balancing Reports) that are still in the design stage. Completion of all SBOA reconciliation issues is not anticipated before January 2005. The Child Support Bureau (CSB) and it ISETS contractor have continued to make progress in these comprehensive system modifications. The projected completion date of January 2005 is due to the comprehensive nature of these modifications.

Attorney General's Unclaimed Property Division. The TCAM system is closed and all but approximately $540,000 of the suspended child support, remaining from that system, has been issued either to the absent parent, custodial parent, state, or sent to the Attorney General's Unclaimed Property Division. Recent analysis has brought to CSB's attention that some of the returned warrants from TCAM had not been transferred to the Attorney General's Unclaimed Property Division. Before this money is transferred to the AG's office, CSB is working on locating a last known address known to our system that will help the AG's office in the dissemination of this money. We have located all addresses and ISETS will create a file and report for the Attorney General in late September 2003. In October 2003, the funds will be transferred from Financial Management to the Attorney General.

FINDING 97 - FSSA-2 FEDERAL PROGRAM DISBURSEMENTS

Federal Agency:	Department of Health and Human Services
Federal Program:	Low Income Home Energy Assistance
CFDA Number:	93.568
Auditee Contact Person:	Donna L. Moore
Title of Contact Person:	Deputy Director, FSSA, Office of Contract Management and Leasing
Phone Number:	317-234-1814

This is still a systematic finding throughout the agency. In the past we found exceptions for contracts as noted in body of finding. In the current 2002 audit we found exceptions for Low-Income Home Energy Assistance contracts. We have retained the following information on federal agency, etc., for informational purposes only as in the past we have noted exceptions for the U.S. Department of Housing and Urban Development as well as the Department of Health and Human Services.

Federal Agency:	Department of Housing and Urban Development
Federal Program:	Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation Program
CFDA Number:	14.856
Auditee Contact Person:	Donna L. Moore
Title of Contact Person:	Deputy Director, FSSA, Office of Contract Management and Leasing
Phone Number:	317-234-1814

Finding:

Indiana Code 4-13-2-14.1 Sec. 14.1 requires that: "(a) A contract to which a state agency is a party must be approved by the following persons:

(1) The head of the agency.

(2) The commissioner of the Indiana department of administration.

(3) The director of the budget agency . . .

(4) The attorney general, as required by section 14.3 of this chapter."

Also, IC 4-13-2-14.2 Sec. 14.2 requires that: "(a) Except as provided in subsection (b), a contract to which a state agency is a party must be in writing."

Our testing found contracts that were in effect prior to approval by the proper officials. Internal controls are weakened when a contract is put into effect before proper approval. This is especially true when the agency's own official signature is after the contract becomes effective.

These contracts involved payment of federal and state funds for the Social Services Block Grant (93.667), the Block Grant for Prevention and Treatment of Substance Abuse (93.959), the Low Income Home Energy Assistance Program (93.568), and Child Care and Development Block Grant (93.575). 45 CFR Part 96-Block Grants Subpart C, requires that FSSA obligate and expend block grant funds in accordance with the laws and procedures of the State of Indiana unless contrary to a Federal law or regulation. Our testing for the current period disclosed that this violation also occurred in implementation of contracts for the Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Program (14.856). 24 CFR Subtitle A Subpart C section 85.20 requires that "(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds." Upon discussion with FSSA personnel we found that this violation may occur in any similar type contract, which might affect other grants.

We again recommended that FSSA have contracts negotiated and fully executed prior to their effective contract date.

Status of Finding as of October 2003:

FSSA has as a priority on time contracts. As stated in earlier responses, in order to meet this priority Contract Management has implemented many enhancements.

Since the last update of October 2002, FSSA's priority of on time contracts has increased greatly. FSSA's cumulative average of on-time contracts has increased over the past three quarters. The following results were documented: 75.96 % 4th Quarter 2002, 86.7% 1st Quarter 2003 and 98.97 2nd Quarter 2003. *The corrective action taken should resolve this finding*.

FINDING 97 - FSSA-11 INFORMATION TECHNOLOGY (IT) RISK ASSESSMENT

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318

Finding:

45 CFR 95.621 requires that the Medicaid agency perform an Automated Data Processing risk assessment. In a letter to FSSA management dated February 3, 1998, which documents compliance with 45 CFR 95.621, EDS states "the account also participates in EDS internal audits and reviews, audits and reviews from state agencies such as the Indiana State Board of Accounts, and EDS Risk Management reviews." This is not evidence of compliance with the federal regulation for the following reasons:

Previous discussions with EDS indicated that EDS internal audits and test reviews are related to account contract compliance and account financial performance rather than a review of IT procedures, controls, and risks.

The State Board of Accounts performs audits, not risk assessments.

No documentation was provided regarding the EDS Risk Management reviews, such as scope, procedures, or results.

The lack of adequate IT risk assessment weakens the management of IT security and may result in unidentified deficiencies which lead to unauthorized disclosure and changes to Medicaid information

We recommended that FSSA conduct periodic IT risk assessments of the Medicaid system.

Status of Finding as of October 2003:

OMPP in coordination with EDS is developing a Risk Management Plan. This has required more time than originally anticipated. The review of the draft resulted in some revisions. Once these revisions are finalized, a copy will be forwarded to the State Board of Accounts. The plan will be reviewed on a semiannual basis.

Status of Finding as of May 2004:

OMPP reported to SBOA that its Risk Management Plan was published in January 2004, and was notified by SBOA that the format was acceptable. OMPP executive staff agreed to review the Plan on a semiannual basis, therefore, OMPP considers this finding closed.

FINDING 97 - FSSA-12 CLAIM PROCESSING EDITS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318

Finding:

Claim information for the Medical Assistance Program (93.778) is entered into the AIM system in several different ways including; data entry of paper claims, submission of magnetic media, electronic file transfers, and point of sales devices. 45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes and so all of these methods of entry include basic data validation checking. However, the primary editing is done after entry by the main claim processing modules. This process is called edits and audits hereafter referred to as edits. These edits verify the claim contains sufficient valid data to enable the claim to be processed. The edits also perform various tests to determine if the claim is valid, consistent, medically logical, and conforms to Medicaid policies and rules. If the claim passes all the edits it will be paid. If a claim fails the edits it will be either denied or suspended. Denied claims must be resubmitted by the provider. Suspended claims go through a resolution process where the claim is reviewed, modified, and resubmitted by EDS staff. Resubmitted claims will be reedited and will be paid, denied, or suspended. Suspended claims will eventually be paid or denied. To accommodate changes in rules and policies and the specific requirements of different types of claims such as doctor, hospital, dental, and long-term care, each edit can be inactivated in whole or by claim type. The AIM resolution manual documents the claim types that are applicable to the edit, the edit logic, the results of failure, and resolution procedures. Selected edits were reviewed resulting in the following concerns:

Some edits were inactivated early in AIM implementation pending a system change, examples include, 6013 - Multiple In-Hospital Visits Same Day Same Provider, and 6027 - Selected Medical Services Reimbursable Only Once Per Day. These edits were inactivated in March 1995. The resolution manual stated they would remain inactive until "changes in reading audit history are complete." These changes have not been made and the edits are still inactive. No documentation was presented indicating there are plans to make these changes.

Some edits were inactivated because they were erroneously affecting unrelated claims. Examples include, 6056 - Only One Hearing Aid Repair Per Twelve Months For 18 And Over, and 6226 - Comprehensive Oral Evaluation Limit Lifetime. These edits were inactivated November 1996 and August 1997, respectively. These edits are still inactive. No documentation was presented indicating there are plans to correct these problems.

Many edits are active for regular claims but have been inactivated for the related Medicare crossover claims. EDS's explanation is twofold. (1) Since crossover claims are obtained directly from the Medicare system the data has already been validated by Medicare so AIM data validity edits are redundant. (2) AIM only pays the Medicare deductible and co-payment, the AIM edits are not applicable. Since the State does not have full documentation of nor control over Medicare’s editing procedures it is not prudent to rely on Medicare's claim editing.

Some edits are pertinent to only certain types of claims. For example, the limitation of one extraction per tooth is only applicable to dental claims. However, some edits are relevant to more claim types than they are currently being applied. Edit 6650 - Once Per Lifetime Procedures is active for doctor claims but not for hospital claims. Since this edit refers to surgical procedures such as an appendectomy it would also be applicable to hospital claims. It is not active for hospital claims because they are processed differently than doctor claims. Doctor claims are processed based on procedures whereas hospital claims are processed based on diagnosis. It is possible to have multiple hospital admissions for appendicitis which do not result in an appendectomy. The solution would be to edit related claims together regardless of claim type. This is called cross claim editing. AIM is not currently, but should be, capable of doing cross claim editing.

Sometimes edits are changed before the medical policy changes. Edits 6004 and 6005 were inactivated on May 1, 1997, and edit 6007 was inactivated on April 3, 1997. However, the Indiana Administrative Code on which the inactivations were based did not become effective until August 25, 1997.

The system offset figure on the FIN8000 reports represents transactions processed to recover overpayments and totals over $130 million for the fiscal year ended June 30, 1997. The Refund Processed figure on the FIN8000 for the same time period totals more than $29 million. Although the Refund Processed figure includes other items such as Third Party Liability (TPL) payments, refunds of overpayments are a significant portion of the total as indicated within the Third Party Liability (TPL) Recoveries section of the AIM Financial Processing and Reporting finding. A high level of overpayments could be an indication of insufficient editing of the claims. A review of refund transactions indicate there are additional edits possible, examples include:

Several claims were refunded because they were duplicates. These claims were submitted twice, once with the individual doctor as the rendering provider and then again with the group practice as the rendering provider. Since the claims had different rendering providers the current edits did not consider them duplicates. AIM contains data to cross reference doctors to group practices. This cross reference data could be used to detect this problem.

The system paid $360,460 on a Medicare crossover claim when the correct payment should have been $440. The overpayment was caused by an error in the Medicare deductible amount. The deductible was originally listed as $360,020. However, there are maximums for Medicare deductibles. An edit to validate the deductible amount would have caught this problem. In addition, the original billed amount was only $2,200. There should be an edit to prevent the system from paying more than the original claim amount.

Preventing overpayments via strong edits is more effective than identifying overpayments after the fact. It is also more cost effective for both EDS and the provider to prevent the overpayment than to process a refund.

We recommended that FSSA review AIM claim editing and implement an action plan to strengthen this process.

Status of Finding as of October 2003:

This finding recommended that FSSA review AIM claim editing and implement an action plan to strengthen the process. In response to this recommendation OMPP implemented a number of changes to ensure that system edits are current and functioning at all times. The first step in this process was to conduct a review of all edits that were currently inactive to determine which edits should remain inactive and which ones should be activated. This was followed by implementation of a claims review process whereby, on a weekly basis, a certain number of edits are identified and claims that hit those edits are randomly selected for review. EDS reference file staff and claims staff work together to review the claims to ensure that the selected edits are functioning as intended. Lastly, EDS reviewed the Resolutions Guidelines that claims' staff use to process suspended claims. Similar to the claims review process, the Resolutions Guideline review process will ongoing since edits/audits are constantly changing as medical policy changes. *OMPP believes that these review steps sufficiently satisfies the SBOA finding and OMPP considers this item closed*.

<u>FINDING 99 - FSSA-1 CHILD CARE DEVELOPMENT FUND (CCDF)</u>

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Beth Eiler
Title of Contact Person:	Deputy Director, Child Development Bureau
Phone Number:	317-233-0056
Compliance Requirement:	Monitoring
Internal Control:	Reportable Condition, Material Weakness

Finding:

<u>Background</u>

FSSA has contracted with subgrantees known as voucher agents to implement portions of the CCDF program. The first contracts were for the period of May 1997 through September of 1998 and the next for October of 1998 through September of 2000. The voucher agents' responsibilities include eligibility determination, quality assurance, and payments to providers.

FSSA's contracts with the voucher agents are on a cost reimbursement basis. During the audit period administrative funding was advanced monthly, but since October of 1999 administrative costs are also on a reimbursement basis.

The monthly advances through September 1999 were based on 1/12 of the total administrative support that had been obligated in the voucher agent's contract. No claim was submitted by the voucher agent for these advances. On a quarterly basis the voucher agent submitted a report that reconciled actual costs to the advances. If actual costs were less than the advance, the voucher agent returned the difference. (See 99-FSSA-3, Cash Management)

Claims are submitted by voucher agents for reimbursement of costs. Each claim is detailed into categories which correspond to allocations per the contract; i.e., direct services, quality, administrative, etc. With the discontinuance of advances, administrative costs are categorized between salaries and other administrative operating costs.

All supporting detail for the claims are maintained by the voucher agents. The assurance for the validity of the claims is through the monitoring procedures implemented by FSSA of these voucher agents. The monitoring that would substantiate the validity of the claims is designed to occur mainly in three areas at FSSA: 1. Fiscal Management - where claims and advances are processed, 2. Child Development Bureau - where implementation of the program occurs, including contracting, 3. Audit Services - where after the close of a contract, on a risk based approach, contracts are reviewed for compliance. This review includes allowed and disallowed costs.

Fiscal Management

Fiscal Management monitors to ensure that payments made to subrecipients do not exceed amounts obligated. Fiscal Management maintains a ledger (entitled CCDF Contract Balances) to which claim amounts and advances per contract are posted. These amounts are posted by contract obligation categories. The expenditures are compared to the obligations to verify that the obligation has not been exceeded. Copies of this ledger are sent to the Child Development Bureau.

We found that while this system provides timely notification if an obligation has been exceeded it does not prevent payments exceeding the obligations due to errors. (See Finding 99-FSSA-2, Payment Errors)

When advances were made, Fiscal Management also required a quarterly reconcilement of the voucher agent's actual administrative costs to CCDF advances. This reconciling report contained detailed information as to costs; i.e., salaries, rental, travel, contract services, interest earned, etc.

We found that Fiscal Management used this report only to determine if the advance exceeded actual costs. The information provided was not used for analysis in the determination of the validity of the costs. Evaluations such as trends of returned advances, comparison of costs between quarters and between voucher agents, and reasonableness of costs were not made. This report was not forwarded to any other area for evaluation.

Finally, at year end a close out report is compiled by the accounting clerk. This report shows the costs claimed by the voucher agent for each category. The voucher agent is to attest to its accuracy and return.

Child Development Bureau

This area conducted a financial and systems review of all voucher agents in 1999. The focus of this review was a snapshot in time of how each voucher agent was complying with their contract and the program's policies and procedures. Uniform review steps were used. Analysis of available data and risk assessments were not used in planning the scope of the reviews.

Review steps included: review of voucher agent's bank reconciliation, determination if claims submitted to the State were based on actual costs or estimates, determination of accuracy of a limited number of claims, determination if backup to quarterly reconciliation of advances was adequate, etc. While limited, this review would give some assurance for the validation of claims.

We found that follow up on these reviews were limited. We also found for the review of the largest dollar voucher agent that there were several significant findings. These included: a large bank balance, claims for direct services were based on projections, no verification of existence of reconciliation between these projections and actual expenditures, and no available backup documentation for the quarterly reconciliation of advances. There was correspondence about the large bank balance with a letter from the voucher agent indicating that this issue had been resolved. However, there was no verification by FSSA. There was no indication of either follow up or resolution to the other findings.

The current monitoring for claim validation in this area is very limited and is compounded since and when follow up and verification of findings are not completed.

<u>Audit Services</u>

Audit Services reviews closed contracts for contract compliance and fiscal issues such as allowable and unallowable costs. This area is in the process of developing a risk based approach of determination for which contracts will be reviewed on-site. Part of the consideration for this risk based approach are the independent audit reports as required by the contracts.

We found that the 1997 audit report for the largest voucher agent was submitted at the same time as the 1998 report, which was sometime after mid-September 1999. There was no indication that any action was taken on the untimely filing of the 1997 report. We also found that one of the larger voucher agents has not filed a proper financial statement. Again, there is no indication of any action.

FSSA places a great deal of reliance on Audit Services for the monitoring of fiscal concerns. While this area can be used as one part of a system of assurance of the validation of claims, it cannot be relied on as the most important or only assurance. The largest voucher agent did not come under review until the fall of 1999. This is over two (2) years after the inception of the CCDF program. This is not a timely method for validating claims if used as the main assurance. For claims validation purposes, some of the voucher agents may not have an on-site review.

We also found that the independent audit reports were not forwarded to the program area for utilization in their monitoring process.

<u>Monitoring Overview</u>

We found that the monitoring for the validation of claims is limited at best. We also found that there is a lack of coordination and sharing of crucial information among areas that are critical in monitoring for the validation of these claims. 45 CFR 98.11 states that: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors; (6) Monitor programs and services." 45 CFR 98.67 states that: "Lead Agencies shall expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds." The Accounting and Uniform Compliance Guidelines Manual for State Agencies, Page 1:5, states that controls over disbursing ". . . are necessary to avoid substantial risk of invalid transactions. . . ."

We recommended that an adequate monitoring system for the timely validation of claims be put in place. We also recommended that this system be coordinated among critical areas.

The CCDF program has been in operation since May of 1997. There is no evidence (other than not exceeding contract obligations) that even a limited monitoring for the validation of claims occurred until the spring of 1999. There are indications that there may be disallowed or questioned costs due to this lack of monitoring which we are continuing to investigate. Any such disallowed or questioned costs will be detailed in a future report.

Status of Finding as of October 2003:

FISCAL MANAGEMENT

Finding: Program support reconciliations were not reviewed.

Response: All CCDF Eligibility Determination grantees are now Intake Agents (as opposed to previous Voucher Agent business structure) who use a centralized, web based software system, Automated Intake System (AIS). Intake Agents are paid according to a Unit Rate contract, which is based upon the number of active CCDF families on the last day of the month. Active is defined as a family who has CCDF dollars obligated. Program support to any county grantee will cease following close out of FY ’03.

DFC/BCD Managers utilize AIS as an obligation management tool to control the CCDF direct service budget on both a county and state level basis. AIS will not allow an Intake Agent to enroll families should DFC/BCD Managers deem an over obligation risk.

Intake Agents submit a monthly claim for the number of active on the last day of the month. The Claims are reviewed and approved by BCD and paid by FSSA Claims Management. Since the unit rate contract award amount for all Intake Agents is directly related to the number of active families, AIS is also used as a tool for DFC/BCD managers to prevent any grantee from receiving more dollars than their contract allows.

CHILD DEVELOPMENT BUREAU

Finding: Analysis of available data and risk assessments were not used in planning scope of the reviews.

Response: For FY ’03, BCD defined those counties operating as Voucher Agents AS OF 10-01-02 as a higher risk than those counties operating as Intake Agents as of 10-01-02. Therefore, BCD scheduled all Voucher Agent counties to be monitored before beginning monitoring Intake Agent counties. Monitoring Summaries note any Corrective Action Plans that still remain as outstanding issues from previous FY. These are considered in determining "risk." BCD is scheduled to complete monitoring of all county Intake/Voucher Agents by 11-30-03.

All CCDF county grantees will be operating as Intake Agents in FY ’04, thus significantly reducing risk to FSSA. Neither program support or direct service funds will be transferred to any county grantee in FY ’04.

DFC/BCD feels the Corrective Action taken should resolve this finding.

Finding: Follow-up of reviews was limited.

Response: A cooperative effort between FSSA Audit and BCD continues and FY ’03 CCDF Monitoring Procedures were implemented based upon this collaborative endeavor.

FY '03 Monitoring Procedures include Corrective Action Plan Follow Up procedures that are much more stringent than prior years. To summarize, a Monitoring Summary of Findings will be reviewed and approved by both the CCDF Program Manager and the FSSA Audit Director. The Monitoring Summary notes any Corrective Action Plans that still remain as outstanding issues from previous FY. These are considered in determining "risk."

Corrective Action Plans will be reviewed by the CCDF Monitor(s) who performed the monitoring for completeness. A final letter with attached Schedule 1 (Demand for Repayment) is reviewed and approved by both the CCDF Program Manager and the FSSA Audit Director. The BCD Deputy Director and FSSA Financial Management are carbon copied on the final demand letter.

Finding: Current monitorings for claim validation is limited.

Response: As previously mentioned, the AIS system is a centralized, web-based system which is used by all county grantees to determine CCDF eligibility. Loaded into the AIS are the market rates for each county. AIS will not allow any voucher to exceed the weekly market rate. AIS sends applicant, provider and voucher information to the CCDF State Claims software system (PDD/Magic). State claims processors process paper claims submitted to the State in the PDD/Magic system and electronically send to State Auditor for a check to be cut. Checks are then mailed to providers.

Beginning October 2003, an electronic Centralized Reimbursement Office (CRO) will begin implementation on a statewide basis. Affiliated Computer Systems (ACS) has been awarded a contract to perform the CRO function for the CCDF program. Families will be issued electronic swipe cards with their authorized voucher benefits directly coded onto the magnetic strip on the back of the card. The same information coded into the magnetic strip is sent from AIS to the CRO software system (EPPIC). Point of Service (POS) devices will be installed at every CCDF provider site. Families will swipe in and out attendance of their children, and providers will receive direct deposit payments based on real-time attendance of each child they serve.

AUDIT SERVICES

Finding: Timeliness of audit and independent audits not forwarded to program area.

Response: A database continues to be used to track the independent audits. Whenever issues are found in the review of the independent audit, Audit Services works with the provider and/or CPA to determine the cause of the discrepancy or issue. The program area is sent a letter advising them of the issue. Many on-site audit referrals are made from these desk reviews.

Further, two audit specialist positions were added to the Audit Services staff and are dedicated to CCDF. A review of all voucher agents was completed in calendar year 2002. A copy of all completed audits are sent to BCD.

MONITORING OVERVIEW

Finding: Monitoring of validation of claims is limited at best.

Response: FY '03 Monitoring Procedures for Voucher Agents continue to test the following: determining allowability of cost, adherence to cost allocation plan, and tracing child care expenses to an active 805 application.

Intake Agents submit a monthly claim for the number of active families in their county on the last day of the month. Claims are reviewed by BCD and compared to AIS to verify number of active families at the end of the month. Again, active is defined as CCDF family has money obligated.

FY ’03 Monitoring Procedures include examination of the percent of families that are terminated during the first week of any month. Any county found to be terminating 30% or more of families during the first week of the month, are considered high risk and a closer look of this issue is performed during the Monitoring visit.

DFC/BCD feels the Corrective Action taken should resolve this finding.

Finding: Lack of coordination and sharing of crucial information among the areas that are critical in monitoring for the validation of claims.

Response: BCD and FSSA Audit have continued to have a collaborative relationships. Both BCD and FSSA Audit developed the ’03 Monitoring Procedures and both have significant responsibility in reviewing and approving Monitoring Summary of Findings, Corrective Action Plans, and Final Demand for Repayment letter.

The CCDF Program Manger, Educare Section Manager, FSSA Audit Director, CCDF Auditors, CCDF Monitor Supervisor, and CCDF Monitors meet on a monthly basis to review policy and procedures and to coordinate communication of any identified "high risk" situations.

DFC/BCD feels the Corrective Action taken should resolve this finding.

FINDING 99-FSSA-7 ISETS INFORMATION TECHNOLOGY (IT) CONTROLS

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement
CFDA Number:	93.563
Auditee Contact person	Patti Perkins
Title of Contact person:	Asst. Deputy Director
Phone Number:	317-232-4922
Compliance Requirement:	Special Tests and Provisions
Internal Control:	Reportable Condition, Material Weakness

Finding:

The Indiana Support Enforcement Tracking System (ISETS) is the computer system used to administer the collection and distribution of child support payments and manage other support enforcement activities. Our review of this system found the following:

Accounting Procedures and Controls

45 CFR 74.21 requires that the financial management system have effective control over and accountability for all funds. We found that the accounting of child support funds was inadequate. Deficiencies include the inability to balance and reconcile child support receipts and disbursements processed at the State level, inaccurate subaccount balances that track support delinquencies and Unreimbursed Past Public Assistance, and inaccurate tax intercept processing. These deficiencies were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA correct the accounting procedures and control deficiencies as documented in the management letter.

Cash Receipts Handling

45 CFR 302.20 states in part: "The IV-D agency will maintain methods of administration designed to assure that persons responsible for handling cash receipts of support do not participate in accounting or operating functions which would permit them to conceal in the accounting records the misuse of support receipts. Such methods of administration shall follow generally recognized accounting standards." We found deficiencies in the areas of batching, balancing, chain of custody, and timely deposit of cash receipts processed at the State level. These deficiencies were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA correct the cash receipts handling deficiencies as documented in the management letter.

Security

45 CFR 95.621(f) states that: ". . . state agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing." 45 CFR 95.621(h) also requires the designation of an Agency ADP Security Manager and the performance of periodic risk analyses. FSSA has not designated an ADP Security Manager nor has a risk analysis been performed for ISETS. These and other information technology control deficiencies within ISETS security implementation were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA designate an ADP Security Manager, conduct periodic risk analyses of ISETS, and correct the security implementation deficiencies as documented in the management letter.

Child Support Data Supplied to the Welfare System

45 CFR 307.10.b.10 states that child support data should be transmitted to the State's TANF system. Although such a transfer is occurring, we found errors in the data transmitted. Deficiencies in the transfer were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that the transfer of child support data to the welfare system be corrected as documented in the management letter.

Verification of Social Security Numbers

45 CFR 307.10.b.1 and 2 states that the Social Security Numbers (SSNs), names, and dates of birth for Absent Parents and Custodial Parents should be verified with Federal, State, and local agencies. We found that the SSNs, names, and dates of birth of ISETS participants have not been verified. This deficiency was communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA verify SSNs, names, and dates of birth as documented in the management letter.

Status of Finding as of October 2003:

Accounting Procedures and Controls

The ISETS programming changes will be completed by January 2005. The CSB and it ISETS contractor have continued to make progress in these comprehensive system modifications. The projected completion date of January 2005 is due to the comprehensive nature of these modifications.

Areas of functionality being added to ISETS at the State that have not been completed are:

- Adjustment process changes that will add edits in the adjustment process to prevent errors that will impede balancing of ISETS at the State level.
- Share reimbursement recoupments and disbursements at the State linking to county recoupments created through the adjustment process. This establishes an audit trail from the county to the State and to Federal and State Government Share reimbursements.
- Agency Disbursement changes to handle new system level accounts that will aid in reconciliation of ISETS at the State level.
- Foster Care functionality changes necessary to accurately track the amount paid in IV-E funds to the Foster Care children on ISETS cases and the amount of unreimbursed public assistance still owed on these cases.
- Auditor Warrants functionality will enable the State to maintain records and information on warrants produced by the Auditor's office for Child Support payments.
- Daily Book Balancing will be put in place to enable the State user to maintain a balanced Child Support system and to be informed if errors occur putting the system out of balance on a daily basis.
- Monthly Reconciliation will be added to the State System to enable the State CSB to reconcile with the Child Support accounts in the Auditor's Alchemy system as well as to the Quarterly Federal Reports.

As these are put in production, internal procedures are addressed and written to establish acceptable processes for the tracking of Child Support payments.

FINDING 2000-FSSA-1 LACK OF AND IMPROPER SUPPORTING DOCUMENTATION

Federal Agency:	Department of Health and Human Services
Federal Program:	Adoption Assistance Program
CFDA Number:	93.659
Audit Contact Person:	Elizabeth Fuller
Phone Number:	317-232-4432
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition

Finding:

45 CFR 1356.40 lists requirements that a state must meet in order to participate in the Adoption Assistance Program. FSSA has in its Child Welfare Manual detailed instructions that should be followed so that the agency will be in compliance with these requirements.

Paragraph 807 of the Manual requires form SF2973 (Application for Adoption Assistance) to be completed by the adoptive parent(s), and signed by the Director of the County Office of Family and Children (OFC), for each child prior to the final decree of adoption. However, in three (3) of the twenty-five (25) cases tested this form was executed after the final decree of adoption, and in two (2) cases the form was not found, for a total of 20% noncompliance.

Paragraph 808 of the Manual requires form SF2976 (Adoption Assistance: Child Certification) to be completed by the Director of the OFC for each child prior to the final decree of adoption. However, in four (4) of the twenty-five (25) cases tested this form was executed after the final decree of adoption, and in two (2) cases the form was not found, for a total of 24% noncompliance.

Paragraph 809 of the Manual requires form SF2974 (Adoption Assistance Agreement) to be completed by the adoptive parent(s) and signed by the Director of the OFC prior to the final decree of adoption. However, in four (4) of the twenty-five (25) cases tested this form was executed after the final decree of adoption for a 16% non-compliance. Also, paragraph 814 of the Manual requires this form to be renewed biennially and whenever there is a change in the amount of payment. However, in four (4) of the twenty-five (25) cases tested the current form was not found for a 16% noncompliance.

Paragraph 816.2 of the Manual requires that copies of forms SF2973, SF2974 and SF5374 be submitted to the Central Office Financial Management. From there they are routed to the Central Eligibility Unit for filing. The method used for filing documentation sent in by the OFC is by date received. In retrieving any case record it becomes impracticable to determine the date of receipt and, therefore, to be able to locate any particular record. In our testing for documentation controls we were not able to locate copies of documentation from the test cases that were to have been submitted to the Central Office by the OFC because of the filing method being used.

We recommended that FSSA complete and process forms in compliance with the Child Welfare Manual and maintain proper documentation to support the Adoption Assistance Program. We also recommended that documentation be filed in such a way that allows for an adequate audit trail.

Status of Finding as of October 2003:

The manual section addressing adoption subsidies has been drafted. It is in policy for edit and will be distributed by 12-31-03.

The eligibility and training units are collaborating on IVE related projects, but not specifically on AAP. AAP will be included by 2-28-04.

A staff person was trained to begin data entering the Non-Recurring Adoption Expense into the Indiana Child Welfare Information System. Data entry has begun. The backlog is 50% completed. The backlog will be fully completed by 2-28-04 and the system will be then kept current.

FINDING 2000-FSSA-2 OVERPAYMENT OF ADOPTION ASSISTANCE SUBSIDIES

Federal Agency:	Department of Health and Human Services
Federal Program:	Adoption Assistance Program
CFDA Number:	93.659
Audit Contact Person:	Elizabeth Fuller
Title of Contact Person:	Program Director
Phone Number:	317-232-4432
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Finding:

42 USC 673(a)(3) requires that adoption assistance subsidy payments not exceed the foster care maintenance payment. As stipulated in paragraph 810.3 of FSSA's Child Welfare Manual, FSSA's policy on the limitation on payments under the Adoption Assistance Program (AAP) is 75% of the county's rate for foster care per diem. Any amounts paid by the counties over this limitation is to be born by the county.

We found that two (2) of the twenty-five (25) payments tested were in excess of the 75% allowable amount. One, a case in Jennings county, was overpaid by $248.02 during the month tested, and another, a case in Vigo county, was overpaid by $142.97. Neither of these overpayments exceeded 100% of the foster care maintenance payment. We expanded our testing of payments in these two counties. In Jennings county we found the same amount of overpayment for the same child for the additional month tested. In Vigo county we found a different child was overpaid $775.07 for the additional month tested. This overpayment was a violation of both the State 75% policy and the 100% Federal requirement. The allowable foster care maintenance payment at 100% was $571.91 and so the overpayment exceeded the Federal threshold by $203.16.

Through inquiry we found that the Central Office did not review for payments in excess of limitation either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that the payments from the AAP not exceed limitations. We also recommended that a system of review to detect payments in excess of limitations be implemented.

Status of Finding as of October 2003:

On March 14, 2003, Indiana received written clarification from the Department of Health and Human Services regarding the modification of our adoption subsidy agreement. Based upon the information received, it is possible to claim 100% of the adoption subsidy payment rather than the current 75%. Indiana is pursuing modification of the subsidy agreement. The letter with accompanying forms has been completed. The forms are awaiting approval of State Forms Management. Once this approval is obtained, the letter and forms will be distributed.

FINDING 2000-FSSA-3 FOSTER CARE PROVIDER LICENSURE:

Federal Agency:	Department of Health and Human Services
Federal Program:	Foster Care Program
CFDA Number:	93.658
Audit Contact Person:	Elizabeth Fuller
Title of Contact Person:	Program Director
Phone Number:	317-232-4432
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition, Material Weakness

Finding:

42 USC 671 and 672, and the approved Indiana State Plan both state that Foster Care Program payments may be made only to properly licensed or approved providers. We reviewed ten foster children cases to determine if licensure controls were in place. We found that five providers were not properly licensed. We also were not able to determine for an additional case as the case file could not be found.

Through inquiry we found several control issues. During our audit period the automated system known as the Indiana Child Welfare Information System used for data eligibility collection (which includes licensing status) was not linked to either county or central office accounting systems. Reliance had to be placed on manual forms of communication to stop ineligible payments. In addition, the central office did not review to ensure that payments were made only to properly licensed or approved providers, either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that controls be implemented to ensure payments are made only to properly licensed or approved providers.

Status of Finding as of October 2003:

To ensure accuracy of IVE eligibility documentation, changes to Indiana Child Welfare Information System (ICWIS) have been completed. These changes include creating the ability for a worker to complete a checklist to show the status of the license (Completed October 2002). ICWIS has also created a link between licensing and eligibility to reflect any change in licensure status and the subsequent effect on eligibility (Completed October 2002). Collaborative work with licensing, eligibility, and ICWIS continues in order to create licensure history of applicants, licensure timelines, web-enabling of the resource directory to allow Licensed Child Placing Agencies to data enter their information regarding licensed homes, and licensure status in the approval process. Additionally ICWIS will maintain a history of the IVE status for residential placement facilities and we have simplified the entry of resource's services. A system is in place to continuously improve the process. Additionally, the process for tying claims to licenses is under development and will be accomplished by 10-1-04.

Maximus reviewed over 3,800 cases for IVE eligibility in 2002. A total of thirteen counties were reviewed. Additionally, in preparation for the federal review, Maximus reviewed approximately 400 eligibility cases in 2003 in order to evaluate and develop best practices. A Stakeholders Committee was established that incorporated every level of staff. This group assists with establishing direction regarding "best practice" content and implementation. A meeting is scheduled for October 17, 2003, to spearhead three pilot counties to pilot "best practices." It is anticipated that this will be fully accomplished by 10-1-04.

The Stakeholders Committee has incorporated IVE eligibility reviews under its "best practice" purview. This review process will be handled by the Stakeholders Committee instead of by the Quality Assurance Review process.

FINDING 2000 - FSSA-5 CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Patti Perkins
Title of Contact Person:	Asst. Deputy Director, Child Support Bureau
Phone Number:	317-232-4922
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition, Material Weakness

Finding:

Collections of child support by the central office of FSSA are deposited with the Treasurer of State. These child support funds are separately accounted for within the State's accounting system which is maintained by the Auditor of State. The Treasurer of State reconciles the deposits to the State accounting system. The State accounting system is the official record for both the collections and disbursements of child support funds made by the central FSSA office.

The collection and disbursement of child support funds are also entered on the Indiana Support Enforcement Tracking System (ISETS) which maintains detailed information for each child support case.

We found that amounts recorded on the federal reports are pulled from both of these sources. However, there is no reconcilement of ISETS transactions and balances on the State's accounting system. (Details of possible reconciling items were communicated to FSSA management in a letter dated March 27, 2000.)

In addition, ISETS produces the WEAAC224 - Daily Book Balancing report which documents the balance of funds remaining within ISETS on a daily basis. At the counties the report is used to support the reconcilement of ISETS to their bank accounts. The left side of the report calculates the balance at the end of the day by taking the prior day's balance and applying the total receipts, disbursements, and other transactions processed for the day. The right side of the report breaks the balance down into undistributed receipts (held items) and undistributed checks (the items that will be in the next check run). The left side balance should always match the right side balance. Although the report balances for funds processed at the counties, it does not balance for funds processed at the State. At June 29, 2000, there was a difference between the two balances of $43,635,881.

Since we were not able to verify the ISETS transactions and balances to the official Auditor of State records, we were not able to determine the reliability of those ISETS amounts used in the federal reports.

45 CFR 74.21 defines the financial management standards for child support enforcement programs. The code requires that the financial management system provide effective control and accountability for all funds.

To ensure accurate and reliable federal reporting, we recommended that FSSA strengthen the accounting procedures and controls over the above areas as required by 45 CFR 74.21.

Status of Finding as of October 2003:

SBOA has been directly involved with the succession of major programming changes, through meetings and the review of proposals at each of the critical stages of development. Parts of the programming changes have already been put into production (payment history, Agency Disbursement Reports, etc.). It is anticipated that the final stage will be completed January 2005. The CSB and it ISETS contractor have continued to make progress in these comprehensive system modifications. The projected completion date of January 2005 is necessary due to the comprehensive nature of these modifications.

However, we will still have the deficiency until everything has been completed January 2005.

FINDING 2000 - FSSA-6 INTERSTATE CHILD SUPPORT CASES

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Patti Perkins
Title of Contact Person:	Asst. Deputy Director, Child Support Bureau
Phone Number:	317-232-4922
Compliance Requirement:	Special Tests and Provisions

Finding:

The Child Support Bureau of the Family and Social Services Administration (FSSA) has established an "Indiana Central Registry" which is responsible for receiving, distributing, and responding to inquiries on all incoming interstate child support cases. During our audit, we found that FSSA did not send a timely reply to appropriate states for five out of the ten (50%) cases tested. This is partly due to a large volume of requests received.

45 CFR 303.7(a) state that the IV-D agency must respond to all incoming interstate child support cases within ten working days.

We recommended that FSSA issue a timely response to all interstate child support cases.

Status of Finding as of October 2003:

The Wage Withholding and Intercept Unit (WHIP) are now fully staffed. All interstate requests are now acknowledged with an appropriate response within ten days of receipt. The supervisor of the WHIP Unit is currently monitoring these requests for timeliness weekly.

The corrective action taken should resolve this finding.

FINDING 2000 - FSSA-11 COMPOUND DRUG CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767,93.778
Auditee Contact Person:	Nancy Cobb, Pat Nolting
Title of Contact Person:	Director of SCHIP, FSSA, Director of Program Operations, OMPP, FSSA
Phone Number:	317-233-7346, 317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition, Material Weakness

Finding:

During our audit of FSSA's SCHIP/Medicaid programs we noted that the Attorney General's Medicaid Fraud Control Unit found a provider that fraudulently over billed for duplicate compound drug claims and as a result was overpaid $7,238,261. This provider was tried and found guilty on December 15, 2000, in U.S. district court for 31 counts of Medicaid fraud. Total restitution set out by the court was $7,238,261.14.

Upon further investigation we found that all compound drugs are submitted on paper claims. EDS (FSSA's Medicaid contractor) does not audit the compound drug paper claim. EDS manually inputs these claims into the claims processing system (AIMS). Certain general level edits and audits were in place and operating in AIMS as they relate to compound drug claims, such as verification of a provider's identification number. However, other simple edits that would audit the claim to verify if the Medicaid recipient had received this compound drug for the same date of service were not in place and operating. This weakness in controls allowed the above situation to occur.

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes. See Summary Schedule of Prior Findings Finding 97-FSSA-12 for a more detailed discussion of the edit and audit process and weaknesses of controls as they relate to 45 CFR 74.21.

We recommended that FSSA ensure that EDS has sufficient edits and/or audits in place and operating properly to audit for duplicate compound drug claims. We consider the overpayment of $7,238,261 to be a questioned cost.

Status of Finding as of October 2003:

It was recommended in this finding that FSSA should ensure that there are sufficient edits and or audits in place to properly audit for duplicate compound drug claims.

The pharmacy claims processing system utilized by the Pharmacy Benefits Manager (PBM) contractor ACS Healthcare that was implemented March 23, 2003, edits all compound drug claims for duplicate claims. Claims are subjected to edits that review the date of service, the dispensing pharmacy and the National Drug Codes used as ingredients for compound drug claims. Claims for compound drugs that are found to be duplicative of previously paid claims are appropriately denied.

To address other issues surrounding potential overpayment of claims for compound drugs, two additional safeguards have been initiated by OMPP. First, as noted previously, effective October 16, 2003, providers will no longer be able to see a maximum allowable amount on the remittance advice. Secondly, ACS has established procedures to ensure that all claims for compound drugs, with a submitted charge greater than $200, are reviewed by a registered pharmacist to ensure the reasonableness of the submitted charge. This review process applies to claims submitted via point of sale, electronic batch or on paper.

Since all concerns addressing inappropriate payment of claims for compound drugs have now been addressed, OMPP considers this finding closed.

FINDING 2001 - FSSA-1 CHILD CARE DEVELOPMENT FUND (CCDF)

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Care Cluster, TANF
CFDA Number:	93.575, 93.596, 93.558
Auditee Contact Person:	Beth Eiler
Title of Contact Person:	Deputy Director
Phone Number:	317-234-2250
Compliance Requirement:	Monitoring, Allowable Costs
Internal Control:	Reportable Condition, Material Weakness

Finding:

Introduction

In the State of Indiana, significant portions of the administration of the Child Care Development Fund (CCDF) have been passed down by FSSA to their subgrantee entities known as voucher agents. The voucher agents' responsibilities include eligibility determination and payment of child care provider claims. As noted in the State of Indiana Single Audit (A-133) report for 1999 Finding 99-FSSA-1 CHILD CARE DEVELOPMENT FUND (CCDF) (which was carried forward and considered a finding for both the 2000 A-133 report and the current 2001 A-133 report) we found internal control weaknesses over the monitoring of these voucher agents and the timely verification of the allowability of claims paid to the voucher agents from FSSA. We also reported that there were indications of unallowed or questioned costs that would be detailed in a future report. In October of 2001, we issued a special report on CCDF. This report detailed additional control weaknesses, as well as unallowed and questioned costs. The findings from this report have been repeated below in the section entitled Special Report on CCDF.

Overview - Internal Control Weaknesses

We found significant internal control weaknesses over the management of the CCDF program. Among these were inappropriate and untimely monitoring, untimely and ineffective follow-up of known control weaknesses by FSSA, poor allocation methods over the distribution of CCDF funding from FSSA to the voucher agents, and contracts that did not adequately address the unique issues presented by for-profit voucher agents.

In our special report on CCDF we also reported on the voucher agent receiving the largest amount of pass-through CCDF funding, Daybreak Management, Inc. We found significant contract violations with this voucher agent and specific instances where FSSA's weak controls had created an environment that had not only allowed the existence of unallowed and questioned costs by the voucher agent, but had permitted the unallowed costs to grow.

Overview - Questioned Costs

In the section Special Report on CCDF we have noted unallowed costs of $5,575,712.52. These costs have been found to be in violation of such things as contracts, regulations, state statutes, etc. The report has been sent to the Indiana Attorney General's Office to pursue the return of the $5,575,712.52. We have determined that these costs would also be considered unallowable under federal regulations and are questioned costs.

In addition, there are concerns surrounding the entire amount passed-down to Daybreak from May 1997 through July 2001 for a total of $177,377,436. (The total amount includes the above mentioned unallowed costs, state match and maintenance of effort. This amount also includes TANF funding passed down as direct funding for child care starting in years 2000 and 2001. In 2000, the amount of TANF passed down to Daybreak was $33,410,403. The TANF amount passed down for 2001 was not readily available.) It is not in question that a majority of the expenditures for Daybreak are proper; however, due to the nature and significance of the internal control weaknesses at both FSSA and Daybreak, the specific unallowable costs, and the issues that FSSA's own internal review of Daybreak has revealed, we have reason to believe that potentially there are additional unallowable costs. For the period of May 1997 through September 1998, FSSA identified approximately $3.3 million expenditures by Daybreak that lacked invoices or other proper supporting documentation, payments made outside of the contract period, etc. (See section entitled Overview – FSSA's Reported Disallowed Costs vs. 2001-FSSA-1 Unallowed Costs.) While our testing supported the types of exceptions found by FSSA we had additional concerns regarding the credibility of Daybreak's documentation and Daybreak's computerized system which could expand these potential unallowable costs. In addition, a detailed analysis has yet to be performed by FSSA for the period of October 1998 through July 2001. Internal control weaknesses and concerns regarding the credibility of Daybreak's documentation and computerized system continued throughout this time period. There is a strong potential for additional unallowable costs; however, these costs are not quantifiable at this time.

In response to the many concerns surrounding Daybreak, FSSA reduced one claim for administrative costs by 50% in June 2001 and then discontinued its contract with Daybreak in July 2001.

Overview – FSSA's Reported Disallowed Costs vs. 2001-FSSA-1 Unallowed Costs

Under the Special Report on CCDF section of this finding is a subsection entitled FSSA's Audit Services Report on Daybreak in which FSSA disallowed $8,917,529.55. The difference between the unallowed amount of $5,575,712.52 identified in this A-133 finding and the disallowed amount noted from FSSA's report is mainly due to three issues. This A-133 finding's unallowable cost contains an increase in pay in lieu of owner's draw of $1,110,006.78 that is not present in FSSA's disallowed cost. Present in FSSA's amount is approximately $3.3 million identified by FSSA as having a lack of invoices or other supporting documentation, payments made outside of the contract period, etc. Finally, FSSA had identified approximately $900,000 that was not properly supported with documentation but was funding that had come from another FSSA source other than CCDF. This is not identified in this A-133 finding as an unallowable or questioned cost, though it is referred to in the subsection entitled Cost Allocation under the Special Report on CCDF section.

Overview – Corrective Action

We recognize that FSSA has begun to implement some of the items listed in this audit report's Summary Schedule of Prior Findings for Finding 99-FSSA-1 CHILD CARE DEVELOPMENT FUND (CCDF). This has included creating additional positions assigned to specifically monitor CCDF, expansion of monitoring procedures, increased and more formalized communication within FSSA, increased sharing of financial and monitoring information within FSSA, and performing analyses of costs. These are all in various stages of implementation as of the end of our audit testing. One of the most important corrective actions that addresses the timely validation of claims as well as other internal control issues, such as the allocation of cost and segregation of duties, is the centralization of the payment of claims. This has yet to occur as of the end of our audit testing but is scheduled to be piloted in Marion County in FY'02.

CCDF Special

Introduction

Our audit of the Child Care and Development Fund (CCDF) managed by the Family and Social Services Administration (FSSA) has disclosed significant questionable and unallowable expenditures as well as major internal control weaknesses.

Since the inception of the CCDF program, one voucher agent, Daybreak Management, Inc., (Daybreak), has been a major recipient of CCDF funding, receiving from 25-37% of the total allocation of funds. From 1997 through 2000, Daybreak received from CCDF $11,817,881 for administrative expenses. During this same time period, $6,230,855 was paid to the President of the corporation and his wife as either salary or profit.

The primary contractual responsibilities for a voucher agent are claims processing and eligibility determination. A Daybreak official admitted that in 1997 and 1998 daycare providers were allowed to verify and complete eligibility documentation for CCDF recipients. This and other contractual violations, coupled with significant internal control weaknesses at both FSSA and Daybreak, bring into question the validity of approximately $130 million received by Daybreak for the payment of direct services from 1997 through 2000.

Of critical concern is the fact that FSSA has been aware of contract violations by Daybreak at least since May of 1998. Untimely follow up and untimely enforcement of corrective action, as well as inadequate monitoring procedures, have allowed questionable costs to grow at Daybreak. Allowing the questionable use of program monies for several years causes concern regarding internal controls at FSSA.

Child Care Development Fund

The purpose of CCDF is to assist low-income families through subsidized child care and to increase the availability and quality of child care services. CCDF is a federal program and is governed by 45 CFR 98 and other appropriate federal regulations. FSSA is the lead agency at the state level. (See Note 1)* The State of Indiana has chosen to administer this program at the local level by county. The actual administration of the program at the county level has been contracted out to voucher agents. Each voucher agent may be responsible for more than one county. During this audit period there were approximately sixty voucher agents serving ninety-two counties.

Funding allocations are included in the contracts with the voucher agents. Voucher agents are to be reimbursed for the actual cost to the program. The funding areas are for: direct services to the child care providers, quality, automation, and program support. Program support is the portion of the funding that the voucher agents are to use for administrative costs. Among the administrative duties to be performed by the voucher agents are client intake (this includes eligibility determination and the dissemination of program information), data collection, and payment of claims to child care providers.

Daybreak Management, Inc.

Each year the largest amount awarded for a county contract, from the inception of the program in 1997 to current, was to Marion County's voucher agent Daybreak Management, Inc., a for-profit company. This company was incorporated in late 1996 and, according to its own financial statements, 99.9%

---

* All numerical references are to endnotes at the end of this finding. These endnotes are the criteria for our finding.

of its funding was from FSSA. For the 2000 contract year, approximately $221 million was awarded to the various voucher agents. For Marion County, Daybreak was awarded approximately $66 million or 30% of the total. The next highest in awarded amounts were Lake County at approximately $29 million (13%), Allen County at approximately $16.5 million (7%), St. Joseph at approximately $9.5 million (4%), and Vanderburgh at approximately $7.5 million (3%), with all other counties substantially less.

Likewise, because the amount received for program support (administrative costs) is based on approximately 8% of the awarded amount, Daybreak has also been awarded the largest amount for administrative costs. This has ranged from $583,602 in 1997 to $4,877,648 in 2000.** FSSA determines the percentage for computing administrative cost.

The owner of Daybreak is also the owner of Daybreak Limited, Incorporated, a not-for-profit corporation. Daybreak Limited had served as voucher agent for the precursor to the CCDF program, the Child Care and Development Block Grant. According to its financial statements, Daybreak Limited received 100% of its revenue from FSSA. With the advent of CCDF, the not-for-profit no longer contracts with FSSA in favor of the for-profit corporation.

Audit Concentration

Due to the dollar amounts involved and initial concerns regarding contract compliance, we concentrated our efforts on Daybreak and FSSA's management of the CCDF program. In our initial planning, we found peculiar expenditure anomalies involving Daybreak in the form of large even dollar monthly claims. This indicated to us a possibility of claim estimation rather than reimbursement of actual cost as provided in the contract between FSSA and Daybreak. (See Note 2) We then noted in our review of Daybreak's financial statements the payment of large dividends. This indicated another potential contract violation as FSSA is over 99.9% of Daybreak's funding source and there is no provision for profit in the contract.

The time period of our audit was from the inception of the program in May 1997 through the end of calendar year 2000. While this finding focuses on Daybreak, many of the internal control issues are as a result of FSSA's management, and so, have the potential to affect the entire program and other voucher agents.

Unallowable Costs

We noted expenditures by Daybreak that we considered to be unallowable costs and for which Daybreak is requested to make restitution. These items are summarized below:

**NOTE: Daybreak also had a contract with Hendricks County for the 1998 contract year (this ran from October 1997 through September 1998). A total of $29,506 was allocated to Daybreak for program support for Hendricks County.

Type of Unallowable Cost	Amount
Owner's Draw (1997-1999) (See Unallowable Compensation)	$ 4,302,900.00
Increase in Salary Paid to the owner and the owner's wife for 2000 in Lieu of Owner's Draw (See Unallowed Compensation)	1,110,006.78
Life Insurance for the owner and the owner's wife (See Unallowable Life Insurance)	123,140.16
Insurance for Daughter and Son-In-Law not Paid for Other Employees (See Unallowable Life Insurance)	4,322.50
Loan to the owner (See Loan to Owner)	30,000.00
Other Unallowed Cost (See Other Unallowable Cost)	5,343.08
Total	$ 5,575,712.52

The owner's draw and salary are derived from documentation from the inception of the program in May 1997 through the end of calendar year 2000. Documentation for other Daybreak administrative expenditures was not readily available for the calendar years 1999 and 2000. However, any similar expenditure as listed above could also be considered unallowable for the 1999 year and later. Detailed information for each unallowed cost follows.

Unallowable Compensation

As previously noted, Daybreak has contracted with FSSA for several years to administer the CCDF program in Marion County. The owner is also the Chief Executive Officer (President) and his wife is the Chief Operating Officer for Daybreak. The owner and the owner's wife have received compensation in the form of salary and owner's draws through Daybreak as follows:

	Daybreak Salaries		Total Yearly		Total Yearly
Year	Owner	Owner's Wife	Salaries	Owner's Draw	Compensation
1997	$ 64,500.00	$ 64,500.00	$ 129,000.00	$ 458,900.00	$ 587,900.00
1998	106,856.25	106,856.25	213,712.50	1,875,000.00	2,088,712.50
1999	118,800.00	118,818.00	237,618.00	1,969,000.00	2,206,618.00
2000	877,330.68	470,294.10	1,347,624.78	-	1,347,624.78
Totals	$ 1,167,486.93	$ 760,468.35	$ 1,927,955.28	$ 4,302,900.00	$ 6,230,855.28

We found no provision in the contract that allowed for owner draws or profits. We found this contract to be on an actual cost reimbursement basis. (See Notes 2, 3 and 10) Thus, we determined the total owner's draw in the amount of $4,302,900.00 to be an unallowable cost.

The owner's and the owner's wife's salaries in year 2000 increased by $758,530.68 and $351,476.10, respectively. It should be noted that by January 5, 2000, Daybreak became aware that the Audit Services Division of FSSA and the State Board of Accounts were questioning whether or not owner's draws were acceptable costs. 48 CFR 31.205-6 states that "Determination should be made that salaries are reasonable for the personal services rendered rather than being a distribution of profits." (See Note 8) We question the amount of $1,110,006.78 as an unreasonable increase in salaries in lieu of owner's draw and so an unallowable cost.

Nothing was presented for audit to indicate an analysis was conducted by FSSA during the contract on the reasonableness of compensation for voucher agents or that monitoring for reasonableness was done by FSSA during the contract. (See Note 6 and 10) This would be particularly important with this program as it appears that the voucher agent environment is not particularly competitive. (See Note 10) We further found that FSSA did not consider the impact on the owner's compensation when multiple contracts were involved. (The owner received salaries for 1997 and 1998 through Daybreak Limited and funded by FSSA in the amounts of $91,363.68 and $35,000.02, respectively. These amounts are not included in the previous schedule.) (See Note 7) We also found that FSSA did not analyze the amount that Daybreak was claiming for owner's draws during the contract.

In less than four years, the State has compensated the owner and his wife over $6 million. At the same time, documentation provided us showed that there was a waiting list of children in need of this program's services. Both FSSA and the contractor have the responsibility to assure that this funding is used in the most efficient way possible for the purposes of this program.

Unallowable Life Insurance

During our audit, we noted that a cash value life insurance policy (The Advantage Plan) with a face amount of $3,000,000 had been issued for the owner and his wife. The planned annual premium was $123,140.16, with the first payment made in December 1998.

We consider the $123,140.16 to be unreasonable and an unallowable cost to the CCDF program. (See Notes 6 and 8)

We also noted on the 1998 cash disbursements journal payments to The Advantage Plan for policies for the owner's daughter and son-in-law for $2,480.55 and $1,841.95, respectively. No other employees appeared to be covered by this plan, though there are other employees at the same managerial level. We consider the total amount of $4,322.50 to be unreasonable and unallowable (See Note 8)

Loan to Owner

We found that in 1998 Daybreak had loaned to the owner $30,000 in the form of a non-interest bearing promissory note. The revenues received by Daybreak are from FSSA, Marion County, and the Step Ahead Council. These are all public funding sources. A loan is a personal use of public funds and thus an unallowable cost.

Other Unallowed Costs

We reviewed Daybreak Management, Inc.'s, 1997 general ledger and 1998 cash disbursements journal. We found the following recorded expenditures paid during 1998 to be unallowable:

Membership Fee - Indianapolis Chamber of Commerce	$ 600.00
Penalty Paid to Internal Revenue Service	1,589.77
Penalty Paid to Indiana Department of Revenue	618.33
Penalty Paid to Workforce Development	330.78
Zerox Ball (500 Festival)	1,500.00
Black Expo Tickets	400.00
Christmas Gifts Employees	304.20
Total	$ 5,343.08

These costs are specifically unallowed by 48 CFR 31; therefore, we consider these to be unallowable costs. (See Note 9)

Claims Estimation

In addition to the aforementioned unallowable costs, we found that Daybreak had submitted claims for payment of child care providers based on estimates. This is contrary to their contract. (See Note 2) It also precipitates internal control issues that would not be a concern to FSSA if Daybreak followed reimbursement procedures. For estimations, Daybreak needs a control system in place to ensure that any overpayments due to estimates are either returned to the FSSA or properly matched to future child care provider claims, and that reconcilements between claims made to FSSA and actual Daybreak expenditures are completed in a systematic, timely basis. FSSA would also have to monitor these estimates, because, among other things, excess in funding provided to a subgrantee due to estimates would be subject to cash management procedures by FSSA.

We also noted on Daybreak's 1998 audited financial statements that Unearned Contract Advance had a balance of $1,372,236. Therefore, at least this much should be reflected as available in the cash balance. However, on the same financial statements the cash balance was $1,262,522, a difference of $109,714 less in cash. This could indicate that the advanced amount was used for purposes other than claimed. (See Note 5)

Improper Eligibility Determination

We also found that Daybreak allowed daycare providers to participate in the eligibility process. Daybreak did this by allowing some providers to sign as the approving signature on the recipients application form and by allowing some daycare providers to verify proof of a parent's income. As both duties are an integral part of the eligibility process, neither should be performed by outside parties. (See Note 4) Not only is this a violation of the contract, it also presents internal control issues, especially in regard to segregation of duties between Daybreak and the child care providers. Further, because these daycare providers do not have contracts in regard to these services with either Daybreak or FSSA, it makes it difficult to hold them accountable for performance of these duties.

Incomplete or Inaccurate Documentation

During our test of payments from Daybreak's system, we found incomplete or inaccurate supporting documentation as follows:

1. Invoices provided did not equal the amount of payments.

2. Receipts supporting American Express statements were missing.

3. Eligibility documentation (Form 805) was missing.

4. Form 805 was not proper, including:

   a. The approval signature of Daybreak was missing.

   b. The approval signature on Form 805 was that of a child care provider and not of Daybreak personnel.

   c. The date on Form 805 was not appropriate for time of service. The date was either after the service or the date indicated that timely redetermination had not been completed.

These exceptions warrant concern about Daybreak's supporting documentation and Daybreak's ability to justify claims submitted to FSSA. This concern is increased when considered in conjunction with FSSA's Audit Services report.

<u>FSSA's Audit Services Report on Daybreak</u>

In the fall of 1999, FSSA's Audit Services Division began their review of the CCDF contract between FSSA and Daybreak Management, Inc., for the contract period of May 1, 1997, through September 30, 1998. The final report was issued on March 9, 2001, with several significant issues. The report identified disallowed costs in the amount of $8,917,529.55. This amount consisted of such items as disallowed activities (i.e., Zerox Ball 500 Festival, Las Vegas Conference, owner's draws, etc.), lack of invoices or other supporting documentation, payments made outside of the contract period, etc. The report was also critical of Daybreak's internal control over grant funds such as lack of a cost allocation plan, estimation of claims to FSSA, and availability of documentation. FSSA has demanded payment and is currently in an internal appeals process with Daybreak.

<u>Internal Control Weaknesses</u>

During our audit, we noted severe control weaknesses both at FSSA and Daybreak. These weaknesses were instrumental in allowing the aforementioned unallowed costs to both occur and go unchecked. These weaknesses included such items as inappropriate and untimely monitoring, poor allocation methods, poor practices by Daybreak, and untimely and ineffective follow-up of known control weaknesses by FSSA. The following are discussions of the weaknesses that we noted. The funding has been divided into two general categories, program funding (which includes direct, quality, and automation) and administrative funding (also known as program support).

<u>Inappropriate and Untimely Monitoring by FSSA</u>

Effective monitoring is not just the revelation of noncompliance, but the timely resolution of noncompliance issues. We found that FSSA's monitoring methods were weak in both areas. As detailed in our single audit report for the year ending June 30, 1999, validation by FSSA of claims submitted by voucher agents is limited. We further found ". . . that there is a lack of coordination and sharing of crucial information among areas that are critical in monitoring for the validation of these claims." (See Note 10)

In our current audit, we also noted that follow-up to findings was weak. When FSSA's Bureau of Child Development (BCD) found violations on Daybreak's contract, a corrective action was requested from Daybreak. However, we found that the corrective action was often incomplete and not enforced. As a result, the same issues have existed for several years.

Weaknesses in the CCDF Awarding Process by FSSA

We found that the method FSSA chose to allocate and award CCDF funding had inherent weak internal controls, especially in regard to the administrative funding. (See Note 10)

Affects of Not Performing a Cost Analysis

We found that FSSA had not determined what the fair and reasonable costs should be to administer the CCDF program by the voucher agents. For the audit period, FSSA did not present for audit a cost analysis that would be used to determine such factors as reasonable cost per in-take, reasonable cost per claim, reasonable salaries, or economies of scale. Likewise, FSSA did not present a basis for the percentage used in the allocation calculation for administrative funding. (See Notes 6 and 10)

Without an objective standard of what administrative costs should be, FSSA could not adequately monitor to ensure that only reasonable and necessary administrative costs were being charged to the program. FSSA was not monitoring for the appropriateness of the costs themselves until long after the close of the contracts.

We further found that if a voucher agent requested an increase to administrative dollars, the request was considered and, in some cases, the percentage was increased. Again, the increase in percentage was arbitrary and not based on objective criteria developed by FSSA. Rather, it appears that the increase was based on the voucher agent's perceived need.

Noncompetitive Environment

One way to reduce the need for cost analysis would be for the allocation of awards to take place in a competitive environment. The administrative costs could be considered fair and reasonable if the selection of voucher agents was made through a competitive process such as bidding or a negotiated contract. (See Note 6 on Page 17) However, we found that the selection process was not done in a competitive environment. While FSSA contracts with the voucher agents, the selection process is done by each county's local Step Ahead Council. The local Step Ahead Councils did solicit for voucher agents for their local areas but often there was only one interested party. FSSA did not initiate cost comparisons among Step Ahead Councils for voucher agent applicants.

Reported Cost Analysis

During the period that FSSA advanced the administration portion of the CCDF program (May 1997 through September 1999), the voucher agents were required to remit to the State any portion of the advance shown as a balance on the Child Care Expenditures Close Out Report. Quarterly, the voucher agents submitted a report reconciling their administrative costs to their advances. It was from these reports that FSSA compiled each close out report's amounts. These close out reports were sent to the voucher agents for verification and any advance balance shown was to be remitted to FSSA. Nothing was presented for audit to indicate that FSSA analyzed the reported costs.

Program Balances

As noted previously, the administrative funding allocation was based on an arbitrary percentage multiplied against the program award. Because it was not based on reasonableness or appropriateness of actual cost, the percentages' only purpose would be to loosely allocate the funding available for administrative costs. In addition to the internal control weakness of utilizing an arbitrary percentage, we noted a further weakness in the allocation methodology. We found that several voucher agents had balances in their program allocations at the end of each contract period. If there was in fact some sound basis in the correlation between the awarding of program and administrative dollars, then consideration should be given to either recalculating the administrative allocation throughout the year based on projected program balances or analyzing program balance trends and reducing future administrative allocations based on this analysis. Finally, as a method for contractual payment, the Federal Government prohibits the cost-plus-a-percentage-of-cost system of contracting (48 CFR 16.102(c)). While the State was using this for allocation purposes and not for contractual payments, FSSA should consider the weaknesses inherent in the percentage method and determine whether or not there are sufficient cost controls in place at both the State and the subgrantee levels to allow this method to be used for allocation.

Affects of Voucher Agents' Control of Waiting Lists

Finally, we found a control weakness in one of the essential items used to determine allocation of awards. CCDF funding is allocated by county. The program portion is allocated based on a county's historical use and a county's perceived current need. The current need is determined mainly on the number of children currently being served and the number of children on a waiting list. The waiting list is comprised of children who informally have been determined to meet eligibility criteria but whose eligibility has not been confirmed. The administrative portion of funding is based on a percentage of the allocated program funding.

We found that the waiting list is developed and maintained by each county's voucher agent. We also found that while FSSA did verify the existence of these lists, FSSA did not have procedures in place to determine the validity of these lists. Because the waiting list influenced the amount of program funding a county was allocated and the administrative funding was based on a percentage of the program, the voucher agent could directly affect the administrative funding the organization was allocated.

This weakness of control and conflict of interest was to have been offset by the voucher agent charging only actual administrative costs. However, this assumes that FSSA had determined what the fair and reasonable costs for a voucher agent to administer this program were, that efficient methods and effective cost controls were in place, and that FSSA would be monitoring for such costs.

Daybreak Management, Inc.

All of the weaknesses described above were evident in the allocation to Daybreak. Daybreak produces and maintains its own waiting list upon which FSSA considers the allocation of program funding. Daybreak requested an increase in its administrative funding at a time when the organization was already distributing profit. Daybreak did not claim less in administrative cost than what had been allocated and FSSA did not try to determine the appropriateness of these costs during the contract. Daybreak was the only interested party to respond to the request for proposal advertised for by the Marion County's Step Ahead Council. We found through inquiry of the Council that since funding was determined by FSSA, cost was not a criteria in the selection process.

These weaknesses helped to produce an environment whereby Daybreak Management, Inc., could claim administrative costs that were unreasonable and not necessary for the program.

It is common business practice that funding be based on fair and reasonable costs. In many cases, a competitive environment will help to achieve this practice, though the agency should do some preliminary cost analysis for bench marking purposes. When a competitive environment is not available, the awarding agency has the fiscal duty to provide reasonable assurance that effective cost controls are in place. In a noncompetitive environment, a heavier emphasis on evaluation of cost through monitoring and ongoing cost analysis is needed. Without a sound cost basis, unreasonable costs and excessive funding, such as found with Daybreak Management, Inc., may occur.

Cost Allocation

45 Code of Federal Regulations 98.55 requires that a subgrantee ". . . keep on file cost allocation plans or indirect cost agreements, as appropriate, that have been amended to include costs allocated to the CCDF." No information was presented for audit that indicated that FSSA had enforced this requirement with its voucher agents.

We found that Daybreak Management, Inc., was one of the voucher agents without a cost allocation plan. This was of particular concern for the years 1998 and 1999 as we found that FSSA, through its local Marion County Office of Family and Children, had given $1,033,562.64 to Daybreak for a Quality Enhancement program. The funding source (which was from Marion County's property tax) was separate from the CCDF program and there was no contract in place to govern this program.

Without a cost allocation plan it is impossible to tell which program has paid what portion of potential shared costs unless all costs can be identified as direct to a particular program. It is also difficult to determine which funding source should be reimbursed in case of an unallowed cost. As noted in Unallowed Compensation, we consider the total owner's draw to be an unallowable cost. This includes the draws for 1998 and 1999 totaling $3,844,000. Without a cost allocation plan it will be difficult to determine the proper distribution of any restitution received. All of the unallowed cost may be owed to the federal CCDF program or a portion may be owed to Marion County.

Daybreak's Computerized Systems and Weaknesses in Assuring Proper Expenditures

Background

Daybreak utilizes two main computerized systems in its implementation of CCDF. First, Daybreak uses a system commonly referred to as the Magic System. The Magic System is the initial computerized data entry point. It is here that payments to vendors are initiated and the detail of amounts per child that make up these payments are kept. Daybreak also uses this system as the basis for claim requests to FSSA. FSSA's Bureau of Child Development (BCD) utilizes the data from this system in its monitoring of payments for direct services.

Second, for the actual payment of funds and the financial recording of these payments, Daybreak utilizes the Peachtree system. In the years 1997 and 1998, payments to vendors were mostly in the form of checks generated from the Peachtree System. In order to load data from Magic to Peachtree, an intermediate file is used. From 1999 to current, the method of payment most used is electronic funds transfer (EFT) (though some checks are still issued). This makes an additional intermediate file for the bank necessary.

Lack of Reconciliation

During our audit, we noted several internal weaknesses involving these systems. One weakness we noted was the lack of reconcilement. We made a comparison of direct service expenditures for the years 1997, 1998 and 1999 for Magic provider totals, Magic detail data totals, and Peachtree totals. Our preliminary manual analysis found that data for several providers did not match across files. We also found that expenditures were based on dates of service in Magic, while in Peachtree the expenditures were based on the actual disbursement date. There was not a link in the systems between these dates. Further, we found that there was no reference, such as check number, that links Peachtree transactions to Magic transactions. This means that Magic does not have a direct link to the actual disbursements. Finally, we noted that adjustments to the data could occur in the intermediate files and in Peachtree without adequate audit trails. Without a reconcilement between supporting detail and actual disbursements, plus the other noted weaknesses, it is not possible to verify that funds have been expended properly.

Upon our inquiry to further understand the conditions surrounding these control weaknesses, the voucher agent stated: "We will be putting this project on hold because of the following: Matching the two systems is not a priority to us at this time. Our priority is to continue to work with FSSA's staff to improve the reporting capability of our system. Feel free to contact them about the nature and scope of this project if you choose. Once this is completed we may look at your project. . . ."

Monitoring by FSSA

As previously noted, FSSA's BCD utilizes the data from the Magic system in its monitoring process of Daybreak. However, since BCD procedures do not include a review that ties the detail documentation used in the amount claimed from FSSA to the actual payments to providers, this monitoring is incomplete.

We recognize that FSSA's Audit Services has steps that consider actual disbursements. However, because Audit Services performs its review well after the end of a contract period, this portion of FSSA's monitoring process should not be used as part of FSSA's timely assurance of the voucher agent's proper expenditure.

Conclusion

FSSA did not do research or analysis to determine what would be the appropriate costs to run this program effectively and efficiently. Instead, strong reliance was placed on the contractors, in a non-competitive environment, to charge only reasonable and necessary costs. Without appropriate allocation methods, proper attention to effective and efficient costs, timely monitoring, and timely response to known contract violations, FSSA has allowed an environment to exist whereby the voucher agents could charge unallowable and inappropriate costs to the program. Daybreak's inappropriate owner's draws, unreasonable salaries, and lack of controls should have been apparent to FSSA early in the contract. When significant violations became known, timely corrective action would have been appropriate from FSSA. While we recognize that continued service to clients is of great concern to the State, FSSA should have contingency plans in place for its major programs so that significant contract violations can be dealt with in a timely manner with little or no disruption to clients. The result has been a significant loss of funds to the State and the denial of program funding to appropriate recipients.

Recommendations

We recommended that FSSA establish monitoring procedures so that there is reasonable assurance that efficient and effective cost controls are used by the voucher agents. The monitoring procedures should not only ensure that expenditures have taken place with appropriate supporting documentation, but should also evaluate if the costs are reasonable and necessary. We recommended that FSSA's monitoring procedures be timely and that FSSA ensure that all significant exceptions have corrective actions and that these corrective actions are enforced in a timely manner. We recommended that FSSA determine the proper costs and the proper types of costs to administer this program. We recommended that FSSA use allocation methods that more closely approximate actual costs. We recommended that FSSA review their current award and payment methodologies for internal control weaknesses and either eliminate significant weaknesses or implement compensating controls. We recommended that FSSA review its contracts with for-profits and address the issues that are unique to contracting with for-profits. We recommended that FSSA evaluate voucher agents' computerized systems for internal control weaknesses as well as evaluate other manual systems that significantly impact the CCDF program. We recommended that FSSA enforce the requirement for proper cost allocation plans by the voucher agents. We recommended that FSSA evaluate the effect on costs when awarding multiple contracts to one contractor. We recommended that FSSA enforce its contract requirement for the eligibility process.

Note 1

Per 45 CFR 98.11 and 45 CFR 98.67 the Lead Agency, FSSA, has administrative and fiscal responsibilities as follows:

45 CFR 98.11 "Administration under contracts and agreements.

(a) The Lead Agency has broad authority to administer the program through other governmental or nongovernmental agencies. In addition, the Lead Agency can use other public or private local agencies to implement the program; however:

(1) The Lead Agency shall retain overall responsibility for the administration of the program, as defined in paragraph (b) of this section;

(2) The Lead Agency shall serve as the single point of contact for issues involving the administration of the grantee's CCDF program; and

(3) Administrative and implementation responsibilities undertaken by agencies other than the Lead Agency shall be governed by written agreements that specify the mutual roles and responsibilities of the Lead Agency and the other agencies in meeting the requirements of this part.

(b) In retaining overall responsibility for the administration of the program, the Lead Agency shall:

(1) Determine the basic usage and priorities for the expenditure of CCDF funds;

(2) Promulgate all rules and regulations governing overall administration of the Plan;

(3) Submit all reports required by the Secretary;

(4) Ensure that the program complies with the approved Plan and all Federal requirements;

(5) Oversee the expenditures of funds by subgrantees and contractors;

(6) Monitor programs and services;

(7) Fulfill the responsibilities of any subgrantee in any: disallowance under subpart G; complaint or compliance action under subpart J; or hearing or appeal action under part 99 of this chapter; and

(8) Ensure that all State and local or nongovernmental agencies through which the State administers the program, including agencies and contractors that determine individual eligibility, operate according to the rules established for the program."

45 CFR 98.67 "Fiscal requirements.

(a) Lead Agencies shall expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds.

(b) Unless otherwise specified in this part, contracts that entail the expenditure of CCDF funds shall comply with the laws and procedures generally applicable to expenditures by the contracting agency of its own funds.

(c) Fiscal control and accounting procedures shall be sufficient to permit:

(1) Preparation of reports required by the Secretary under this subpart and under subpart H; and

(2) The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part."

Note 2

Per the contract between FSSA and Daybreak for the period May 1, 1997, to September 30, 1998:

IV. A. "Funding shall be paid to Grantee as a reimbursement for authorized expenses incurred pursuant to this agreement in accordance with the fiscal policies and procedures of the State of Indiana."

Note 3

The contract between FSSA and Daybreak for the period May 1, 1997, to September 30, 1998, allowed for advances. In practice, FSSA advanced funding only for program support. All voucher agents received monthly one-twelfth of their allocated program support. On October 1, 1999, this practice was discontinued and program support, along with all other CCDF funding, was on an actual cost reimbursement basis.

APPENDIX 1 No. 7. "State, at its discretion, may provide advance funding to the Grantee. Program support costs may be estimated and claimed by Grantee on a monthly basis prior to the month for which the program support funds are to be used. Monthly claims may not exceed one twelfth (1/12) of the total program support costs as specified on the financial attachments. Claims and close-out reports shall be submitted pursuant to instruction issued by State. Monthly estimates of program support costs shall be reconciled against actual costs on a quarterly basis, pursuant to reconciliation instructions provided by the State."

Note 4

Per the contract between FSSA and Daybreak for the period May 1, 1997, to September 30, 1998:

III SPECIFIC CONDITIONS C. "For each type of assistance, Grantee shall be responsible for determining the eligibility for services of applicants in accordance with applicable federal and state procedures and eligibility criteria . . ."

Note 5

The balance sheet line item Unearned Contract Advance was defined in Daybreak's 1998 financial statements as follows:

"Note 2 - Summary of Significant Accounting Policies: . . . Unearned Contract Advance Daybreak Management, Inc., records contract revenue as an unearned contract advance until it is expended for the purpose of the contract, at which time it is recognized as revenue. The balance in unearned contract advance at December 31, 1998, represents amounts received under cost reimbursable contracts that will be expended in the next year in accordance with contract periods. The balance at December 31, 1998, consisted of: In Division of Family and Children $1,372,236."

Note 6

One of the criteria that FSSA is to use for monitoring cost of subgrantees is reasonableness. Per the contract between FSSA and Daybreak, Daybreak agreed to manage funds received in accordance with 48 CFR 31. The following is the criteria for reasonableness from this part.

48 CFR 31.201-3 "Determining Reasonableness. (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable. . . ."

Note 7

The owner had concurrent contracts with FSSA where he was being paid a salary simultaneously from both. Whenever FSSA contracts concurrently with either an entity or an individual common business practice and internal control over funding would dictate that FSSA consider the impact. The following is a quote from the Federal Register that recognizes this practice.

48 CFR 16.104(i) "Concurrent contracts. If performance under the proposed contract involves concurrent operations under other contracts, the impact of those contracts, including their pricing arrangements, should be considered."

Note 8

Per the contract between FSSA and Daybreak, Daybreak agreed to manage funds received in accordance with 48 CFR 31. The following is the criteria for compensation (including insurance and salary) from this part.

48 CFR 31.205-19(a)(2)(vi) "Costs of insurance on the lives of officers, partners, or proprietors are allowable only to the extent that the insurance represents additional compensation (see 31.205-6)."

48 CFR 31.205-6(a)(4) "No presumption of allowability will exist where the contractor introduces major revisions of existing compensation plans or new plans and the contractor -

> (i) Has not notified the cognizant ACO of the changes either before their implementation or within a reasonable period after their implementation, and (ii) Has not provided the Government, either before implementation or within a reasonable period after it, an opportunity to review the allowability of the changes."

48 CFR 31.205-6(b) "Reasonableness. The compensation for personal services paid or accrued to each employee must be reasonable for the work performed. Compensation will be considered reasonable if each of the allowable elements making up the employee's compensation package is reasonable. . . . (1) Among others, factors which may be relevant include general conformity with the compensation practices of other firms of the same size, the compensation practices of other firms in the

same industry, the compensation practices of firms in the same geographic area, the compensation practices of firms engaged in predominantly non-Government work, and the cost of comparable services obtainable from outside sources. . . . Based on initial review of the facts, contracting officers or their representatives may challenge the reasonableness of any individual element or the sum of the individual elements of compensation paid or accrued to particular employees or job classes of employees. In such cases, there is no presumption of reasonableness and, upon challenge, the contractor must demonstrate the reasonableness of the compensation item in question. . . ."

48 CFR 31.205-6(b)(2) "Compensation costs under certain conditions give rise to the need for special consideration. Among such conditions are the following:

(i) Compensation to (A)owners of closely held corporation, partners, sole proprietors, or members of their immediate families, ... Determination should be made that salaries are reasonable for the personal services rendered rather than being a distribution of profits. . . . Any change in a contractor's compensation policy that results in a substantial increase in the contractor's level of compensation, . . . Contracting officers or their representatives should normally challenge increased costs where major revisions of existing compensation plans or new plans are introduced by the contractor, and the contractor - (A) Has not notified the cognizant ACO of the changes either before their implementation or within a reasonable period after their implementation; and (B) Has not provided the Government, either before implementation or within a reasonable period after it, an opportunity to review the reasonableness of the changes. (iii) The contractor's business is such that its compensation levels are not subject to the restraints that normally occur in the conduct of competitive business. . . ."

Note 9

Per the contract between FSSA and Daybreak, Daybreak agreed to manage funds received in accordance with 48 CFR 31. The following are the criteria for membership in civic and community organizations, gifts, social activities, and fines and penalties from government from this part.

48 CFR 31.205-1(f) "Unallowable public relations and advertising costs include the following: . . . (7) Costs of memberships in civic and community organizations."

48 CFR 31.205-13(b) "Costs of gifts are unallowable."

48 CFR 31.205-14 "Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. . . ."

48 CFR 31.205-15(a) "Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer."

Note 10

The contract between FSSA and Daybreak, under Part II General Terms B, states: "Grantee shall be reimbursed by State for allowable costs incurred by Grantee in providing child care services to the populations indicated by State and in the county(s) identified, pursuant to this agreement in an amount not to exceed the 'TOTAL DOLLAR AMOUNT' . . ."

When contracting with CCDF grantees (voucher agents), FSSA allocated the available funding. This allocation provided a ceiling for claimed costs. In addition to the ceiling, the program expenditures were limited to actual allowable costs to the program that were reasonable in nature. Cost was not negotiated and the contracts were not based on negotiated prices. However, to monitor for reasonableness, FSSA would need to have cost standards to compare. Also, while FSSA used federal standards of allowable costs that were applicable to most federal programs, they should have considered what was applicable and appropriate for the CCDF program environment.

The following are quotes from the 48 CFR that are elements in a negotiated contract. These consider such things as competitive price, price/cost analysis, profit, and contract type. These or other such common business practices should be considered in arriving at standards by which FSSA monitors a cost reimbursement contract with a grantee.

48 CFR 15.305 "(a) Proposal evaluation is an assessment of the proposal and the offeror's ability to perform the prospective contract successfully. . . . (1) Cost or price evaluation. Normally, competition establishes price reasonableness. Therefore, when contracting on a firm-fixed-price or fixed price with economic price adjustment basis, comparison of the proposed prices will usually satisfy the requirement to perform a price analysis, and a cost analysis need not be performed. . . . When contracting on a cost-reimbursement basis, evaluations shall include a cost realism analysis to determine what the Government should realistically expect to pay for the proposed effort, the offeror's understanding of the work, and the offeror's ability to perform the contract."

48 CFR 15.403-1(c)(1) "Adequate price competition. A price is based on adequate price competition if

(i) Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed requirement and if--

  (A) Award will be made to the offeror whose proposal represents the best value (see 2.101) where price is a substantial factor in source selection; and (B) There is no finding that the price of the otherwise successful offeror is unreasonable. Any finding that the price is unreasonable must be supported by a statement of the facts and approved at a level above the contracting officer;

(ii) There was a reasonable expectation, based on market research or other assessment, that two or more responsible offerors, competing independently, would submit priced offers in response to the solicitation's expressed requirement, even though only one offer is received from a responsible offeror and if--

  (A) Based on the offer received, the contracting officer can reasonably conclude that the offer was submitted with the expectation of competition, e.g., circumstances indicate that-- (1) The offeror believed that at least one other offeror was capable of submitting a meaningful offer; and (2) The offeror had no reason to believe that other potential offerors did not intend to submit an offer; and (B) The determination that the proposed price is based on adequate price competition, is reasonable, and is approved at a level above the contracting officer; or

(iii) Price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items, adjusted to reflect changes in market conditions, economic conditions, quantities, or terms and conditions under contract that resulted from adequate price competition."

48 CFR 15.403-3 "(a) General. (1) The contracting officer is responsible for obtaining information that is adequate for evaluating the reasonableness of the price or determining cost realism, . . . (b) Adequate price competition. When adequate price competition exists (see 15.403-1(c)(1)), generally no additional information is necessary to determine the reasonableness of price."

48 CFR 15.404-1 "(a) General. The objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable. . . . (d) Cost realism analysis (1) Cost realism analysis is the process of independently reviewing and evaluating specific elements of each offeror's proposed cost estimate to determine whether the estimated proposed cost elements are realistic for the work to be performed; reflect a clear understanding of the requirements; and are consistent with the unique methods of performance and materials described in the offeror's technical proposal. (2) Cost realism analysis shall be performed on cost-reimbursement contracts to determine the probable cost performance for each offeror. (i) The probable cost may differ from the proposed cost and should reflect the Government's best estimate of the cost of any contract that is most likely to result from the offeror's proposal. The probable cost shall be used for purposes of evaluation to determine the best value."

48 CFR 15.404-4 "(a)(1) Profit or fee prenegotiation objectives do not necessarily represent net income to contractors. Rather, they represent that element of the potential total remuneration that contractors may receive for contract performance over and above allowable costs. This potential remuneration element and the Government's estimate of allowable costs to be incurred in contract performance together equal the Government's total prenegotiation objective. Just as actual costs may vary from estimated costs, the contractor's actual realized profit or fee may vary from negotiated profit or fee, because of such factors as efficiency of performance, incurrence of costs the Government does not recognize as allowable, and the contract type. . . . (b) Policy. (1) Structured approaches . . . for determining profit or fee prenegotiation objectives provide a discipline for ensuring that all relevant factors are considered. . . ."

48 CFR 15.405 "(a) The purpose of performing cost or price analysis is to develop a negotiation position that permits the contracting officer and the offeror an opportunity to reach agreement on a fair and reasonable price. . . . (b) The contracting officer's primary concern is the overall price the Government will actually pay. The contracting officer's objective is to negotiate a contract of type and with a price providing the contractor the greatest incentive for efficient and economical performance. The negotiation of a contract type and a price are related and should be considered together with the issues of risk and uncertainty to the contractor and the Government . . . (c) The Government's cost objective and proposed pricing arrangement directly affect the profit or fee objective. Because profit or fee is only one of several interrelated variables, the contracting officer shall not agree on profit or fee without concurrent agreement on cost and type of contract. . . ."

48 CFR 16.301-2 "Application. Cost-reimbursement contracts are suitable for use only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract."

48 CFR 16.301-3 "A cost-reimbursement contract may be used only when-- (1) The contractor's accounting system is adequate for determining costs applicable to the contact; and (2) Appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used. . . ."

Status of Finding as of October 2003:

On March 13, 2003, a letter was sent to Ms. Sharon Mitchell-Shields, Team Administration for the Department of Health and Human Services, Administration for Children and Families, Region V in Chicago regarding the questioned costs identified in Audit No. CIN A-05-02-72301 dated June 30, 2001. At that time, we identified the amount of federal share involved in the disallowed amount of $5,575,713 as being $3,586,066.

On May 28, 2003, a letter was sent to Ms. Joyce A. Thomas, Regional Administrator of the Department of Health and Human Services, Administration for Children and Families (ACF), Region V, Chicago, responding to ACF's letter of April 17, 2003, notifying us of final determination of the federal disallowed amount of $3,586,066. Under ACF's instructions for acceptable repayment, FSSA submitted revised financial reports for FFY 1997 through FFY 2000 and requested the issuance of a negative grant award in the amount of $3,586,066.

On July 28, 2003, a letter was sent to Mr. Elvis Davis, DHHS/Program Support Office in Rockville, Maryland responding to DHHS/ACF Region V's Office correspondence dated June 16, 2003, regarding the closure of FFY 1997 grant year and requesting that Indiana repay by check the disallowed cost of $458,900 that related to that federal grant period. FSSA enclosed a warrant for $458,900 with the correspondence as repayment for the amount owed that could not be repaid via the negative grant award.

In addition to the repayment of the disallowed costs, FSSA continues to pursue legal action against Daybreak, has greatly strengthened monitoring and auditing efforts in CCDF and has segregated the voucher agent functions into two totally different contracts—one is for eligibility and the other is for payment of child care claims. These changes are outlined in our updated responses to 99-FSSA-1 and 2002-FSSA-1.

With the adjustment/repayment of federal funds and the changes made in monitoring, auditing, eligibility and claims payment, we believe we have resolved this finding.

FINDING 2001 - FSSA-3 PASS-THROUGH ENTITY RESPONSIBILITIES, DIVISION OF MENTAL HEALTH

Federal Agency:	Department of Health and Human Services
Federal Programs:	Prevention and Treatment of Substance Abuse
CFDA Numbers	93.959
Auditee Contact Person:	Bob Tyburski
Title of Contact Person:	Bureau Chief, Chronic Additions, DMH/FSSA
Phone Number:	317-232-7883
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition, Material Weakness

Finding:

The Division of Mental Health (DMH) at FSSA contracts with and provides funding to various providers for community mental health services. Part of the funding provided comes from the Block Grant for Prevention and Treatment of Substance Abuse (SAPT). In addition, these providers may receive funding from various other sources, including federal funds from other FSSA divisions.

According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending $300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "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."

DMH has not reviewed any of the subrecipient A-133 audit reports received since November 2000 and has not sent any reports on to FSSA Audit Services for a fiscal review. Thus, no determination has been made to confirm that the entities had an A-133 audit performed and no management decisions have been issued concerning any potential audit findings.

According to OMB Circular A-133 Subpart D Section 400(d)(3), the pass-through entity is responsible to: "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."

DMH staff performs on-site programmatic reviews of subrecipients and reports those findings to the subrecipient. DMH did not request that subrecipients correct items of noncompliance and has not established a policy requiring subrecipients to report corrections made within a specified period of time. This is a lack of control over the corrective action and resolution of findings of noncompliance by the subrecipients.

We recommended that DMH review and follow up on findings of A-133 audit reports of subrecipients to ensure compliance with OMB Circular A-133. We also recommended that DMH request that subrecipients correct items of program noncompliance and provide documentation within a specified period of time.

Status of Finding as of April 2004:

DMHA has worked with State Board of Accounts and FSSA Audit to update the Mental Health subrecipient audit log to track the receipt and review of subrecipients' A-133 audit reports. The review process has been flowcharted to ensure all parties are aware of their responsibilities in the audit review process.

DMHA has had the audit log in place for several years. The problem has been insufficient staff to complete the necessary tasks. A staff person was assigned to ensure the timely review of these audits. More recently there was a turnover in this staff position and this created another backlog in the logging of the audits and the forwarding of the audits to Audit Services. Since then DMHA has submitted all subecipient audits to FSSA Audit and will ensure no more than a two week window between receipt of subrecipient audit and forwarding to FSSA Audit.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the lower risk audits is also done and appropriate feedback and follow-up is done.

The consistent following of these procedures should resolve this finding.

FINDING 2001 - FSSA-6 DUPLICATE CLAIMS – SIMILAR CODES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Finding:

During our audit of FSSA's Medicaid program, we found that a long-term care provider was erroneously overpaid for services to a recipient. This occurred due to a weakness in the Medicaid claims processing system (AIMS). One claim had a service code for a two-bed room rate. The second claim, for the same dates of service, had a service code for a three to four-bed room rate. Thus, the provider billed and was paid for the recipient occupying more than one bed for the same dates of service. Upon further investigation we found that AIMS does not have sufficient edits and/or audits in place and operating to detect claims where a provider would bill for more than one bed occupation per recipient. This is a control weakness.

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA ensure that sufficient edits and/or audits are in place and operating to detect claims where a provider would bill for more than one bed occupation per recipient.

Status of Finding as of October 2003:

OMPP has implemented new duplicate edit logic that searches the system and denies any LTC or Inpatient Cross-over claim containing any accommodation codes which have been previously paid for the same recipient, same or overlapping date of service and same or different provider number. *Since this change has now been implemented, OMPP considers this finding closed.*

FINDING 2001 - FSSA-9 CHILD SUPPORT ACCOUNTING SYSTEM WEAKNESS

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Karla Mantia
Title of Contact Person:	Deputy Director, Child Support Bureau
Phone Number:	317-232-4922
Compliance Requirement:	Special Tests and Provisions
Internal Control:	Reportable Condition

Finding:

In Finding 96-FSSA-22 we documented six deficiencies in meeting requirements of 45 CFR 307 as it relates to accounting for child support collections and payments through the Indiana Support Enforcement Tracking System (ISETS). One of the deficiencies remains uncorrected. Balances of child support cases include errors resulting from data conversion, information not recorded during the period from data conversion to system implementation, computer application processing errors, and user errors. The errors are being corrected on a case-by-case basis as they are identified.

However, audit testing of case balances documented that approximately two-thirds of the counties had incorrect ISETS case balances. Incorrect case balances could result in erroneous enforcement activity such as intercepts of federal and state tax refunds, unemployment benefits and lottery winnings. It could also result in erroneous suspensions of drivers' licenses and professional licenses or incorrect income withholdings. Incorrect case balances could also result in the failure to collect funds owed to the state.

We recommended that FSSA work with the County Prosecutors to review case files and correct child support balances on the ISETS system.

Status of Finding as of October 2003:

Since the SBOA audit was conducted, the Child Support Bureau has implemented a comprehensive plan to improve the reliability of the data within the ISETS database to achieve 95% accuracy. As a result of the data clean-up project, approximately 200,000 cases were closed. Many of the open cases were reviewed for data reliability. Part of this plan was to correct account balance information. Data reliability in eighty-six of the ninety-two counties has been completed. Approximately $245,298 was spent on the data reliability project. Two of the remaining six counties are over 75% completed with their data reliability update work. CSB and the local offices continue to work on data reliability for these counties. Computer system enhancements have also been put into place to stop inappropriate IV-D referrals from the OFC offices through the computer interface. We continue to conduct user training on a regular basis and complete yearly self assessment of each county.

FINDING 2002 - FSSA-1 CHILD CARE DEVELOPMENT FUND (CCDF)

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Care Cluster, TANF
CFDA Number:	93.575, 93.596, 93.558
Auditee Contact Person:	Beth Eiler
Title of Contact Person:	Deputy Director
Phone Number:	317-234-2250
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition

Finding:

FSSA has contracted with subgrantees known as voucher agents to implement portions of the CCDF program. This includes the provider eligibility process. Voucher agents are to receive and maintain appropriate documentation about a provider before payment can be made for childcare services.

This is an inherently weak system as control for provider eligibility and provider payment are maintained by the same entity. FSSA's Bureau of Child Development (BCD) does review for the appropriate documentation when conducting program monitoring through on-site visits of the voucher agents. However, the program monitoring process does not include an independent verification of the existence of the providers. FSSA does conduct on-site inspections of licensed and registered providers through BCD's licensing and health sections. While verifying existence is not the focal point of these on-site visits, it is a by-product. However, other than a cursory examination of a license, if applicable, the program monitoring process does not include cross checking to these two sections' populations for an independent verification.

FSSA is in the process of implementing new procedures for the CCDF program. This includes separating the in-take process from the payment system (which will be centralized) and storing data about eligible providers on a central database. This data comes from the sections responsible for licensing and registering the respective providers. This process provides segregation of duties and a verification system by the State of the existence of providers that are licensed or registered.

Some providers are neither licensed nor registered. Prior to July 2001, no on-site inspection procedures were in place for non-registered legally licensed-exempt providers. Starting in July 2001, the first statewide set of minimum standards applicable to all classes of providers was enacted. This subjects non-registered legally licensed-exempt providers to on-site inspections, which has been contracted to Child Care Resource and Referral agencies (CCR&R) to perform. The CCR&R are also the source for the central database's information on eligible non-registered legally licensed-exempt providers. However, some voucher agents and in-take agents have also contracted to be CCR&R. In those cases, due to lack of segregation of duties or other compensating controls, there remains a risk that payment could be made to either an inappropriate or nonexistent provider.

45 CFR 98.11 states that: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors; (6) Monitor programs and services."

We recommended that FSSA implement internal controls to ensure that payments are made to valid providers.

Status of Finding as of October 2003:

Finding Part 1: Program monitoring does not sample providers to determine they actually exist and Licensing does not communicate with Claims Management/voucher agents.

Response: As of October 1, 2003, all county CCDF eligibility grantees are operating as Intake Agents, meaning a separation of duties between CCDF intake and CCDF provider payment functions is currently in place.

In addition, all providers must now be checked to ensure that they are in compliance with the minimum standards legislation/regulations. Compliance with Minimum Standards is necessary before a provider is eligible to receive CCDF payments. Because of this, either licensing or the local Child Care Resource & Referral (CCRR) agency must visit every provider on an annual basis to ensure that they are in compliance.

Information entered into the Licensing and/or CCRR database is sent in a nightly extract to the CCDF web based eligibility system (AIS). To further monitor CCDF provider eligibility, a Provider Maintenance Specialist reviews all providers before entering them into the AIS software. Should any irregularities be identified, the Provider Maintenance Specialist contacts the appropriate certification agency (State Licensing or CCRR) and verifies provider eligibility. Finally, the CCDF Monitors, who perform reviews of all ninety-two counties in the State, will continue to review providers' licenses at the intake locations.

AIS currently sends eligible provider information to the State Claims payment software (PDD/Magic). Beginning October 2003, the Centralized Reimbursement Office (CRO) will begin implementation, and CCDF eligible providers will be sent to the electronic CRO software (EPPIC).

DFC/BCD feels that this corrective action plan should resolve this finding.

Finding Part 2: There is no segregation of duties between the local CCRR if they provide minimum standards checks as well as voucher/intake agent functions. This increases the risk that payments could be made to an inappropriate or nonexistent provider.

Response: All intake agents are required to disclose any potential or perceived conflicts of interest prior to the state entering into a contract. It should be noted however, that due to the small size of some counties throughout the state, it is necessary that the same entity provide a variety of services in order to support a staff position. To assist in mitigating the risk in this area, we have completed the following:

1) Potential conflicts of interests are now identified through the Request for Funds (RFF) process. This was implemented March 2003.
2) BCD developed contracts for those identified as having a possible conflict of interest that ensure no staff person may inspect providers for Minimum Standards compliance AND determine family eligibility. Restrictive contract language has been added to the 2004 contracts.
3) BCD developed monitoring procedures to verify that no staff person has a log-on ID for both CCRR database (NACCRRware) and AIS. Further, FY '03 Monitoring Procedures includes a sampling of client and provider files to verify separation of staff duties.

DFC/BCD feels that this corrective action plan should resolve this finding.

FINDING 2002 - FSSA-2 TANF AND VOUCHER AGENTS

Federal Agency:	Department of Health and Human Services
Federal Program:	TANF
CFDA Number:	93.558
Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director, Division of Budget and Finance
Phone Number:	317-234-0197
Compliance Requirement:	Subrecipient Monitoring

Findings:

In the State of Indiana, significant portions of the administration of the Child Care Development Fund (CCDF) have been passed down by FSSA to their subgrantee entities known as voucher agents. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, sec.400(d)(1), states that as part of its responsibilities the pass-through entity must "identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, 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." We found that this information for CCDF funding has been provided to the voucher agents. However, we also found that direct TANF funding (not to be confused with allowable TANF transfer into CCDF) is also passed to the voucher agents but is not identified.

We recommended that FSSA follow OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, sec.400(d)(1) as it pertains to TANF passed down to the voucher agents.

Status of Finding as of October 2003:

The Family and Social Services Administration no longer funds child care with direct TANF funding. If FSSA should ever have funds available in the future, the funding and CFDA number will be provided to the pass-through entity. The CFDA number is also a required field in the FSSA Contract Management System (CMS). The need to complete this field will continue to be emphasized in training and in CMS newsletters.

We consider this finding to be resolved.

FINDING 2002 - FSSA-3 TITLE XX AND VALIDATION OF DAY SERVICES CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	TITLE XX
CFDA Number:	93.667
Auditee Contact Person:	Alison Becker
Title of Contact Person:	Director
Phone Number:	317-234-1527
Compliance Requirement:	Allowability/Subrecipient Monitoring
Internal Control:	Reportable Condition, Material Weakness

Findings:

The Bureau of Developmental Disabilities Services (BDDS) is a part of the Division of Disability, Aging, and Rehabilitative Services (DDARS) within FSSA. BDDS is responsible for the planning and administration of services in community based, residential alternatives for those who meet the criteria of developmentally disabled. The major goal of the Bureau is to support independent living in the least restrictive setting possible for the recipient. To fulfill its goal a variety of services are offered through approved providers. This includes services identified as community day services (i.e., facility-based sheltered employment, transportation, group habilitation, group speech therapy, etc.). Title XX is the funding source used by FSSA to pay providers for services that are identified as community day services. During our audit of Title XX we found internal control weaknesses in the procedures used by FSSA to determine the validity, appropriateness, and necessity of day services claims from providers.

FSSA requires that day service providers maintain sufficient documentation to support the claims that are presented to the State for payment of services. However, FSSA does not request this documentation at the time of payment for validation. Instead, FSSA relies on front and back end processes to provide assurance. We found that these processes are not applied consistently to day services.

A front end process that BDDS utilizes to ensure appropriate and reasonable services for the developmentally disabled is the developmentally disabled recipient plan. This plan details the appropriate services that will enable a recipient to meet the goal of independent living. Incorporated in the plan is a budget for the detailed services. However, a developmentally disabled recipient only has a plan if the recipient is receiving State funding for residential services or Medicaid Waiver funding. A plan is not required for a recipient receiving day services only. Furthermore, if a recipient has a plan and is receiving day services, the day services portion does not have a budget. This means that for day services funding there is no budgetary control per recipient. Whereas those services that have a budget are reviewed by FSSA's Financial Management before the payment of a claim on behalf of a recipient, this cannot be done for day services. In addition, while some day services are required to have a limit on the number of units allowed per recipient, this is tracked by the provider and not submitted to FSSA.

A back end process that is utilized by FSSA is the on-site review by FSSA's Audit Services. Audit Services is to determine whether or not a provider is in compliance with a completed contract. When a provider is selected, Audit Services does review for allowable costs and sufficient supporting documentation. However, as provider selection is a risk based approach, not all providers will have an on-site review. Also, as the personnel in Audit Services are not experts in the needs of the developmentally disabled, Audit Services may not be able to determine the appropriateness or necessity of a day service. In addition, Audit Services reviews transactions after the close of the contract period. While this may be used as one part of a system of assurance of the validity of claims, it is not a timely method and does not guarantee that all providers will be adequately reviewed.

We found that there is no substantial verification of the validity of day services claims at the time of payment processing. We also did not find consistent compensating controls that would provide assurance that the recipient was receiving appropriate and reasonable services. We recommended that FSSA implement adequate controls to assure the validity of Title XX expenditures for day services.

45 CFR 96.30 states that: ". . . a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditures of its own funds."

45 CFR 96.31(b)(2) states that the State shall: "Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations." If a commercial contract 45 CFR 96.31(b)(1) states that the State ". . . should use their own procedures to ensure that the contractor has complied with the laws and regulations affecting the expenditure of Federal funds."

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Agency approval procedures are those necessary to determine a correct, valid, and proper charge in order to certify the claim voucher. . . . Basic Expenditure Payment Procedures: . . . Determine that the expenditure is reasonable and necessary for the agency and is a proper charge to a specific fund or fund/object/center. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 5)

Status of Findings as of October 2003:

The Bureau of Developmental Disabilities Services plans to put in place a system to approve services for each recipient and billing will be based on that approval. This will be similar to the process used for the Individual Community Living Budget (ICLB) for State Funding of residential services. This will allow for the verification of the validity of day service (Title XX) claims at the time of process. This was initially scheduled to be completed by July 2003, however that process has been delayed and it is uncertain at this time when it will be completed. We are currently working on a systems consolidation project with the Division of Technology Services and the Title XX recipient case management is included in that project under the case management portion. Please see attachment A.

FSSA is in the early planning stages for design of an integrated service authorization/claims payment system for Adult Day Services (Title XX). In the interim we established a process to collect claims information by individual. In order to accomplish the verification of billing against the proper funding source, each provider must submit an electronic submission of a report indicating by client the services being billed on the claim. This was put in place July 1, 2003. Please see attachments B, C, and D.

FINDING 2002 - FSSA-4 PASS-THROUGH ENTITY RESPONSIBILITIES AT DIVISION OF MENTAL HEALTH FOR TITLE XX

Federal Agency:	Department of Health and Human Services
Federal Programs:	TITLE XX
CFDA Numbers	93.667
Auditee Contact Person:	Bob Tyburski
Title of Contact Person:	Bureau Chief, Chronic Additions, DMH/FSSA
Phone Number:	317-232-7883
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition, Material Weakness

Finding:

The Division of Mental Health (DMH) at FSSA contracts with and provides funding to various providers for community mental health services. Part of the funding provided comes from Title XX.

According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending $300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "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."

DMH did not have a system in place to determine that subrecipient A-133 requirements had been met and had not reviewed any of the subrecipient A-133 audit reports received since November 2000. A new process was implemented in April 2002 whereby all A-133s reports were sent to FSSA's Audit Services for a fiscal review. However, neither DMH nor Audit Services had a system in place to determine that all required A-133 reports had been submitted. Thus, no determination has been made to confirm that subrecipients had an A-133 audit performed if required.

We recommended that FSSA implement a system that verifies the submission of required OMB Circular A-133 reports.

Status of Finding as of April 2004:

DMHA has worked with State Board of Accounts and FSSA Audit to update the Mental Health subrecipient audit log to track the receipt and review of subrecipients' A-133 audit reports. The review process has been flowcharted to ensure all parties are aware of their responsibilities in the audit review process.

DMHA has had the audit log in place for several years. The problem has been insufficient staff to complete the necessary tasks. A staff person was assigned to ensure the timely review of these audits. More recently there was a turnover in this staff position and this created another backlog in the logging of the audits and the forwarding of the audits to Audit Services. Since then DMHA has submitted all sub-recipient audits to FSSA Audit and will ensure no more than a two week window between receipt of sub-recipient audit and forwarding to FSSA Audit.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the lower risk audits is also done and appropriate feedback and follow-up is done.

The consistent following of these procedures should resolve this finding.

FINDING 2002 - FSSA-5 SUSPENSION AND DEBARMENT

Federal Agency:	Department of Health and Human Services
Federal Program:	Block Grants for Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	Donna Moore
Title of Contact Person:	Deputy Director, Contract Management
Phone Number:	317-234-1814
Compliance Requirement:	Procurement and Suspension and Debarment
Internal Control:	Reportable Condition

Findings:

During our audit of FSSA's suspension and debarment procedures, we found that FSSA has no written policies or procedures in place. FSSA does not routinely check the List of Parties Excluded From Federal Procurement or Nonprocurement Programs issued by the General Services Administration for suspended or debarred vendors/contractors and subrecipients receiving federal funds from the agency.

45 CFR 92.35 states that: "grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs . . ."

We recommended that FSSA implement procedures to verify that all vendors/contractors and subrecipients receiving federal awards have not been suspended or debarred.

Status of Finding as of October 2003:

Office of Contract Management checks the suspension and debarment list quarterly against our vendor file. Any new vendors that are entered into CMS are also checked. DOA will be including additional language in the contract boilerplate to cover sub-recipients, holding them liable for any paybacks, interest or penalties that might arise. The Office of Contract Management provided IDOA with notification to include the sub-recipients in September 2003. The new language should be in the boilerplate that will be available during IDOA's annual contract training Oct.28-29, 2003. *We believe the corrective action taken should resolve this finding.*

FINDING 2002 - FSSA-6 COST ALLOCATION PLAN - MONITORING OF CONTRACTOR

Federal Agency:	Department of Health and Human Services
Federal Program:	Foster Care Program
CFDA Number:	93.658
Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director, Division of Budget & Finance
Phone Number:	317-234-0197
Compliance Requirement:	Allowable Costs/Costs Principles
Internal Control:	Reportable Condition

Finding:

During our audit of the Cost Allocation Plan followed by the Division of Family and Children at FSSA, we found that there was an internal control weakness. FSSA contracts with an independent contractor to develop its Cost Allocation Plan. The contractor develops the plan based on the percentage of work time an employee spends on a grant. The contractor sends out Random Moment Samples to the county Offices of Family and Children. An FSSA employee at each county office is then responsible for sending the surveys to the employees sampled and returning the completed sample to the contractor. We found that there is no requirement that this employee either verify that all samples distributed are returned before remitting the samples back to the contractor or follow up on those samples not returned. Once the information is returned to the contractor, the contractor develops the percentages to be used for the next quarter. The percentages are applied to the eligible grants to determine what amount of cost FSSA can recover from the grant. FSSA does an abstract of the percentages for the current and preceding quarters, but does not perform an analysis. A general comparison of total Federal Administrative Allowance for the fiscal year is done by FSSA personnel. While the general comparison indicates that FSSA does review some of the information provided by the contractor, FSSA has not determined what amount of variance would require them to question the contractor about the circumstances that created the variance. Also, establishing variance parameters on the quarterly abstracts could help to ensure a more timely address of issues that may arise.

Per Circular A-133, section 210 (f): ". . . the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance . . ."

We recommended that FSSA establish parameters to help to ensure that the percentages reported by the contractor are correct. We also recommended that FSSA establish procedures requiring that employees complete and submit all Random Moment Sample surveys to the contractor.

Status of Finding as of October 2003:

Effective April 14, 2003, the State of Indiana implemented an electronic system for distributing and recording Random Moment Sampling (RMS) observations for the Income Maintenance RMS (IMRMS) and the Social Services RMS (SSRMS). This system has eliminated the need for the Random Moments Sample (RMS) Taker within each local DFC office to distribute and collect the paper RMS forms. The electronic RMS system will utilize email and the Internet.

The e-mail notification will include a link to a sample observation form on the Internet. Once the observation form on the Internet has been completed and saved, the data will be automatically saved in the RMS system. The observation form on the Internet will only be accessible for forty-eight hours after email notification. The RMS contractor, MAXIMUS, Inc., will monitor observation distribution and responses from a desktop personal computer. The RMS contractor will notify RMS coordinators in the local offices daily of sample observations without a response after forty-eight hours, as well as erroneous responses. Sampled individuals who have not responded after forty-eight hours or who have responded erroneously will be referred to the RMS contractor for assistance by the end of that day.

The RMS contractor has trained local office supervisors and RMS coordinators on the electronic RMS system at regional meetings during February and March 2003. The supervisors trained their staff in the IMRMS and SSRMS sample pools using the training packet provided by the RMS contractor.

We consider this finding to be resolved.

FINDING 2002-FSSA-7 ST. JOSEPH COUNTY OFC FRAUD

Federal Agency:	Department of Health and Human Services and Department of Agriculture
Federal Program:	Temporary Aid to Needy Families (TANF) and Food Stamps
CFDA Number:	93.558 and 10.551
Auditee Contact Person:	Thurl B. Snell
Title of Contact Person:	Deputy Director of Bureau of Family Resources
Phone Number:	317-233-3542
Compliance Requirement:	Allowable Cost

Finding:

FSSA maintains county offices known as Offices of Family and Children (OFC) to help implement many of FSSA's programs. In 2001, two programs, Temporary Aid to Needy Families (TANF) and Food Stamps, were converted to an Electronic Benefits Transfer (EBT) card system. This card system has been installed in most states and is designed to shorten or eliminate the time delay between the assessment of need and the delivery of assistance to eligible public assistance clients. In July 2002, FSSA initiated an investigation of the St. Joseph County OFC after their central office personnel noted certain anomalies in the Indiana Client Eligibility System (ICES). The investigation, performed by FSSA Bureau of Investigation, revealed that $212,811 in TANF and $6,536 in Food Stamps benefits were diverted to the benefit of a St. Joseph County OFC office caseworker.

FSSA had two groups respond to this fraud. One group, the Bureau of Program Integrity's Management Evaluation, recently finished a project to identify potential cases of fraud to be referred to the FSSA Bureau of Investigation. A second initiative was started by the ICES Project Team to establish new reports and modify existing ICES system parameters.

We recommended FSSA continue to modify the ICES system parameters and reports to respond to these and similar fraud exposures. We further recommended FSSA target training for OFC case managers and supervisors to reduce similar fraud exposures.

Status of Finding as of October 2003:

FSSA Policy 1-16 was issued August 16, 2002, which implemented zero tolerance regarding employees reporting fraud suspicions. All employees were required to sign off on this policy by September 16, 2002. The policy specifically addresses the course of expected actions of all employees in the case of suspected misuse of public funds. A flowchart that outlines the various areas' responsibilities for responding to suspected fraudulent activities and the steps for reporting and coordinating activities has been developed to ensure the developed procedures are appropriately followed.

A centralized fraud tracking system has been developed to aid in the timely follow-up and appropriate communication of fraud allegations. This agency wide tracking system was brought on line in September 2003. It was developed from a stand-alone system that was used by the Bureau of Investigations (BOI) and all data from the BOI system was transferred to the new system. This system allows coordination of activities between BOI, Internal Investigations and FSSA Audit Services. Various statistical management reports are available to Division Directors.

FSSA policy staff has taken pro-active steps to strengthen fraud reporting procedures and will continue to prioritize the training of staff to recognize potential fraudulent cases.

FINDING 2002 - FSSA-8 PHYSICAL THERAPY IN EXCESS OF ALLOWABLE UNITS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Kathy Moses and Pat Nolting
Title of Contact Person:	Director of SCHIP, FSSA and Director of Program Operations, OMPP, FSSA
Phone Number:	317-233-7346 and 317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Finding:

During our audit of FSSA's SCHIP/Medicaid programs, we found an outpatient claim that was paid by the Medicaid claims processing system (AIMS) for two units of service for physical therapy all on the same date of service. Medicaid Policy allows a provider to be reimbursed a maximum of one unit of therapy service per day for outpatient claims. Upon further review we found that the AIMS does not audit for outpatient claims in excess of one unit per day. This is a control weakness.

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA ensure that sufficient edits and/or audits are in place and operating to audit for outpatient claims in excess of one unit per day in compliance with Medicaid policy.

Status of Finding as of October 2003:

The Indiana AIM claims processing system limits reimbursement to no more than the flat rate per unit billed per line item billed on the UB-92 claim form. However, if a provider bills the same revenue code on separate line items, the system is not designed to edit for that. OMPP acknowledges this weakness. Our records indicate that this error only occurs in 5.7% (approximately $70,000 per year) of outpatient therapy claims submitted for payment. Initial research indicates the system resources required to develop a system edit to deny reimbursement for multiple-line item billings are fairly significant. As a result of the HIPAA implementation, there is currently a backlog of system change requests pending. OMPP does not view the outpatient therapy edit as critical enough to warrant a high priority at this time. The reason for this is that the occurrence of the error is infrequent and we have an interim process in place to identify duplicate payments for recoupment purposes. OMPP believes that post-payment audit identification and recoupment of this billing error sufficiently satisfies the SBOA finding. *OMPP considers this finding closed.*

FINDING 2002 - FSSA-9 HOOSIER ASSURANCE PLAN AND MEDICAID PAYMENT OVERLAP

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Allowability
Internal Control:	Reportable Condition

Finding:

During our audit of FSSA's Medicaid program, we found that FSSA's Division of Mental Health (DMH) pays a case rate to Community Mental Health Centers (CMHCs) for enrollees under the Hoosier Assurance Plan (HAP). This case rate is the same for HAP enrollees whether the enrollee is Medicaid eligible or non-Medicaid eligible. In addition, this case rate covers services under the continuum of care that are also direct billed by the CMHCs to Medicaid. This results in the CMHCs charging and receiving a higher rate of reimbursement for services for HAP enrollees who are Medicaid eligible versus those who are non-Medicaid eligible. Thus, CMHCs are charging and receiving more than their usual and customary charge.

Medicaid policy set out in 405 IAC 1-11.5-3 states: ". . . the provider of service may not develop or bill the Medicaid program for charges that are in excess of the usual and customary charges billed for similar services to non-Medicaid payers."

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA ensure that the CMHCs providing service to Medicaid eligible HAP enrollees not develop or bill the Medicaid program for charges that are in excess of the usual and customary charges billed for similar services to non-Medicaid payers.

Status of Finding as of October 2003:

Effective July 1, 2003, DMHA revised the language in its contracts to reflect more clearly that the community mental health centers are paid to provide a continuum of care rather than specific services. The revised language also notes that case rates are not intended to cover the entire cost of care. In addition, previous language that specified the DMHA as the payer of last resort has been removed. *With these changes OMPP considers this finding closed.*

Status of Finding as of May 2004:

CMS approved the contract revisions made by DMHA. SBOA has advised the OMPP that this finding is closed.

FINDING 2002-FSSA-10 MEDICAID REPORTING – RECONCILIATION ERRORS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Kathy Moses and Pat Nolting
Title of Contact Person:	Director of SCHIP, FSSA and Director of Program Operations, OMPP, FSSA
Phone Number:	317-233-7346 and 317-232-4318
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

Finding:

During our audit of FSSA's SCHIP/Medicaid federal report, CMS-64, we found a reconciling worksheet utilized in compiling the CMS-64 that reported $413,392.46 more than the supporting financial status reports. We also found an additional supporting worksheet utilized in compiling the CMS-64 that was $571,573.99 less than the total expenditures reported on the CMS-64. The total effect of these errors on reporting could not be determined.

45 CFR 74.21(b) "Recipients' financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each HHS-sponsored project or program . . ."

We recommended that FSSA implement procedures to verify that amounts reported on the CMS-64 properly reconcile to accounting source records.

Status of Finding as of October 2003:

FSSA concurs that a reconciliation error occurred on one of our worksheets used to prepare the quarterly CMS-64 Federal Report. We have verified through our supporting documentation that the expenditures reported on the CMS-64 are correct and the differences cited in this finding were a result of the errors on the worksheet.

New worksheets were developed to prepare the CMS-64 for quarter ending June 2003. FSSA continues to work with CMS to finalize the worksheets to prevent future errors. *Once the worksheets are finalized and approved by CMS, FSSA will consider this finding closed.*

FINDING 2002 - FSSA-11 PROVIDER PAYMENTS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Allowability
Internal Control:	Reportable Condition

Finding:

During our audit of FSSA's Medicaid program, we found that FSSA had made payments in excess of the established fee schedule to Indiana University Healthcare Association, Inc., and to Indiana University Health, Inc., for $67,670,364 and $1,833,487, respectively. These excess of fee schedule payments were calculated by obtaining the difference between the amount billed by the providers and the original Medicaid reimbursements to the providers. The original reimbursements were based on the established fee schedule. These excess of fee schedule payments were for a two year period for only a portion of the aforementioned providers' Medicaid submitted claim population. Third party liability payments (non-Medicaid payments) to providers were not considered in the calculation of these excess of fee schedule payments. By not considering third party liability payments, providers may have received total payments in excess of their billed charges.

Upon inquiry of how these providers were selected FSSA indicated that certain hospitals served a high percentage of individuals who were Medicaid eligible and that it was necessary to adjust the rates paid to the faculty physicians to ensure access to care for these Medicaid recipients. FSSA became aware of the need through the close contact that FSSA maintains with providers through meetings that are designed to help FSSA monitor the providers and their needs. The two aforementioned corporations serve the largest disproportionate share hospitals and there was communication about the difficulty in specialist retention and recruitment. However, FSSA could not provide us with sufficient evidence to establish a formal process by which they selected the aforementioned providers and determine the amount of payment. A formal process might include such things as an application process, benchmarking, and analysis of appropriate payments to accomplish specific goals.

FSSA provided reference Attachment 4.19-B, Page 1c, IV of their state plan and 405 IAC 1-11.5-2(b)(1), (b)(3) and (d) as the authority for making such payments. Both references only authorize adjustments to Medicaid's fee schedule or medical procedure codes, not adjustments to specific providers. This issue is currently under review by the federal oversight agency Centers for Medicare and Medicaid Services (CMS) as it relates to only the aforementioned state plan section. FSSA made additional excess of fee schedule payments after our audit period.

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA ensure that Medicaid funds are used only for authorized purposes. We consider the amount of $43,120,189.16 (the federal portion of the $69,503,851) to be a questioned cost. We also recommended that FSSA pursue guidance for a decision from CMS regarding the authorization of these adjustments.

Status of Finding as of October 2003:

This matter is still under review by CMS.

For the reasons set out below, OMPP believes the Physician Faculty Access to Care adjustment is consistent with the approved State Plan and state regulations.

Indiana's approved state plan states that physicians shall be reimbursed the lesser of (1) the provider's submitted charges for the procedure, or (2) the established RBRVS fee schedule allowance for the procedure. Our State Plan notes OMPP may adjust the payment rates as necessary. With the IU faculty physicians it was necessary to adjust the rates paid to the faculty physicians to insure continued access to care for the Medicaid recipients. The access to care issues arose from the fact that the affected hospitals serve a high percentage of individuals who are Medicaid-eligible. With Medicaid enrollment increasing, more and more Medicaid eligibles are seeking care at critical access hospitals like IU. This has caused increased patient wait times at IU clinics that serve the Medicaid population, as well as increased the concerns about reimbursement levels of specialty physicians. Specifically, specialty physicians have been leaving the hospitals due to reimbursement rates and increasing patient wait times for clinics. For example, before the Access to Care Adjustment, internists were fulfilling Emergency Room and Trauma duties in Wishard's Level I Trauma center due to increasing recruiting difficulties for board-certified emergency room physicians. These issues resulted in the rates being adjusted up to the UPL for the affected providers in accordance with the State Plan.

OMPP is in the process of reviewing the adjustment with CMS.

Status of Finding as of May 2004:

CMS is no longer reviewing the payment adjustments. CMS approved a State Plan Amendment, authorizing payment adjustment on 02-24-04. OMPP considers this finding closed.

FINDING 2001 - DWD-3 CASH MANAGEMENT – DIRECT COSTS CLAIMED

Federal Agency:	Department of Labor, Department of Education
Federal Programs:	Employment Service Cluster, Unemployment Insurance, Workforce Investment Act, Vocational Education – Basic Grants to States
CFDA Numbers:	17.207, 17.801, 17.804, 17.225, 17.255, 84.048
Auditee Contact Person:	Diana Gushrowski
Title of Contact Person:	Interim Deputy Commissioner of Finance and Administration/Controller
Phone Number:	317-232-7676
Compliance Requirement:	Cash Management

Finding:

Treasury regulations at 31CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), require state recipients to calculate interest liabilities incurred related to the drawing of federal funds, and requires reporting of such liabilities in an annual report to the U.S. Department of Treasury. A state may submit, as part of their annual report, a claim for reimbursement of its direct costs of implementing CMIA. In its annual report, the Department of Workforce Development claimed direct costs of $23,750 and $26,957 for fiscal years 2000 and 2001, respectively.

31CFR subpart 205.14(a) defines direct costs of implementing this subpart as those costs necessary for the development and maintenance of clearance patterns and those costs necessary to perform the actual calculation of interest liabilities. Our testing of direct costs claimed for reimbursement, found that the costs claimed for salaries and benefits of those staff developing and maintaining clearance patterns and calculating interest liabilities were paid for with federal funds and not by the State of Indiana, as the payroll costs were charged through indirect costs or as a direct costs to the Unemployment Insurance program.

We recommended that the Department of Workforce Development not claim as direct costs those costs that were charged through the indirect cost plan or directly to federal grants. We consider the $23,750 and $26,957 to be questioned costs.

Status of Finding:

We made adjustments for fiscal years 2000 and 2001 direct costs claimed on our fiscal year 2003 CMIA Annual Report submitted to the State Budget Agency on December 9, 2003. On this report, we also made an adjustment for the fiscal year 2002 direct costs claimed. The State Budget Agency's Controller, David Dukes, has advised us that they have submitted this report to the U.S. Treasury.

FINDING 2002 - DWD-1 Grant Receipts

Federal Agency:	Department of Labor
Federal Programs:	Workforce Investment Act Cluster
CFDA Numbers:	17.258, 17.259, 17.260
Auditee Contact Person:	Diana Gushrowski
Title of Contact Person:	Interim Deputy Commissioner of Finance and Administration/Controller
Phone Number:	317-232-7676
Compliance Requirement:	Period of Availability
Internal Control:	Reportable Condition

Finding:

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, subpart C, requires that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period. The grantee must liquidate all obligations incurred under the award not later than ninety days after the end of the funding period to coincide with the submission of the annual Financial Status Report. [29 CFR 97.23 (a) and (b)] Subpart D, requires that the grantee must immediately refund to the federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants. [29 CFR 97 50 (d)(2)]

At June 30, 2002, we determined that the Department of Workforce Development's records of total federal receipts for the Workforce Investment Act (WIA) program exceeded that of the federal records per the Payment Management System (PMS) by $1,358,197. To determine the source of the variance, DWD compared each receipt entry recorded in the WIA ledgers for the period July 1998 to June 2002, to the federal records of drawdowns per the PMS 272-E report. DWD identified the variance as the net result of the following:

1. A total of $1,579,134 consisted of transfers to WIA ledgers of excess receipts and cash balances held in closed JTPA ledgers for grant years P94 to P97. The transfers were recorded in DWD's accounting records in May 2002 and did not have corresponding adjusting entries to the federal PMS records.

2. A total of $213,754 was identified as having been drawn down from PMS awards for closed Dislocated Worker projects, but was recorded as revenue to WIA grant ledgers. These projects were not fully expended, yet the PMS records for A1893334A (Grissom) show the award as issued in full, and the draws issued for A189668S (Maytag) exceeded the expenditures.

3. A total of $434,691 was identified as owed to WIA ledgers on DWD's records, as the WIA draws were incorrectly recorded to ledgers for the Employment Service (17.207), School to Work (17.249), and Labor Certification for Alien Workers (17.203) programs.

We also found federal receipts posted during fiscal 2002 to an expired Dislocated Workers program ledger (7460 P97) that resulted in a cash balance of $48,013. Additionally, several P96 and P97 ledgers of the Dislocated Workers program retained negative cash balances going back to at least June 2000, which total ($46,569).

The errors were not identified by DWD in the course of business, as the receipt reconciliation between the PMS system 272 reports to the DWD records were incomplete for the account that included JTPA, WIA, ES, and School to Work. The reconciliation did not ensure that the grant receipts were posted to the correct grant award ledger, or program year of funds and did not compare the cumulative totals reported. The DWD grant closeout procedures were also incomplete for the JTPA and WIA grants. Even though final expenditure reports were filed, cash balances remained and receipts were not agreed to the federal records. Transfers of receipts and cash were also recorded on DWD records without assessing the need for corresponding transfers on the federal payment management system.

We recommended that DWD perform the necessary adjustments either to the federal records or the agency accounting records, as appropriate, in order to have the federal receipt records agree for each grant award. Refunds may be required for the draws obtained from expired funding periods. Reconciliation procedures should ensure that receipts are recorded to the correct grant ledger and fiscal year of funding. Closeout procedures must include analysis of cumulative cash receipts, and refund cash balances in accordance with 29 CFR 97(d)(2).

Status of Finding:

We made adjusting entries on our accounting system, Financial Accounting and Reporting System (FARS) or PMS and refunds to the USDOL as necessary that resolves the $1,358,197 variance cited as the net result of items 1 through 3 listed in this finding.

We corrected a duplicate revenue entry made in June 2002 on batch Number 16 effective with our July 2002 reports and made an adjusting entry in November 2002 per batch Number 516 that resolved the $48,013 cash balance for the Dislocated Workers program ledger (7460 P97). Additionally, we made adjusting entries for the several P96 and P97 Dislocated Workers program ledgers cited as having negative cash balances on batch number 525 in March 2003.

We have performed quarterly total receipts reconciliations since September 30, 1998. The Analysis and Reconciliations Unit (ARU) revamped its quarterly PMS to FARS revenue reconciliation for WIA funds to include the PMS subaccounts effective with the March 31, 2003, reconciliation. This reconciliation is now completed by PMS subaccount to FARS grant ledger and fiscal year. This change in the reconciliation format will help us to ensure that receipts are recorded correctly to our accounting system and help us to identify errors needing adjustments so that they can be made more timely.

Also, we have completed cumulative WIA receipts reconciliations between FARS and PMS for the periods ending March 31, 2003, June 30, 2003, and September 30, 2003, and we will continue to complete these reconciliations quarterly. These reconciliations were completed from P92 funds forward on FARS to their corresponding PMS subaccounts. We have made FARS or PMS adjustments and refunds as necessary that were identified from these reconciliations. However, we continue to have a FARS versus PMS total receipts difference of $1,529,062 (FARS receipts greater than PMS receipts) as of the September 30, 2003, reconciliation. We believe this difference pre-dates FARS and for this reason moved this difference to its own ledger (P96 7320). We will continue to research this difference to determine the appropriate adjustments needed and will complete this work by June 30, 2004.

The Grant Accounting and Budget and Analysis Units have established procedures to use a checklist including a worksheet to reconcile cumulative cash receipts between FARS and PMS at grant closeout.

DWD has made tremendous improvements to its reconciliation processes since February 28, 1997, upon establishment of the ARU. We shall continue to implement changes to our processes as necessary that will help us to ensure high levels of accountability and accuracy with our accounting system.

FINDING 2002 - IDOE-1 MAINTENANCE OF EFFORT

Federal Agency:	Department of Education
Federal Programs:	Title 1
CFDA Number:	84.010
Auditee Contact Person:	Alice Harpel
Title of Contact Person:	Director of Title 1, Division of Compensatory Education
Phone Number:	317-232-0540
Compliance Requirement:	Maintenance of Effort
Internal Control:	Reportable Condition

Finding:

The Indiana Department of Education (DOE) is the state educational agency (SEA) who administers Title 1 funds to the local educational agencies (LEAs). The DOE Title 1 program is required to determine whether each LEA is in compliance with the maintenance of effort requirement using financial data the LEAs submit to the DOE Division of School Finance. The Educational Information Systems Division of DOE generates a maintenance of effort report for Title 1. Financial data used to determine maintenance of effort is to include and exclude specific expenditures.

During the audit of the Title 1 maintenance of effort requirement, we found that the financial data contained in the report used to calculate maintenance of effort for LEA did not exclude expenditures made from funds provided by the federal government.

34 CFR 200.64(c)(2) states in part that: "The SEA shall not consider . . . any expenditures made from funds provided by the Federal Government for which the LEA is required to account to the Federal Government directly or through the SEA . . . in determining an LEA's compliance with the maintenance of effort requirement."

We recommended that the financial data contained in the maintenance of effort report used by Title 1 to evaluate this requirement exclude any expenditures made from funds provided by the federal government.

Status of finding:

Corrective action has been taken. The maintenance of effort report generated for Title 1 by the Educational Information Systems Division for fiscal year 2000-2001 does exclude federal funds. This report was verified by Title 1 staff and used to determine maintenance of effort by LEAs for the 2002-2003 year.

All staff involved in collecting, compiling and verifying data for maintenance of effort reports are aware of the requirement to exclude federal funds, and all future maintenance of effort reports will be prepared accordingly and reviewed to ensure compliance.

FINDING 2002 - AG-1 MEDICAID FRAUD CONTROL UNIT - ANNUAL REPORT

Federal Agency:	Department of Health and Human Services
Federal Program:	State Medicaid Fraud Control Units
CFDA Number:	93.775
Auditee Contact Person:	Allen Pope
Title of Contact Person:	Director of MFCU
Phone Number:	317-232-6529
Compliance Requirement:	Special Tests and Provisions - Utilization Control
Internal Control:	Reportable Condition

Finding:

During our audit of Medicaid, we found that the Attorney General's Medicaid Fraud Control Unit (MFCU) listed a Medicaid fraud case as outstanding in the prior year's annual MFCU report which was not reported in the current year's annual MFCU report even though the case was still outstanding. In addition, we also found Medicaid fraud cases listed as outstanding in the current year's annual MFCU report that were outstanding at the time of the prior year's report but were not reported in the prior year's annual MFCU report. Upon further investigation we found that the MFCU did not have an adequate case management system in place to adequately track outstanding cases. As a result MFCU's annual report did not correctly list outstanding cases.

42 CFR 1007.17 requires that the MFCU ". . . submit to the Secretary a report covering the last 12 months . . . and containing the following information—(a) The number of investigations initiated and the number completed or closed, categorized by type of provider; (b) The number of cases prosecuted or referred for prosecution; the number of cases finally resolved and their outcomes; and the number of cases investigated but not prosecuted or referred for prosecution because of insufficient evidence;"

We recommended that the MFCU ensure the MFCU annual report correctly lists outstanding cases in compliance with 42 CFR 1007.17.

Status:

The audit, conducted in 2003, compared the annual federal report filed by the MFCU for the twelve-month period of 04-2000 – 03-2001 with the report filed by the MFCU for the twelve-month period of 04-2001 – 3-2002. A great many improvements in policies and procedures had occurred between 2000 and the time that the audit was conducted in 2003. The following response is not an attempt to describe changes made since the audit. Many changes in policies and were already in place. Rather, the following is a description of the policies and procedures in place as of 2004 which address the issues raised in the findings.

The MFCU believes that the finding is now "resolved."

<u>The following procedures are in place with respect to guaranteeing the accuracy of the number of open investigations reported on the annual report:</u>

The MFCU has a case management system that utilizes Law Manager, a database used for case management by all of the Office of Attorney General. All MFCU investigations opened are recorded in Law Manager. Barring human error in copying from Law Manager reports to prescribed federal forms in the preparation of any future reports, all cases opened and closed are accounted for in those reports, as those reports consist of information generated form Law Manager. A complete listing of open cases is generated from Law Manager each time a report is required to be prepared. That listing is compared to the listing of open cases generated at the time of the previous report, the listing of cases opened during the current reporting period, the listing of cases closed, and a listing of cases re-opened, to confirm that the numbers reported account for all cases. It is possible for old investigations, once closed and thought to be beyond further consideration, to become active again. The formally mandated reporting requirements of the federal regulators make no provision for "re-opened" investigation. Accordingly, in order to guarantee that the numbers add up, the MFCU now routinely includes an explanation in its reports, including in that explanation a listing of any investigations that were reopened during the reporting period.

<u>FINDING 2002 - AG-2 MEDICAID FRAUD CONTROL UNIT- COMPLAINT REFERRAL</u>

Federal Agency:	Department of Health and Human Services
Federal Program:	State Medicaid Fraud Control Units
CFDA Number:	93.775
Auditee Contact Person:	Allen Pope
Title of Contact Person:	Director of MFCU
Phone Number:	317-232-6529
Compliance Requirement:	Special Tests and Provisions - Utilization Control
Internal Control:	Reportable Condition

Finding:

During our audit of Medicaid, we found that the Attorney General's Medicaid Fraud Control Unit (MFCU) reviewed cases to determine whether they contained substantial potential for criminal prosecution. Cases that lacked substantial potential for criminal prosecution were closed. MFCU might, in its discretion, refer such cases back to other agencies or their agents, such as to Family and Social Services Administration (FSSA) or its SUR contractor, Health Care Excel, for administrative action. However, MFCU did not formally track whether such referrals were made, nor did it provide formal guidance to staff regarding their responsibility to make referrals. In addition, we discovered a file that remained open but inactive for several years, despite containing documentation of an outstanding issue regarding a potential overpayment. As a result of MFCU's informal procedures, we could not determine that referrals were consistently made on a timely basis to the appropriate state agency.

42 CFR 1007.11 (b) (3) states: "if the initial review does not indicate a substantial potential for criminal prosecution, the unit will refer the complaint to an appropriate State agency." 42 CFR 1007.11 (c) states that "if the unit . . . discovers that overpayments have been made . . . the unit will either attempt to collect such overpayment or refer the matter to an appropriate state agency for collection."

We recommended that the MFCU refer complaints, which lacked substantial potential for criminal prosecution, to the appropriate state agency in a timely manner. We recommended that the referrals be formally documented. We further recommended that any overpayments not pursued for collection by MFCU be referred to the appropriate state agency for timely collection.

Status:

The audit, conducted in 2003, compared the annual federal report filed by the MFCU for the twelve-month period of 04-2000 - 03-2001 with the report filed by the MFCU for the twelve-month period of 04-2001 – 3-2002. A great many improvements in policies and procedures had occurred between 2000 and the time that the audit was conducted in 2003. The following response is not an attempt to describe changes made since the audit. Many changes in policies and were already in place. Rather, the following is a description of the policies and procedures in place as of 2004 which address the issues raised in the findings.

The MFCU believes that the finding is now "resolved."

<u>The following procedures are in place at this time with respect to referrals made by the MFCU:</u>

MFCU matters that lack the potential for criminal prosecution, but where investigations disclose findings that may require administrative action, are referred to the appropriate agency for further review and action.

At the time an investigation is completed, the investigator in charge of the investigation prepares a summary of the investigation. That summary includes a single-page cover sheet that contains the investigator's recommendation with respect to any referral. That referral recommendation is reviewed by the investigator's supervisor, and them by the director. Any decision for referral is documented on that cover sheet. That referral decision is also recorded in the computerized database, Law Manager.

Investigative reports and supporting documentation obtained during the MFCU investigation are forwarded to the referral agency along with the referral.

These MFCU files are assigned to "Referral" status in Law Manager, and kept separately in a "Referrals" drawer for follow-up. The referred investigations are then assigned to a paralegal who is responsible for that follow-up and for maintaining the record of the referral and any results obtained by the referral agency. At the time of referral, the agency to which the matter is referred is requested to advise the MFCU of any actions, if any, taken as a result of such referral. Following the referral, contacts are made with such agencies to determine that the referral was, in fact, received by such agency, and subsequent periodic contacts with the agencies are made in efforts to ascertain the status of the referrals.

"People helping people help themselves"

Joseph E. Kernan, Governor
State of Indiana

Indiana Family and Social Services Administration
402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

Cheryl G. Sullivan, Secretary

To: Charles Johnson III, State Examiner
State Board of Accounts

From: Venita J. Moore, Deputy Secretary

Date: June 14, 2003

RE: **Response to the State Board of Accounts Audit for year ending 2003**

Attached you will find FSSA's responses to the State Board of Accounts Audit Findings for the period ending June 30, 2003 and the updated status for any outstanding prior year findings. Should you or your staff have any questions, please feel free to contact me at 232-1194.

Attachment

Cc: FSSA Policy Staff

FINDING 2003-FSSA-1 FOSTER CARE PAYMENTS

Federal Agency:	Department of Health and Human Services
Federal Programs:	Foster Care Program
CFDA Numbers:	93.658
Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director, Division of Budget and Finance
Phone Number:	317-234-0197
Compliance Requirement:	Activities Allowed or Unallowed, Reporting
Internal Control:	Reportable Conditions

Status of Finding and Corrective Action Plan as of May 2004:

1. Financial Management forwarded a letter, dated March 24, 2004, to the 92 Local Division of Family and Children Offices reminding them corrections need to be submitted to Central Office-Financial Management when errors in reimbursement occur at the Local Office. This letter also requested that the Local Office Bookkeeper call Financial Management if they are not sure on how to make corrections. A name and telephone number was included in this letter.

2. Central Office-Financial Management is in this process of automating their claiming operations for Title IV-E, Assisted Guardianship and Title IV-A Emergency Assistance programs. This new system will be able to catch some of the claiming errors before reimbursement is made to the Local Offices.

3. Central Office-Financial Management plans to add a section in the new Local Office Accounting Manual regarding a process for correcting errors in reimbursement for the Title IV-E, Assisted Guardianship, Adoption Assistance and Title IV-A Emergency Assistance programs.

Adjustments:

Wabash County: In October 2002 Local Office claimed regular Title IV-E for a child from August 1 through August 10, 2003 and claimed Title IV-E Waiver for same child from August 1 though August 31, 2003. Both Central Office and Local Office records have been corrected. The Title IV-E $250.00 overpayment was adjusted off of Wabash County's Schedule of Payments for March 2004 submitted in April 2004. This reduction in the March reimbursement also corrected the Federal reimbursement.

Marion County: A child adopted March 27, 2003 had wardship released April 1, 2003. The Local Office claimed regular Title IV-E for April 2003. The Title IV-E $511.50 overpayment was adjusted off of the Marion County's Schedule of Payments for March 2004 submitted in April 2004. This reduction in the March reimbursement also corrected the Federal reimbursement. An e-mail was sent to Tim Wentworth, Marion County, advising him that Marion County would need to claim Adoption Assistance for this child for April 2003. To date, Local Office has not submitted a Schedule of Payments requesting reimbursement for Adoption Assistance.

FINDING 2003-FSSA-2 NONCUSTODIAL PARENT LOCATION EFFORTS:

Federal Agency:	Department of Health and Human Services Services--
OCSE-ACF	
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Karla Mantia
Title of contact Person:	Deputy Director, Child Support Bureau
Phone Number:	317-233-4482
Compliance Requirement:	Special Tests and Provisions

Status of Finding and Corrective Action Plan as of May 2004:

CSB will be addressing this finding in two parts. Since references were made to the State New Hire program requirement and location of noncustodial parties, each of which is a separate and distinct IV-D program requirement. CSB is assuming the finding deals with two separate issues. One dealing with on-line access to DWD data and the other as CSB's request for receipt of quarterly wage data more expediously than we can receive it from the Federal Case Registry, so the State New Hire vendor can pursue employer compliance with new hire reporting.

1) CSB does do all the items listed in the Subsections above. In regard to the above referenced Subsection (5), IV-D does have access to DWD data, however it would be more efficient if CSB had on-line access to the data. For years CSB has been requesting on-line access. Initially DWD had perceived authorization issues. The authorization issue has been resolved; however technical access issues, which were going to be resolved with their new computer system are indefinite, since the new computer system will not be operational for some time. Hence, CSB met with DWD on May 5, 2004 to discuss the need to work out these technical barriers to on-line access with the existing computer system, rather than postponing until they have the new computer system operational.

CSB will continue to work with DWD. It is assumed and appreciated that DWD will also receive this similar finding during SBOA audit of DWD.

2) CSB has also requested DWD to provide the quarterly wage file directly to the State New Hire vendor to enable identification of employers who are reporting quarterly wages, but who are not reporting their new hires. Several requests have been made to DWD. The most recent request was on May 3, 2004. Per a follow up with DWD on May 27, 2004, they have not been able to work on the request due to other DWD work. CSB will continue to pursue this matter with DWD.

FINDING 2003-FSSA-3 ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency:	Department of Health and Human Services
Federal Programs:	Child Support, Foster Care, TANF
CFDA Numbers:	93.563, 93.658, 93.558
Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director, Division of Budget and Finance
Phone Number:	317-234-0197
Compliance Requirement:	Allowable Costs/ Cost Principles
Internal Control:	Reportable Conditions

Status of Finding and Corrective Action Plan as of May 2004:

1. Financial Management implemented a new process on February 20, 2004 where the accountant making the cost allocation entries compares the work of the contractor to the source documentation from another FSSA accountant. This comparison should help detect any errors made by the contractor. A copy of the instruction to FSSA staff is attached to this response.

2. Financial Management conducted the telephone accessibility survey referenced in the finding as a result of the State Board of Accounts review. Completing the telephone RMS is only necessary if the worker fails to respond to the RMS via e-mail. The e-mail link remains open for 48 hours. It is only when the worker fails to respond within 48 hours that a telephone response is necessary. FSSA does not find that using the supervisor's phone for long distance access is overly burdensome in these cases given the amount of time that is allowed to respond by other methods from the workers desk. Even after a telephone response, the HHS Division of Cost Allocation requires a confirming e-mail from the sampled employee thus making the telephone response optional.

FINDING 2003-FSSA-4 CHILD CARE AND DEVELOPMENT FUND (CCDF)-PROVIDER AGREEMENTS

Federal Agency:	United States Department of Health and Human Services
Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The provider agreement required by The Bureau of Child Development (BCD) and instituted by the Central Reimbursement Office (CRO) vendor, ACS, includes the following phrase:

"Must allow parents/guardians to visit their child(ren) while in my care and allow access to all areas used for child care as noted in CFR 98.31"

Although the use of this provider agreement has been questioned by providers, our internal legal opinion is that all providers must sign this agreement to receive CCDF funds. By August 1 of this year all providers receiving CCDF funds in Indiana will have completed such an agreement.

FINDING 2003-FSSA-5 CHILD CARE AND DEVELOPMENT FUND (CCDF)-VERIFICATION OF REGISTERED MINISTRIES

Federal Agency:	United States Department of Health and Human Services
Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The Bureau of Child Development has been responding to applications for Registered Child Care Ministries based on an Operational Directive issued in 1996. This policy directed Child Care Health staff to certify a ministry based on documentation that included a letter from the Internal Revenue Service (IRS) that an application had been received. An onsite training event with the IRS on April 16, 2004 indicated that this was not a reliable method for determining eligibility. The training provided BCD staff with information for making determinations based on the forms received from the IRS.

This information has resulted in a two part change in policy. 1) All applications for registered child care ministries received from that date, April 16, 2004 have been required to provide documentation of approved IRS status. If the documentation received does not include the documentation identified by the IRS, the application has been denied pending the receipt of documentation consistent with the statute. 2.) The Division of Family and Children are seeking a legal opinion that will allow us to revise our internal Operational Directive and to help us construct a response to those sites that may currently be operating with inappropriate

IRS documentation. This review will commence with the next recertification period for registered ministries.

FINDING 2003-FSSA-6 CHILD CARE AND DEVELOPMENT FUND (CCDF)-MONITORING OF REGISTERED MINISTRIES

Federal Agency:	United States Department of Health and Human Services
Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The Division of Family & Children, Bureau of Child Development will complete implementation of the Hoosier Works for Child Care (HWCC) electronic payment system on July 11, 2004. This payment system relies on parents use of an electronic swipe card to record their child's attendance. The new system decreases the risk of paying for children who did not use services as it puts the attendance reporting in the hands of the CCDF parent. The parent chooses a Personal Identification Number (PIN) that is regarded as their electronic signature. Parents are instructed never to leave their card with their provider and never to share their PIN with their provider. Parent agreements are being amended to include this directive. Further, CCDF providers sign a statement agreeing to never use or possess a HWCC PIN.

In addition to the above safeguards, Child Care Health staff will immediately report provider possession or use of HWCC cards if observed during a quarterly inspection. The report will be made to the CCDF Fraud Coordinator for follow up and referral to the Bureau of Investigations.

FINDING 2003-FSSA-7- CHILD CARE AND DEVELOPMENT FUND (CCDF) – COMPLAINT DISCLOSURES

Federal Agency:	Department of Health and Human Services
Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The Family and Social Services Administration, Office of General Counsel (OGC) agrees that the federal regulations governing the CCDF program require that information regarding substantiated parental complaints be available to the public on request. However, OGC disagrees with the SBOA conclusion that this includes the public disclosure of child abuse and neglect complaints that have been substantiated by Child Protective Services (CPS). Following is the legal analysis that supports OGC's opinion on this issue.

The SBOA finding recognizes that complaints of child abuse or neglect submitted to CPS "are covered by Indiana's confidentiality statutes." The statute cited by SBOA, IC 31-33-18-1, classifies as "confidential" both "reports made under this article" (IC 31-33) and "any other information obtained, reports written, or photographs taken concerning the reports" in the possession of DFC, a local OFC or local CPS. Clearly, this language covers reports made by the information source (IC 31-33-5), written reports prepared by CPS based on the information provided by the reporting source (the form 310) (IC 31-33-7-4), the investigative report completed by CPS that classifies the report as substantiated or unsubstantiated, or (after July 1, 2004) as "indicated" (the form 311)(IC 31-33-8-8 and IC 31-33-8-12), as well as all other documents in the file of CPS that were obtained or prepared in connection with the investigation of the complaint.

As provided in IC 31-33-18-2, the reports and documents classified as confidential by IC 31-33-18-1 "shall be made available only to" a person or agency described in that section. The persons and agencies described include "an agency having the legal responsibility or authorization to care for, treat, or supervise a child who is the subject of a report or record or a parent, guardian, custodian, or other person who is responsible for the child's welfare," IC 31-33-18-2(6), and an attorney of the "parent, guardian, custodian, or other person responsible for the welfare of a child named in a report...with protection for the identity of reporters and other appropriate individuals," IC 31-33-18-2(8). In the opinion of OGC these provisions permit DFC to provide a substantiated child abuse/neglect report to a child care provider who has been authorized by the parent, guardian, or custodian to care for the child who is the subject of, or who is named in, the report, or to the provider's attorney, whether or not the provider is licensed. That interpretation is further supported, in the case of a licensed provider, by the statutory provision that a substantiated abuse or neglect complaint may be cause for revocation of the license. IC 12-17.2-4-32(a)(1) (child care centers); IC 12-17.2-5-32(a)(1)(child care homes). We also interpret the provisions of the licensing statutes to authorize CPS to provide the 311 report concerning a licensee to the licensing unit of DFC, or other agency responsible for oversight of the licensed provider. However, no provision of IC 31-33-18-2 or any other Indiana law authorizes disclosure of a substantiated report, or any other document maintained by CPS concerning a child abuse/neglect report or investigation, to the public or to a parent or guardian of a child for whom the provider is caring and who is not named in the report. Nor is there statutory authorization for CPS to submit those reports to BCD, whether or not the provider is licensed.

Indiana Code 5-14-3-10 states that "a public employee, a public official, or an employee or officer of a contractor or subcontractor of a public agency, except as provided by IC 4-15-10, who knowingly or intentionally discloses information classified as confidential by state statute commits a Class A misdemeanor." That code section further authorizes disciplinary action against a public employee who "intentionally, knowingly, or recklessly discloses or fails to protect information classified as confidential by state statute." In light of the statutory provisions discussed above, our opinion is that unless or until those provisions are amended, repealed, or limited or invalidated by a controlling court decision, any intentional disclosure not specifically authorized by current Indiana law of substantiated CPS abuse or neglect reports would violate IC 5-14-3-10 and could result in criminal prosecution and/or disciplinary action.

A well-established rule of statutory construction, followed by both Indiana and federal courts, provides that in the case of apparent conflict between or among provisions of applicable statutes or regulations, the more specific provision prevails over the general language of another provision. *See, e.g., Edmond v,. United States*, 520 U.S. 651, 657 (1997*); West Clark Community Schools v. H.L.K.*, 690 N.E.2d 238, 241 (Ind. 1997). Another well-established rule of interpretation of statutes requires that possibly conflicting or inconsistent provisions be interpreted in a manner that reconciles and gives effect to both provisions, to the extent possible. *See, e.g., United Transportation Union v. Surface Transp. Board*, 183 F.3d 606, 612 (7th Cir.1999*); United States Gypsum v. Indiana Gas Co.*, 735 N.E.2d 790, 802 (Ind. 2000). A federal regulation specifically applicable to child abuse or neglect cases states that "the State must provide by statute that all records concerning ...reports of child abuse and neglect are confidential and that their unauthorized disclosure is a criminal offense," and that "if a State chooses to, it may authorize by statute disclosure to any or all of the following persons and agencies, under limitations and procedures the State determines:..." 45 CFR 1340.14(i). The regulation then lists eleven (11) categories of permissive disclosure, none of which encompass the kind of disclosure recommended by SBOA. We note that the Indiana statutory provisions discussed above are consistent with this federal regulation. Under applicable principles of statutory construction, this regulation indicates that the regulation cited by SBOA concerning public disclosure of parental complaints about child care providers, 45 CFR 98.32, should not be interpreted to include complaints of child abuse or neglect that have been investigated and substantiated by CPS.

For the foregoing reasons, the Office of General Counsel disagrees with the State Board of Accounts recommendation concerning disclosure of substantiated parental complaints of child abuse or neglect.

FINDING 2003-FSSA-8 CHILD CARE AND DEVELOPMENT FUND (CCDF)-FIRE MARSHALL

Federal Agency: United States Department of Health and Human Services

Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles

FSSA Response and Corrective Action Plan:

The Child Care unit of the Bureau of Child Development has instituted an agreement with the State Fire Marshall to provide sufficient funds to provide timely inspections for licensed centers and Registered Child Care Ministries. The significant growth in Registered Child Care Ministries and a data collection problem created a backlog of inspections. These problems are being resolved. The Child Care Center Licensing and Health sections shall withhold licensing and/or certification if appropriate State Fire Marshall inspections to complete licensing and/or certification have not been completed.

Timely inspections of child care settings have been complicated by child care providers that do not remedy problems prior to the next visit by the fire marshal's office. In the event that the State Fire Marshall's office has made an initial visit and two documented follow-up visits without resolving the original complaints the site shall be denied a license or certification. A site may begin a new application process and await inspections as a new facility.

FINDING 2003-FSSA-9 CHILD CARE AND DEVELOPMENT FUND (CCDF)-LOCAL OFFICES OF FAMILY AND CHILDREN

Federal Agency:	United States Department of Health and Human Services
Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

CCDF Intake training identified two different forms used in different Division of Family and Children (DFC) regions. Neither form is an approved State of Indiana form. As a result of this finding the Child Care unit will seek approval for an approved State of Indiana form. This approved form will be developed in conjunction with staff from the Bureau of Family Resources. This form will include necessary information to ensure recertification of eligibility in a timely manner. In coordination with staff from the Bureau of Family resources, technology will be used to support the sharing of information to increase a timelier recertification process. This information will in turn be collected electronically.

In the interim while approval for this form is being obtained, the concerns of this finding will be included in the monitoring process for Intake agents. Training instructions to Intake agents, in regard to this issue, will also be sent via BCD Correspondence.

FINDING 2003-FSSA-10 CHILD CARE AND DEVELOPMENT FUND (CCDF)- AUDIT DIVISION

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella/Debra Short
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles, Subrecipient
Monitoring	
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

It is common practice in the Bureau of Child Development for management staff to ask for advice from the Audit Division. This advice is generally followed. In the interest of timely resolution of these minor issues, email correspondence is typically used to document these exchanges. As there is turnover among staff, these emails may be lost. For a variety of legitimate reasons, there are occasions when that advice cannot be followed. In response to SBOA's recommendation, the Bureau will provide written feedback to Audit Division or any other support area within the agency in those situations when advice is given, but not followed, and include appropriate review criteria and decisions made by the Bureau. If the decision includes implementation of monitoring or other additional procedures, the Bureau management staff making the decision and providing feedback to Audit will be responsible for this.

Management Letters are Audit Division's tool for sharing information with program when concerns rise to the level that requires documentation and Bureau management staff's attention. Currently, there is a process that requires a written response with an action plan back to Audit upon receipt of a Management Letter. The Bureau will comply with this established process.

FINDING 2003-FSSA-11- CHILD CARE AND DEVELOPMENT FUND (CCDF) – OFFICE OF GENERAL COUNSEL

Federal Agency:	Department of Health and Human Services

Federal Programs:	Child Care Cluster
CFDA Numbers:	93.575, 93.596
Auditee Contact Person:	Lanier DeGrella
Title of Contact Person:	Deputy Director, Bureau of Child Development
Phone Number:	317-234-2250
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The Family and Social Services Administration, Office of General Counsel (OGC) agrees that communication between the legal staff and Bureau of Child Development (BCD) is essential to the operation of the program and welcomes the opportunity to improve the communication process. However, OGC wishes to make known its disagreement with the perceived control weaknesses in the communication process between OGC and BCD identified in the audit finding. In support of its finding SBOA cites four instances that it believed to be an indication of control weaknesses in the communications process. The Office of General Counsel has reviewed the four instances cited by SBOA and believes that when all relevant facts are considered in context, the situations referenced do not support the conclusion reached by SBOA. OGC has briefly addressed below each of the four bullet points contained in the SBOA finding:

(1) The statement by SBOA that "[t]he attorney who advised BCD was not aware that appeals procedures at the Licensing Section also affected the provider's status under IC 12-17.2-3.5 (the "minimum standards" statute), which sets eligibility standards for the CCDF program." is inaccurate as to the attorney's knowledge and a misstatement of the statute. The "minimum standards" statute at IC 12-17.2-3.5 applies to all child care providers regardless of whether a provider is required to be licensed. A licensing action initiated against a provider that is required to be licensed may or may not trigger a violation of the "minimum standards" statute. If BCD is going to "revoke" a provider's ability to receive reimbursement through the CCDF voucher program, BCD has to give notice to the provider of that action. An action to revoke a child care license is separate from the action to remove a child care provider from the voucher program. In addition, the parents of CCDF eligible children must be notified that the provider is no longer eligible to receive voucher payments and the parents need to select a new provider. The program allows the parents 10 days to locate a new provider. The parents of eligible children are the ones who are to receive the benefit of the CCDF program. OGC further disagrees with the statement by SBOA that BCD issued a manual override of electronic payment controls (apparently thought by SBOA to be in error) because the attorney did not have all available facts when advising BCD. In this situation BCD had not given notice to the provider or the parents that the provider was ineligible to receive voucher payments. Consequently, the provider continued to provide child care to CCDF eligible children and was seeking CCDF payments for care provided during that time. The legal opinion that payment should be made for care provided to eligible children prior to the provider's notification of ineligibility was consistent with notice and due process requirements of the law.

(2) The legal opinion that only information contained in the child abuse registry could be shared with voucher/intake agents was consistent with statutory requirements. The Child Abuse Registry statute at IC 31-33-17-6(7) states that the Division of Family and Children may use certain information contained in the child abuse registry for purposes of determining the eligibility of a child care provider to receive a CCDF voucher payment. The "minimum standards" statute at IC 12-17.2-3.5-4.1(b) states that certain individuals named as an alleged perpetrator in the child abuse registry are ineligible to receive CCDF voucher payments. The legislature determined which criteria with respect to cases of abuse and neglect would be used to determine eligibility for CCDF voucher payments. Consequently, only the information in the child abuse registry is applicable to the determination of eligibility and the only information authorized to be shared with the voucher or intake agents for purposes of determining the provider's eligibility for payments. The disclosure of abuse and neglect information is strictly governed by IC 31-33-18 et seq. A "waiver" of confidentiality in cases of abuse or neglect signed by a provider is of no consequence and would not authorize DFC to release child abuse and neglect information that is otherwise confidential by law. A more detailed legal analysis of the confidentiality of abuse and neglect information is contained in FSSA's response to SBOA Audit Finding number 7.

(3) A contested licensing revocation action is not final until an administrative hearing is held and a decision sustaining the revocation is issued by an Administrative Law Judge. BCD does not have the authority to close a child care facility during the pendency of the licensee's appeal unless an injunction is obtained through a separate legal proceeding filed in court by the Attorney General. Likewise, in order to "deactivate" a CCDF provider from the CCDF voucher program due process requires that the provider be given notice of the proposed ineligibility for the program and an opportunity to contest that action. The "minimum standards" statute at IC 12-17.2-3.5-14 provides that a person affected by a determination under this statute may seek administrative review under the state Administrative Orders and Procedures Act. The legal opinion that a facility could not be closed until the appeal process was exhausted or abandoned and that the provider could not be removed from the voucher program pending the required due process was consistent with the statutory provisions governing the licensing of facilities and eligibility for reimbursement through the voucher program. The SBOA also states the OGC was unable to locate the original or additional research when requested by SBOA. The attorney who advised BCD on these issues does in fact have additional information relative to the research and advice provided to the Bureau. The auditor made numerous requests of the staff attorney and met with the attorney for more than 2 1/2 hours questioning her on a broad range of topics. In February the auditor sent email messages requesting further information, including information regarding due process, confidentiality of child welfare files, and soliciting the attorney's personal thoughts about the communication between OGC and BCD. Because these requests seemed duplicative of information previously discussed with the attorney, the General Counsel of FSSA asked for clarification, but did not receive any further direction from SBOA; therefore, the attorney did not provide any additional information to the auditor.

4) The SBOA has misstated the communication between OGC and the Bureau of Child Development with regard to this particular case. The facts are that the Assistant Director of

the Division of Family and Children sent an email message to OGC asking for review of a letter that BCD had drafted to disqualify a CCDF provider because of alleged fraud. Upon review of the letter OGC had eight (8) specific comments or concerns that were stated in detail in a response email message to the Assistant Director. Other cases were referenced in the response as examples of how the Bureau had handled other cases and relevant to the OGC's comments and concerns about this particular case. BCD was aware of the particular circumstances of the other cases cited in this communication. OGC provided feedback to the Assistant Director outlining concerns from a legal perspective. A month later OGC received a revised letter for review and a message stating that the letter was revised based on comments from Legal *and discussions with the Assistant Director.* OGC provided legal advice in this matter that included a recommendation to gather additional facts in order to ascertain whether this case was properly characterized as a fraud. BCD ultimately determined that the action to require repayment, and not removal from the voucher program, was appropriate because the facts did not substantiate that fraud had occurred.

In conclusion, OGC is open to any process that can improve communication between attorneys and their agency clients. Both the legal staff and program staff benefit when communication is enhanced. In that vain, OGC will continue to provide guidance to BCD and other divisional areas via various modes of communication. The OGC will continue to maintain files (electronic and/or written) for all legal opinions provided in a given year. As addressed in Finding #10 , the Bureau will provide written feedback to the Office of General Counsel or any other support area within the agency in those situations when advice is given, but not followed, and include appropriate review criteria and decisions made by the Bureau. While OGC and BCD are committed to continual enhancement of communication, OGC felt obligated to respond to information in the audit finding that it believes to be inaccurate or taken out of context.

FINDING 2003-FSSA 12- MEDICAID REPORTING – RECONCILIATION ERRORS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 & 93.778
Auditee Contact Person:	Kathy Moses & Pat Nolting
Title of Contact Person:	Director of SCHIP, FSSA & Director of Program Operations, OMPP, FSSA
Phone Number:	317-233-7346 & 317-232-4318
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

FSSA concurs that a reconciliation error occurred on a worksheet used to prepare the quarterly CMS-64 federal report. The sheet reconciling weekly invoices to current quarter expenditures reported on line 6 of the CMS-64 contained formulas which incorrectly added and subtracted items that were not included in the weekly invoices. These worksheets were modified to correct the formulas as of the QE 3/31/04 to prevent this error from reoccurring in the future.

This worksheet error was discovered during the 2002 audit period, however was not brought to the attention of OMPP until December 2002 thereby falling into the 2003 audit period. The worksheet changes made in the March 2004 CMS-64 clear up the reconciliation errors for both the 2002 and the 2003 audit findings.

We believe the corrective action should resolve the finding.

FINDING 2003-FSSA 13- RISK ALLOCATION/AUDIT LOG – MONITORING OF CONTRACTOR

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting; Karen Filler
Title of Contact Person:	Director of Operations, OMPP, FSSA; Long Term Care Supervisor, OMPP, FSSA
Phone Number:	317-232-4318; 317-232-4651
Compliance Requirement:	Special Tests and Provisions – Inpatient Hospital and Long Term Care Facility Audits
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The Long Term Care Reimbursement Unit within the Office of Medicaid Policy and Planning is responsible for monitoring the Long Term Care Audit Contractor, Clifton Gunderson. The OMPP believes that there is more than adequate monitoring of the audit contractor to ensure that providers are audited at least once every three years. Below are the procedures that are currently in place to make these assurances. **Highlighted in bold are the additional procedures that have been added pursuant to the Indiana State Board of Accounts' audit.**

Procedures for determining providers to be audited are also outlined in the Request for Proposal process as FSSA/OMPP has the responsibility to approve the selection of providers to be audited each contract year and to submit in writing the approval of the audit list to the audit contractor. Providers selected to be audited are categorized into three risk categories based upon their most recently completed audit.

High Risk: Normally contains all providers that are part of a chain operation where an allocation of home office costs becomes a part of cost recognition for Medicaid rate setting. In addition, this category includes facilities that have been found to have a large number of audit adjustments in their prior audits and have identified overpayments to the IHCP. FSSA/OMPP reserves the right to classify any facility in the high risk category.

Medium Risk: Normally contains all large providers not classified as high risk who have a large volume of Medicaid claims and recipients. This category includes providers who have had a moderate number of audit adjustments in prior audits and have identified overpayments to the IHCP. Providers who are involved in rate-setting or audit appeals that contain the potential for a 1 percent or greater change to their rate are also considered to be medium risk. FSSA/OMPP reserves the right to classify any facility in the medium risk category.

Low Risk: Normally contains the small to medium size providers who claims volume and Medicaid recipient numbers are of minor impact to the expenditure levels of the program. This category includes some larger providers who have demonstrated through past audit results to have properly classified, allocated and reported Medicaid costs in accordance with the existing Medicaid rate-setting criteria and FSSA/OMPP policies and procedures, and have no adjustments and no overpayments. FSSA/OMPP reserves the right to classify any facility in the low risk category.

<u>Clifton Gunderson's procedures for determining cost reports to Audit</u>

1. Clifton Gunderson maintains a listing of each facility that is currently enrolled in the Medicaid program. The facility listing is separated into three categories: nursing facilities, large and small intermediate care facilities for the mentally retarded and home health agencies. **<u>The listing will also be reviewed by the Supervisor of the Long Term Care Reimbursement Unit within the OMPP to ensure that all providers listed are selected for audit.</u>**

2. The facility listing is updated when "Certifications and Transmittals" are received from EDS Provider Enrollment, and when notification from FSSA/OMPP is received regarding change of ownership or facility closures. In addition, Myers and Stauffer, the rate setting contractor, sends an updated monthly facility listing to Clifton Gunderson. The facility listing from Myers and Stauffer is cross-referenced to the Clifton Gunderson list for any discrepancies. **<u>The listing will also be reviewed by the Supervisor of the Long Term Care Reimbursement Unit within the OMPP to ensure that all providers listed are selected for audit.</u>**

3. Utilizing the facility listing, Clifton Gunderson documents the rate effective date (RED) of the last audit, the number of adjustments and reportable conditions noted during the audit and when the final audit report was issued. As cost reports are received from Myers and Stauffer, these are noted on the listing with the Rate Letter Date and the provider's year-end. **<u>The listing will also be reviewed by the Supervisor of the Long Term Care Reimbursement Unit within the OMPP to ensure that all providers listed are selected for audit.</u>**

4. Utilizing the list identified in #3, Clifton Gunderson reviews the list for cost reports that are in-house. The facilities are then ranked high, medium or low risk based upon the number of adjustments and reportable conditions in the previous audit and any payback amount identified. Once the facilities are ranked, then the RED of the last audit is reviewed. If the facility is low risk, then Clifton Gunderson will not select consecutive RED dates to audit. Medium risk facilities may be audited in consecutive years, but usually skip one out of three years. High risk audits are audited every year, unless requested by FSSA to bypass a cost report year. **To further designate the "risk factor" of the provider, a new column on the report will be generated which will stipulate the "risk factor" based upon the past audit. The "risk factor" will be reviewed by the LTC Reimbursement Supervisor who will coordinate with the audit contractor if further discussion is needed regarding a rating.**

5. Facilities are then selected for audit and a list is sent to FSSA for approval. All REDs available to be audited stay on the facility listing until the next RED is selected for audit. The Supervisor of the LTC Reimbursement Unit authorizes the list for providers to be audited. The audit approval list is maintained by the LTC Reimbursement Supervisor.

6. Clifton Gunderson currently maintains a cumulative log of all audits performed during each contract year with the State. Clifton Gunderson will change its procedures to combine the cumulative log with the facility listing utilized for selecting audits. **To further designate the "risk factor" of the provider, a new column on the report will be generated which will stipulate the "risk factor" based upon the past audit. The cumulative log of all audits performed during each contract year is reviewed by the LTC Reimbursement Supervisor to ensure that providers are audited at least once every three years.**

7. The current facility listing also identifies facilities that have closed, have changed ownership or are in bankruptcy. Per guidance from FSSA, facilities that have closed or are in bankruptcy are not selected for audit. In addition, if a facility has changed ownership subsequent to a cost report being received from Myers and Stauffer, Clifton Gunderson will not select the cost report of the previous owner for audit. **Facilities, however, will be listed on the cumulative listing and marked according to closure and/or bankruptcy.**

8. To ensure that all facilities are being audited, an additional check is performed. Myers and Stauffer tracks the status of the current audits (draft or final stage) and sends a monthly list to Clifton Gunderson and OMPP. Using this list, Myers and Stauffer and Clifton Gunderson will review to determine facilities for audit to ensure that all facilities are audited at least once every three years. **The monthly report will also be reviewed by the Supervisor of the Long Term Care Reimbursement Unit to ensure that all providers are audited at least once every three years.**

FINDING 2003-FSSA 14- MONITORING RECIPIENT FRAUD

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions – Utilization Control
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

This finding recommends that OMPP monitor the activities of all applicable branches of FSSA whose activities include the identification, investigation and referral to law enforcement. It is further recommended that OMPP monitor the methods and criteria used by these various branches in identifying fraud cases.

Upon initial review, OMPP has determined that while the processes are in place to identify, investigate and appropriately refer recipient fraud for prosecution, there is no mechanism in place for OMPP to monitor and receive feedback on the activities conducted by the local offices, the FSSA Bureau of Investigation or the Bureau of Program Integrity.

The following steps will be taken to ensure that OMPP has the ability to monitor and receive feedback on the activities conducted by other offices related to recipient fraud:

- Establish a process by which BOI provides a report to OMPP on a designated basis that delineates the disposition of all suspected fraud cases referred either directly to BOI or the Local Office Fraud Referral Coordinator. The report will include information on the recipient, the nature of the suspected fraud, the investigating entity and the disposition of the investigation.
- Any suspected recipient fraud identified through the quality control process function performed by BPI will be appropriately referred to BOI for further investigations.
- Review and maintain a current copy of the methods and criteria for identifying recipient fraud utilized by the OFC and the BOI.
- Create an MOU between OMPP, DFC and BOI to address coordination activities related to the identification, investigation and monitoring of suspected and confirmed fraudulent activities of recipients

FINDING 2003-FSSA 15-PROVIDER APPLICATION DISCLOSURES

Federal Agency:	Department of Health and Human Services

Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions- Provider Eligibility
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

It was recommended that FSSA require each provider to disclose all information as set out in 42 CFR 455.104.

The finding indicates that the current provider application does not include disclosures requiring the applying provider to disclose any information regarding the provider's relationship with its subcontractors, other Medicaid providers or the relationship of the provider's owners to each other.

OMPP is currently in the process of making revisions to the *Provider Application, Schedule B*. Those revisions include a clear delineation of the disclosures set out in 42 CFR 455.104 and provide applicants a standardized format to make those disclosures. SBOA has reviewed the proposed changes to the provider application and agrees that the proposed changes satisfy this portion of the finding. It is the goal of OMPP to utilize the proposed application for providers applying for enrollment no later that August 1, 2004.

While the proposed provider application is intended to more clearly delineate the disclosure requirements to the enrolling provider, OMPP believes that the current provider agreement does address the federal requirements outlined in 42 CFR 455.104. The current Medicaid provider agreement, point 32, indicates that providers agree "To comply with *42 Code of Federal Regulations, part 455, subpart B* pertaining to the disclosure of information concerning the ownership and control of the provider, certain business transactions, and information concerning persons convicted of crimes." The provider, by signing the agreement has agreed to disclose all information as required by the CFR. Thus the providers are on notice of their obligation to make the appropriate disclosures. The proposed changes made to the provider application, simply gives the provider a standardized format to make those disclosures and for OMPP to review them.

This finding also specifically addressed disclosure by providers enrolling under the Waiver Program. OMPP will be addressing the enrollment process for Waiver providers in Finding 2003-FSSA-16. Corrective action taken under that finding will ensure that Waiver providers will provide disclosure in the future.

FINDING 2003-FSSA 16-ONGOING VERIFICATION OF PROVIDER MEDICAL LICENSES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions- Provider Eligibility
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

Two recommendations were made in this finding. The first recommendation is that FSSA implement procedures to ensure that providers whose medical licenses are not current do not remain eligible for participation in Medicaid.

As a condition of enrollment, providers requiring a license to practice are required to provide proof of that license at time of enrollment. Medicaid's fiscal agent, EDS, routinely receives a file from the Health Professions Bureau, which EDS uses to verify licensure at the time of the provider's initial enrollment. There has been, however, no mechanism to check for continuing licensure on a routine basis. An inactive license would preclude a provider from enrollment in Medicaid or continuing enrollment in Medicaid.

OMPP has recently taken the step to set up procedures to ensure that providers, whose medical licenses are no longer active, will be terminated from participation in the Medicaid program in a timely manner. EDS and HPB have worked together to establish a process by which EDS will receive not only the active licensees from HPB, but also any license that was inactivated since the last monthly file update. System modifications are being made to generate a report upon the receipt of the HPB file that will identify any license that was deactivate during the reporting period. EDS is currently finalizing the business processes needed to use this new information to close provider numbers for individuals who no longer have an active medical license. This process will be in place by July 31, 2004.

The second recommendation suggests that FSSA ensure verification of licensure of all rendering staff of all enrolled Medicaid providers, including those enrolled in the Waiver program. Our enrollment policy currently requires licensure verification for all MDs and DOs, whether they enroll as billing or rendering providers. All providers enrolling as billing providers are subject to licensure verification, if the provider's medical specialty requires a license. Thus, a waiver provider's license would be verified if the provider were enrolling as a billing entity for the provision of waiver services that must be performed by licensed health care practitioners.

OMPP intends on reenrolling all waiver providers as a part of a targeted effort to enhance the overall quality of the provider file information for this group of providers.

FINDING 2003-FSSA 17- COST REPORT LISTS- MONITORING OF CONTRACTOR

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 & 93.778
Audit Contact Person:	Pat Nolting
Title of Contact Person:	Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Special Tests and Provisions- Inpatient Hospital and Long Term Care Facility Audits
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

The Office of Medicaid Policy and Planning will incorporate this verification process in with the monthly review of audited cost reports. When Myers and Stauffer submits the monthly summary that accompanies their invoice, they will specify which cost reports were received and which desk review audits were completed during that month. Then when the OMPP conducts the onsite review of the audited cost reports, the list of received cost reports will be compared to the cost reports in Myers and Stauffer's possession. In addition, the list of completed desk reviews will be compared to Myers and Stauffer's finished work products. The OMPP will produce a summary report highlighting any discrepancies.

FINDING 2003-FSSA 18-UNSUPPORTED CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	FSSA & Director of Program Operations, OMPP, FSSA
Phone Number:	317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed

FSSA Response and Corrective Action Plan:

This finding recommends that FSSA ensure that EDS retains all necessary supporting documentation. No supporting documentation could be located for two claims payments made to recipients under the provisions of the Day versus Humphreys lawsuit.

It is EDS' policy to maintain documentation in support of payouts made on behalf of the state. The process requires that supporting documentation justifying the expenditure be attached to an Expenditure Payout Request form. The Expenditure Payout Request form requires approval and signature from the EDS Finance Manager before the payout request can be keyed into IndianaAIM for check generation purposes.

To determine whether documentation is available to support all Day-related recipient payments, all of the Day claims payment data was retrieved from storage and reviewed. The review revealed that with the exception of one day's payments (7-24-02) documentation is available to support all other Day-related recipient payments. Documentation could not be located for 12 claims all with payment dates of 7-24-02. The 12 undocumented claims payments total $10, 976.19. EDS is attempting to acquire documentation from the 12 recipients in support of the claim payout.

The discarded documentation referred to by EDS prior to November 18, 2002 (and noted in this finding), pertained to documentation submitted by the recipient when initially requesting payment for Day-related expenses. Prior to November 18, 2002, if a recipient failed to include the necessary medical receipts to support their Day-claim, EDS sent a form letter back to the recipient noting the types of documentation required to warrant direct payment to the recipient. At that time, EDS did not retain a copy of the recipient's request when the request resulted in no payment to the recipient. When the state discovered this error, immediate steps were taken to ensure that EDS retained all documentation submitted by the recipient even when the documentation resulted in denial of the recipient's claim. Further, after November 18, 2002, all Day-related claim requests approved by the EDS Claims Dept. were copied and maintained in the Claims Dept. in addition to a copy of the documentation being sent to the Finance Dept. to support the claim payment. Prior to November 18, 2002, the Claims Dept. did not retain a back-up copy of the documentation that was sent to the Finance Dept. for payment. The Finance Dept. was the only place prior to November 18, 2002 where documentation of a Day–payment could have been located.

With the exception of the 12 claims cited above (which EDS is attempting to acquire documentation from the recipient), documentation in support of all other Day-related payments is available for review.

FINDING 2003- FSSA 19- DUPLICATE FORCED LONG TERM CARE CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Pat Nolting
Title of Contact Person:	FSSA & Director of Program Operations, OMPP, FSSA
Phone Humber:	317-232-4318
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

FSSA Response and Corrective Action Plan:

This finding is a recommendation to ensure resolution analysts are adequately trained to properly audit claims in compliance with Medicaid. The finding is a result of a resolution analyst inappropriately forcing, for payment, duplicate claims for long term care (LTC) accommodation revenue codes.

All new resolutions clerks progress though an intensive training program. Each step consists of learning all required elements of the job beginning with the basics and progressing to more complex claims. The resolution clerk does not progress to the next step until they have achieved a 100% quality check for a minimum period of 2-weeks adjudication in each area. All training is conducted as 1-on-1 personal training. Ongoing training is provided in monthly updates to new or changing edits, audits and/or adjudication processes. A quick reference guide is provided as additional support documentation for adjudication activities

Additionally, the EDS claims management team routinely conducts quality checks of claims to ensure that clerk continue to properly adjudicating claims after the training period. A random sample of claims is pulled for review for each clerk on a weekly basis. The sample size is determined by the years of experience of the analyst as well as the complexity of the claims type being reviewed. If an error is identified, the resolution analyst is given remedial training and a larger sample of claims is reviewed until the problem is deemed resolved.

While the quality check process works to ensure each clerk is adjudicating claims in accordance with policy there is randomness to the quality check. This randomness prevented EDS claims management from detecting the erroneous payment of duplicate claims by the one clerk.

To ensure a more thorough review during the quality check process, EDS is modifying the process by adopting trending analysis. This analysis will allow the claims management team to review percentages of claims paid and denied for various claim types and compare historical levels of adjudication to the performance of each individual clerk, as well as allowing a comparative peer analysis across all clerks. This process will allow the claims management team to more closely monitor clerk performance and identify potential problem in a more efficient manner. This trending analysis is not intended to replace the current quality check, but rather enhance it.

OMPP is taking the following step to review LTC accommodation code claims that were forced in SFY 2003:

- A review of claims forced by all clerks for suspected duplicate LTC accommodation codes was completed and it was confirmed that the inappropriately forced claims are isolated to Clerk X.
- A complete review of each claim that was forced by Clerk X has been conducted and 1109 claims were forced inappropriately during SFY 2003.
- Of those inappropriately forced claims, 865 claims have already been adjusted.
- The remaining 244 claims, representing an overpayment of $259,434.96 will be adjusted and the money recovered from the providers.

- A review and modification has been made to the resolution instructions for LTC care claims to facilitate the analyst's proper adjudication of these claims.
- Enhancements have made to the quality check process to allow a comparative peer analysis across all clerks by evaluating adjudication trends.

EDS is ensuing repayment of the erroneous claims.

FINDING 2003-FSSA-20 MEDICAID—NON-COMMUNITY MENTAL HEALTH CENTERS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Persons:	Pat Nolting, Karen Kinder
Title of Contact Persons:	Director of Program Operations, OMPP/Director of
Budget and Finance	
Phone Numbers:	317-232-4318/317-234-0197
Compliance Requirement:	Activities Allowed or Unallowed

Status of Finding and Corrective Action Plan as of May 2004:

In May 2003, the Centers for Medicare and Medicaid Services (CMS) contacted the Office of Medicaid Policy and Planning (OMPP) about the method FSSA was using to certify non-CMHC state match for Medicaid administrative activities in the MHFRP. OMPP and the Division of Mental Health and Addiction (DMHA), which oversees the day-to-day operation of the MHFRP under a Memorandum of Understanding with OMPP as the single state Medicaid agency, withdrew the submission of non-CMHC claims in the MHFRP at that time and entered into a dialogue with CMS about the state match certification process. The non-CMHCs are not public agencies and they do not certify expenditures for state match. 42 CFR 433.51 permits public funds to be considered as the State's share in claiming FFP (federal financial participation) if the public funds are certified by the contributing public agency as representing expenditures eligible for FFP. DMHA certified that appropriated state funds had been paid to non-CMHCs. These funds were to serve as state match for the MHFRP.

The non-CMHCs do have a contract with FSSA to provide Medicaid administrative activities that are eligible for FFP. Sub-service attachment MHFR2-NonCMHC to the Hoosier Assurance Plan contract lists the special conditions for participation in the Mental Health Funds Recovery Program. Item 4 reads:

> "The Contractor understands and agrees that only those administrative activities that meet the activity definitions/descriptions specified in the Time Study Activity Codes, and Cost Allocation Plan submitted by the State and approved by CMS, and subject to Office of Management and Budget (OMB) Circular A-122 and 45 CFR Parts 74

and 95, all as may be amended from time to time, shall be eligible for reimbursement under the 'Program'."

The sub-service attachment further states:

"The DMHA may certify the availability if State Match on behalf of the Contractor pursuant to 42 CFR 433.51, as follows;

a. The DMHA may identify an amount to be set aside and held as dedicated state match funds for the "Program", on behalf of the Contractor as the estimated portion of the State Match for allowable activities under the "Program".
b. The total dollar amount claimed as FFP shall not exceed an amount for which State match is available and certified by DMHA, if any, as specified above."

Corrective Action Plan: FSSA in working with CMS considers this finding resolved with CMS. Therefore, no corrective action needs to be taken on past claims. FSSA continues to work with CMS to develop a certification methodology that meets CMS' expectations to permit future claiming of non-CMHC recoveries for Medicaid administrative activities.

FINDING 96-FSSA-33--FUND BALANCES – CHILD SUPPORT ENFORCEMENT FUND CENTERS

Federal Agency:	Department of Health and Human Services-ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Peggy Boggs
Title of Contact Person:	Financial Manager, Child Support Bureau
Phone Number:	317-232-3450

Status of Finding as of September 2003:

We have four different aspects of SBOA reconciliation issues actively being worked on by ISETS Project staff. The target date for completion of these issues is **April 2004**. There are also two SBOA reconciliation issues (Auditor Warrants and Book Balancing Reports) that are still in the design stage. Completion of all SBOA reconciliation issues is not anticipated before **January 2005**. The Child Support Bureau (CSB) and its ISETS contractor have continued to make progress in these comprehensive system modifications. The projected completion date of **January 2005** is due to the comprehensive nature of these modifications.

Attorney General's Unclaimed Property Division. The TCAM system is closed and all but approximately $540,000 of the suspended child support, remaining from that system, has been issued either to the absent parent, custodial parent, state, or sent to the Attorney General's Unclaimed Property Division. Recent analysis has brought to CSB's attention that some of the returned warrants from TCAM had not been transferred to the Attorney General's Unclaimed Property Division. Before this money is transferred to the AG's office, CSB is working on locating a last known address known to our system that will help the AG's office in the dissemination of this money. We have located all addresses and ISETS will create a file and report for the Attorney General in late September 2003. In October 2003 the funds will be transferred from Financial Management to the Attorney General.

Updated Status of Finding as of May 2004:

Two of the four SBOA reconciliation issues (Foster Care Functionality and Agency Disbursements) were activated in ISETS in April 2004. The other two SBOA reconciliation enhancements (Adjustment Process Changes and Share Reimbursement Recoupment/Disbursement) did not make the April 2004 timeframe but are expected to be put into production by July 2004.

A portion of the Auditor Warrants enhancement was activated in May 2004. The remaining parts of the Auditor Warrant enhancement, as well as the Book Balancing Reports enhancement, has been put on hold because a new vendor has been selected to manage the ISETS project. The new vendor (Deloitte) will assume its contract responsibilities on October 2004. A decision was made to focus existing staff on the reconciliation pieces that can be completed before the current contract ends. At this time, CSB does not have a projected completion date due to the comprehensive nature of the remaining modifications and the change in vendor.

The $543,645.78 remaining in the TCAM system was transferred to the Attorney General's Unclaimed Property Division on 10/08/03.

FINDING 99-FSSA-7 ISETS INFORMATION TECHNOLOGY (IT) CONTROLS

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement
CFDA Number:	93.563
Auditee Contact Person:	Peggy Boggs
Title of Contact Person:	Financial Manager, Child Support Bureau
Phone Number:	317-232-3450
Compliance Requirement:	Special Tests and Provisions

Status of Finding as of March 2003 (no change as of review 9/03):

Accounting Procedures and Controls

The ISETS programming changes will be completed by **January 2005**. The CSB and it ISETS contractor have continued to make progress in these comprehensive system modifications. The projected completion date of **January 2005** is due to the comprehensive nature of these modifications.

Areas of functionality being added to ISETS at the State that **have not** been completed yet:

- Adjustment process changes that will add edits in the adjustment process to prevent errors that will impede balancing of ISETS at the State level.
- Share reimbursement recoupments and disbursements at the State linking to county recoupments created through the adjustment process. This establishes an audit trail from the county to the State and to Federal and State Government Share reimbursements.
- Agency Disbursement changes to handle new system level accounts that will aid in reconciliation of ISETS at the State level.
- Foster Care functionality changes necessary to accurately track the amount paid in IV-E funds to the Foster Care children on ISETS cases and the amount of unreimbursed public assistance still owed on these cases.
- Auditor Warrants functionality will enable the State to maintain records and information on warrants produced by the Auditor's office for Child Support payments.

- Daily Book Balancing will be put in place to enable the State user to maintain a balanced Child Support system and to be informed if errors occur putting the system out of balance on a daily basis.

- Monthly Reconciliation will be added to the State System to enable the State CSB to reconcile with the Child Support accounts in the Auditor's Alchemy system as well as to the Quarterly Federal Reports.

As these are put in production, internal procedures are addressed and written to establish acceptable processes for the tracking of Child Support payments.

Updated Status of Finding as of May 2004:

Some of the ISETS programming changes have been made and already activated in ISETS. Other changes are expected to be put into production in July 2004. A few of the changes have been put on hold because of a change in vendors. CSB does not have a projected completion date for the changes on hold due to the comprehensive nature of the remaining modifications and the change in vendor. The status of each item is as follows:

- ☐ Agency Disbursement changes completed in April 2004
- ☐ Foster Care functionality completed in April 2004
- ☐ Adjustment process changes that will add edits in the adjustment process should be completed July 2004
- ☐ Share reimbursement recoupments and disbursements at the State should be completed by July 2004
- ☐ Auditor Warrants functionality (a portion of this was completed in May 2004) and the remaining portion is put on hold because of vendor change.
- ☐ Daily Book Balancing and Monthly Reconciliation has been put on hold because of vendor change.

As these changes are put into production, internal procedures are addressed and written to establish acceptable processes for the tracking of Child Support payments.

FINDING 2000-FSSA-1 LACK OF OR IMPROPER SUPPORTING DOCUMENTATION

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Adoption Assistance program
CFDA Number:	93.659
Auditee Contact Person:	Sandi Sleppy
Title of Contact Person:	Program Director
Phone Number:	317-232-4432
Compliance Requirement:	Eligibility

Status of Finding as of October 2003:

The manual section addressing adoption subsidies has been drafted. It is in policy for edit and will be distributed by 12/31/03.

The eligibility and training units are collaborating on IV-E related projects, but not specifically on AAP. AAP will be included by 2/28/04.

A staff person was trained to begin data entering the Non-Recurring Adoption Expense into the Indiana Child Welfare Information System. Data entry has begun. The backlog is 50% completed. The backlog will be fully completed by 2/28/04 and the system will be then kept current.

Updated Status of Finding as of May 2004:

There has been a reduction in staff and changes in leadership. The manual sections addressing adoption subsidies has not be sent out. The target date for completion is 8/31/04. We are in the process of creating a new Orientation Training for Family Case Managers. This training will start in August 2004. This training will address the issues in this audit finding.

FINDING 2000-FSSA-2 OVERPAYMENT OF ADOPTION ASSISTANCE SUBSIDIES

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Adoption Assistance Program
CFDA Number:	93.659
Auditee Contact Person:	Sandi Sleppy
Title of Contact Person:	Program Director
Phone Number:	317-232-4432
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Status of Finding as of October 2003:

On March 14, 2003, Indiana received written clarification from the Department of Health and Human Services regarding the modification of our adoption subsidy agreement. Based upon the information received, it is possible to claim 100% of the adoption subsidy payment rather than the current 75%. Indiana is pursuing modification of the subsidy agreement. The letter with accompanying forms has been completed. The forms are awaiting approval of State Forms Management. Once this approval is obtained, the letter and forms will be distributed.

Updated Status of Finding as of May 2004:

As a result of receiving written clarification from the Department of Health and Human Services regarding the modification of our adoption subsidy agreement, Indiana has revised policy and the agreement. An Administrative letter dated March 15, 2004 was distributed to the Local Office of Family and Children and the Licensed Child Placing agencies. Indiana can now receive reimbursement on 100% of the negotiated adoption subsidy payment rather than 75%.

We are piloting "Best Practice" in Lake and Marion Counties. Monitoring each part of the process of IV-E from Eligibility to payment is a part of this "Best Practice."

FINDING 2000-FSSA-3 FOSTER CARE PROVIDER LICENSURE

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Foster Care Program
CFDA Number:	93.658
Auditee Contact Person:	Sandi Sleppy
Title of Contact Person:	Program Director
Phone Number:	317-232-4432
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition, Major Weakness

Status of Finding as of March 2003:

To ensure accuracy of IVE eligibility documentation, changes to Indiana Child Welfare Information System (ICWIS) have been completed. These changes include creating the ability for a worker to complete a checklist to show the status of the license (Completed October 2002). ICWIS has also created a link between licensing and eligibility to reflect any change in licensure status and the subsequent effect on eligibility (Completed October 2002). Collaborative work with licensing, eligibility, and ICWIS continues in order to create licensure history of applicants, licensure timelines, web-enabling of the resource directory to allow Licensed Child Placing Agencies to data enter their information regarding licensed homes, and licensure status in the approval process. Target date for completion of this project is January 2004. Additionally ICWIS will maintain a history of the IVE status for residential placement facilities and we will simplify the entry of resource's services estimated to be completed by September 2003.

Maximus reviewed over 3800 cases for IVE eligibility in 2002. A total of 13 counties were reviewed. Additionally, in preparation for the federal review, Maximus reviewed approximately 400 eligibility cases in 2003 in order to evaluate and develop best practice. A steering committee of all levels of staff involved in the IVE FC process will be convened to help develop procedures. Efforts will begin in April to develop this steering committee and will be fully established by July 1, 2003.

Indiana's Child Welfare Quality Assurance Review process will include a IV-E eligibility review process to ensure reviews of cases are completed for adherence to best social work practice and eligibility requirements. This process will be implemented by July 2003. Findings of these reviews will be evaluated to determine ongoing needs for accurate eligibility determination.

Updated Status of Finding as of May 2004:

ICWIS is not a payment system. The Schedule of payments from local offices has and continues to be loaded into a computer. This payment system file will be compared to a licensing file from ICWIS. We expect to have this piloted by 12-31-04.

FINDING 2000-FSSA-5 CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL REPORTING

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Peggy Boggs,
Title of Contact Person:	Financial Manager, Child Support Bureau
Phone Number:	317-232-3450
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition, Material Weakness

Status of Finding as of March 2003 (no change as of 9/03 except for contact name):

It is anticipated that the final stage will be completed **January 2005**. The CSB and it ISETS contractor have continued to make progress in these comprehensive system modifications. The projected completion date of **January 2005** is necessary due to the comprehensive nature of these modifications.

SBOA has been directly involved with the succession of major programming changes, through meetings and the review of proposals at each of the critical stages of development. Parts of the programming changes have already been put into production (payment history, Agency Disbursement Reports, etc.). However, we will still have the deficiency until everything has been completed **January 2005**.

Updated Status of Finding as of May 2004:

Some of the programming changes necessary to strengthen the accounting procedures and controls to ensure accurate and reliable federal reporting have been put into production or will be completed by July 2004. However, the final reconciliation enhancements for Auditor Warrants and Book Balancing have been put on hold because of a change in vendors effective October 2004. The CSB and the current ISETS contractor continue to make progress on the reconciliation issues that can be completed prior to the new vendor taking over in October. Once the new vendor is in place, the CSB will be able to project a new completion date for the remaining enhancements.

CSB is still very committed to completing the required reconciliation controls that are needed to strengthen the ISETS system and provide accurate and reliable federal reporting.

FINDING 2001-FSSA-3 PASS-THROUGH ENTITY RESPONSIBILITIES, DIVISION OF MENTAL HEALTH

Federal Agency:	U.S. Dept. of Health and Human Services
Federal Program:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	Karlin Dunlop
Title of Contact Person:	Deputy Director, Contract Management, DMHA
Phone Number:	317-233-3251
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition/Material Weakness

Status of Finding as of May 2004:

DMHA has worked with State Board of Accounts and FSSA Audit to update the Mental Health subrecipient audit log to track the receipt and review of subrecipients' A-133 audit reports. The review process has been flowcharted to ensure all parties are aware of their responsibilities in the audit review process.

DMHA has had the audit log in place for several years. The problem has been insufficient staff to complete the necessary tasks. A staff person was assigned to ensure the timely review of these audits. More recently there was a turnover in this staff position and this created another backlog in the logging of the audits and the forwarding of the audits to Audit Services. Since then DMHA has submitted all subrecipient audits to FSSA Audit and will ensure no more than a two week window between receipt of subrecipient audit and forwarding to FSSA Audit.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the lower risk audits is also done and appropriate feedback and follow-up is done.

The consistent following of these procedures should resolve this finding.

FINDING 2001-FSSA-9 CHILD SUPPORT ACCOUNTING WEAKNESS

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Karla Mantia
Title of Contact Person:	Deputy Director, Child Support Bureau
Phone Number:	317-233-4482
Compliance Requirement:	Special Tests and Provisions
Internal Control:	Reportable Condition

Status of Finding as of September 2003:

Since the SBOA audit was conducted, the Child Support Bureau has implemented a comprehensive plan to improve the reliability of the data within the ISETS database to achieve 95% accuracy. As a result of the data clean-up project, approximately 200,000 cases were closed. Many of the open cases were reviewed for data reliability. Part of this plan was to correct account balance information. Data reliability in 86 of the 92 counties has been completed. Approximately $245,298 was spent on the data reliability project. Two of the remaining six counties are over 75% completed with their data reliability update work. CSB and the local offices continue to work on data reliability for these counties. Computer system enhancements have also been put into place to stop inappropriate IV-D referrals from the OFC offices through the computer interface. We continue to conduct user training on a regular basis and complete yearly self assessment of each county.

Updated Status of Finding as of May 2004:

The CSB continues to address issues of data reliability with local offices. Data clean-up efforts, including correction of balances continues.

FINDING 2002-FSSA-3 TITLE XX AND VALIDATION OF DAY SERVICES CLAIMS

Federal Agency:	U.S. Dept. of Health and Human Services
Federal Program:	TITLE XX
CFDA Number:	93.667
Auditee Contact Person:	William Green
Title of Contact Person:	Fiscal Services Director, DDARS
Phone Number:	317-232-1147
Compliance Requirement:	Allowability/Subrecipient Monitoring
Internal Control:	Reportable Condition/Material Weakness

Status of Finding as of October 2003:

The Bureau of Developmental Disabilities Services plans to put in place a system to approve services for each recipient and billing will be based on that approval. This will be similar to the process used for the Individual Community Living Budget (ICLB) for State Funding of residential services. This will allow for the verification of the validity of day service (Title XX) claims at the time of process. This was initially scheduled to be completed by July 2003, however that process has been delayed as we are currently working on a systems consolidation project with the Division of Technology Services. The RFP for this project has been released. By July 2004, the contractor for this project will have been selected and at that time we will be addressing this issue.

Beginning in July 2003, we established a process to collect claims information by individual. In order to accomplish the verification of billing against the proper funding source, each provider must submit an electronic submission of a report indicating by client the services being billed on the claim. This data is then reconciled against the hard copy of the claim. Additionally, a program has been written whereby Title XX paid claims are matched against OMPP records to determine if any past claims were paid for individuals that were Medicaid waiver eligible. For any individuals that were Medicaid waiver eligible, a letter is generated to the provider requesting that the provider pay back the Title XX moneys and bill Medicaid for those services. This is a temporary fix until we move to real-time billing and data sharing between DDARS and OMPP.

FINDING 2002-FSSA-4 PASS-THROUGH ENTITY RESPONSIBILITIES AT DIVISION OF MENTAL HEALTH FOR TITLE XX

Federal Agency:	U.S. Dept. of Health and Human Services
Federal Program:	Title XX
CFDA Number:	93.667
Auditee Contact Person:	Karlin Dunlop
Title of Contact Person:	Deputy Director, Contract Management, DMHA
Phone Number:	317-233-3251
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition/Material Weakness

Status of Finding as of April 2004:

DMHA has worked with State Board of Accounts and FSSA Audit to update the Mental Health subrecipient audit log to track the receipt and review of subrecipients' A-133 audit reports. The review process has been flowcharted to ensure all parties are aware of their responsibilities in the audit review process.

DMHA has had the audit log in place for several years. The problem has been insufficient staff to complete the necessary tasks. A staff person was assigned to ensure the timely review of these audits. More recently there was a turnover in this staff position and this created another backlog in the logging of the audits and the forwarding of the audits to Audit Services. Since then DMHA has submitted all subrecipient audits to FSSA Audit and will ensure no more than a two week window between receipt of subrecipient audit and forwarding to FSSA Audit.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the lower risk audits is also done and appropriate feedback and follow-up is done.

The consistent following of these procedures should resolve this finding.

STATE of INDIANA
DEPARTMENT OF EDUCATION
DR. SUELLEN REED, SUPERINTENDENT
INDIANAPOLIS 46204-2798
ROOM 229 - STATE HOUSE
AREA CODE 317-232-6665

March 29, 2004

Mr. Charles Johnson, III
State Examiner
State Board of Accounts
Room E-418, IGCS
Indianapolis, IN 46204

Dear Mr. Johnson:

This letter is a response to the findings in your recent A-133 audit of federal programs administered by the Indiana Department of Education.

Finding 2003-IDOE -1 Allowable Costs

Federal Agency:	Department of Education
Federal Program:	Title 1
CFDA Number:	84.010
Auditee Contact Person:	Alice Harpel
Title of Contact Person:	Director of Title 1, Division of Compulsory Education
Phone Number:	317-232-2595
Compliance Requirement:	Allowable Costs/Cost Principles

The Indiana Department of Education (DOE) is the state educational agency (SEA) who administers Title 1 funds to the local educational agencies (LEAs). DOE incurs Title 1 administrative costs associated with the program and pays settlements through claims processed by the Auditor of State.

During our audit of the Title 1 allowable costs requirement, we found that DOE has been paying for personal services through claims for "honorariums" to a retired DOE employee. The individual retired as of May 23, 2003 and began "honorarium" services on May 27, 2003. DOE processes these claims through their internal Request for Approval of Nonpayroll Personal Services form, which DOE refers to as the "yellow sheet". The "yellow sheet" contains objectives and activities for "honorarium" services and department approval for authorization of such services.

Per OMB A-87, costs must be reasonable and necessary for the performance and administration of Federal awards. The daily rate for services on these "honorarium" claims is $500 per day. That is more than twice the rate the individual was being paid as an employee when the cost of fringe benefits is considered. The objectives and activities stated on the claims for services provided are virtually identical to those services the individual performed as an employee. In addition, the documentation does not support that payments of these "honorarium" services are only temporary. As of February 1, 2004, for the period June 6, 2003 to January 8, 2004, DOE has paid claims to this individual in the amount of $48,500.00.

> We determined that a reasonable rate of pay should be based on the individual's salary at time of retirement and, since the cost of fringe benefits are allowable, if reasonable, the cost of fringe benefits at an estimated forty percent of his/her salary. We calculated that a reasonable payment for the 97 days of service from May 27 to December 30. 2003 should be $21,327.39.
>
> OMB A-87, Attachment B, Selected Items of Cost, Compensation for Personal Services (11 b), states in part, "Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit".
>
> As of February 1, 2004, we consider the amount of $27,172.61 to be a questioned cost. We recommended that DOE ensure that Title 1 funds are used only for reasonable costs.

RESPONSE

The State Board of Accounts has determined that a reasonable rate for contractual services or *Nonpayroll Personal Services* from a former employee should be based on the individual's salary at time of retirement, whereas OMB A-87 requires that the criteria for reasonable costs, "be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit."

We believe our current payment schedule for Mrs. Beasley's services is both reasonable and cost saving and meets the requirements of OMB A-87.

The IDOE has a history of contracting with Education Services Company when outside financial consultant services are needed for Title I and for various state funded programs. This company employs retired business managers who provide fiscal consulting and accounting services to school corporations on a contractual basis. The company's rate in 2000-01 was $120 per *hour,* which did not include travel or report preparation expenses. A summary of expenditures paid by Title I to Education Services Company is attached (see Attachment 1) and incorporated by reference as part of this response. Mr. Tom Grabill, CEO of Education Services Company, verified by phone on March 17, 2004, that the company's current hourly rate for services is $160.

Employing a base of 97 workdays, as used by SBA, we conservatively estimate 727.5 work hours. It should be noted that during Mrs. Beasley's work career – both as a full-time employee and now paid by claim voucher for occasional services – she routinely works 10-12 hour days; for the sake of illustration, this calculation is based on a 7.5 hour work day and the 2000-01 hourly rate of Education Services Company. With 727.5 hours worked, multiplied by $120 per hour, payment to Education Services Company for services equivalent to those provided by Mrs. Beasley would have been $87,300 – a cost substantially higher than the $48,500 cited by SBA.

Mileage and report preparation have not been included in the $87,300 figure, and note that financial consultants employed by Education Services Company would not have comparable background and experience to Mrs. Beasley.

The Title I allocation formula and the attendant fiscal processes are so complex and intricate that it is a necessity to obtain additional fiscal services in order to ensure the proper and efficient administration of the federal awards. In order for an Education Services Company fiscal consultant to become familiar with the current allocation formula and fiscal processes involved, many additional billable hours would be required—hours billed at the current $160/hr rate. The experience and knowledge possessed by Mrs. Beasley was, and is, critical to the proper and efficient administration of the federal awards, and the payment of Mrs. Beasley for occasional professional services on an "as needed" basis has actually resulted in considerable savings for the agency over what we would have been compelled to pay for equivalent services.

It is noteworthy that Mrs. Beasley has not been receiving any benefits under the professional service arrangement with the IDOE. This is consistent with the method of compensation (claim voucher) and the understanding of the parties to the professional service relationship. Were benefits provided they would represent nearly 60 percent of the daily $500 rate paid Mrs. Beasley (38% federal, state and local taxes; 15% social security; 3.5% health insurance; and 4-5% additional tax income), making her actual daily compensation range from $172.50 - $192.50. This is less than the daily rates of comparable DOE senior fiscal consultants paid with either federal or state funds.

Based on the above data, we believe the rate paid to Mrs. Beasley for *Nonpayroll Personal Services* is reasonable and justified and meets the requirements of OMB A-87.

Finding 2003-IDOE-2 Allocation of Expenditures

Federal Agency:	Department of Education
Federal Program:	Improving Teacher Quality State Grants Title I
CFDA Number:	84.367, 84.010
Auditee Contact Person:	Yvette Hauser
Title of Contact Person:	Director of Accounting
Phone Number:	317/232-0511
Compliance Requirement:	Allowable Costs/Cost Principle

During our testing of expenditures, we found disbursements for computer hardware and software, some of which was allocated across various federal programs that benefited from the items purchased. There was no calculation method with a reasonable allocation base used to determine the amounts charged to the Improving Teacher Quality State Grants or Title 1 programs.

According to OMB Circular A-87, Attachment A, To be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of OMB Circular A-87 and be determined in accordance with generally accepted accounting principles. A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

According to OMB Circular A-87, Attachment C, indirect costs allocations must be allocated based on a reasonable and consistent basis, and supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

The amount of costs assigned to the Improving Teacher Quality State Grants program is \$10,000.00. The amount of costs assigned to the Title 1 program is \$60,000. These amounts are questioned costs for the respective programs.

We recommended that IDOE use a cost allocation base and calculation that complies with the requirements of OMB Circular A-87 and determine if any funds need to be returned to the respective programs.

RESPONSE

Beginning in fiscal year 2002 and continuing through fiscal year 2003, the IDOE was required to make substantial changes to our system of data retrieval, reporting, and storage. With additional data collection, security of our Information Technology (IT) systems also had to be upgraded. The additional data requirements were necessitated because of State law, specifically P.L. 221, and the federal No Child Left Behind Act (NCLBA). Extensive expenditures were made in computer hardware, software, program design, consultation, and training. Because both state and federal law made the expenditures we incurred necessary, funding from both state and federal sources was used.

During fiscal year 2003 approximately \$700,000 was spent making the necessary IT upgrades. \$350,000 of these expenditures was charged to our State appropriations. Federal grant funds were used for the remaining expenditures. As stated above, \$60,000 was charged to our Title I federal grant and \$10,000 to our federal Improving Teacher Quality grant.

Fundamental components of NCLBA are to improve the academic achievement of all students, including the disadvantaged and those at risk, and to provide professional development to ensure highly qualified teachers. Our Title I and Improving Teacher Quality grants specifically address these issues and provide administrative funds to help us implement and meet NCLBA. A significant portion of the expenditures we made relate directly to these two focal points of NCLBA; detailed tracking of student achievement data for all student sub-groups, and a system for identifying qualified teachers, appropriate professional development, and best practices.

Based on the federal requirements and resulting additional data requirements, we believe these charges are justified and represent reasonable allocations based on the programs' stated purposes and benefits.

Finding 2003-IDOE-3 Allocation of Salary Expense

Federal Agency:	Department of Education
Federal Program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Auditee Contact Person:	Tracy Brown
Title of Contact Person:	Fiscal Consultant, Center for School Improvement, IDOE
Phone Number:	317/232-6974
Compliance Requirement:	Allowable Costs/Costs Principles

During our testing of expenditures, we found five employees paid completely out of the Improving Teacher Quality State Grants [ITQSG] program that were not working solely on the program. Four of these worked on the ITQSG program and other Federal programs. One did not work on any Federal program, but was paid from the ITQSG program between July 2003 and February 2004.

According to OMB Circular A-87, Attachment B, section 11(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards of section 11(h)(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency as defined in section 11(h)(6).

According to OMB Circular A-87, Attachment B, section 11(h)(1), charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

The amount of salaries and fringe benefits, calculated at an estimated 32% of salary paid, for the four employees working on the ITQSG program and other Federal programs is $127,402.61 for the year ending June 30, 2003. The amount of salaries and fringe benefits, calculated at an estimated 32% of salary, for the employee working solely on non-Federal activities is $18,173.38. This is a total questioned cost to the ITQSG program of $145,575.98.

We recommended that IDOE determine the distribution of these employees' salaries and fringe benefits that complies with the requirements of OMB Circular A-87 and determine the amount of funds to be returned to the Improving Teacher Quality State Grants program.

RESPONSE

We have implemented corrective action for this finding. One of the five individuals referenced in the finding was incorrectly placed in a staffing report position funded by the Teacher Quality grant. Our mistake was not discovered or corrected until during the audit. Effective with the pay date February 25, 2004, this employee has been moved to a State funded position on the staffing report and a total of $18,421 in salary and fringe benefit costs will be credited to the Teacher Quality grant.

Another employee referenced in the finding was paid from the Teacher Quality grant funds for only one pay period; her salary was charged to other grant funds at all other times. This employee does spend a portion of her time on Teacher Quality activities, as well as other No Child Left Behind federal grant programs. In order to ensure that we are in compliance with OMB A-87, effective immediately this employee's salary and fringe benefits are being charged on a proportionate basis to the appropriate grants. Prior payments made from federal fiscal year 02 grants will also be charged proportionately. Actual work activity and production will serve as documentation.

The other three employees referenced in the finding are paid in total from Teacher Quality grant funds. While a substantial amount of their time is spent on Teacher Quality activities, they also work with other federal grant programs. To ensure that we are in compliance with OMB A-87, effective immediately the employees' salary and fringe benefits will be charged on a proportionate basis to the appropriate grants. Prior payments made from federal fiscal year 02 grants will also be charged proportionately. Actual work activity and production will serve as documentation. Based on this proportionate basis, a total of $153,067 in salary and fringe benefit charges made, or to be made, between November 2002 and June 30, 2004, will be credited to the Teacher Quality grant.

Thank you for this opportunity to respond to these findings. Please contact me if you have any further questions.

Sincerely,

Risa A. Regnier for

Dr. Suellen Reed
State Superintendent of
Public Instruction

SUMMARY OF EXPENDITURES

Education Services Company
3535 E. 96th Street, Suite 126

Thomas G. Grabill
Phone 317-818-3535

Invoice Date	Description of Services	Project and Hours	Cost
09-18-00	Consultant fee for R. Egloff	Title I Audit Cannelton Schools Sept. 12, 14, & 15, 2000 13 hours @ $120/hr	$1,560.00
	Reimbursement mileage	370 miles @ .325/mi	120.25
	Reimbursement for hotel expense	2 nights	129.02
02-13-01	Consultant fee for Richard G. Cook	Gary CSC Title I Audit Jan. 29 - Feb. 8, 2001 28.75 hours @ $120/hr	$3,450.00
	Reimbursement mileage	376 miles @ .345/mi	129.72
03-09-01	Consultant fee for Richard G. Cook	Gary CSC Title I Audit Feb. 13 - March 1, 2002 51.75 hours @ $120/hr	$6,210.00
	Reimbursement for mileage	549 miles @ .345	189.40
04-09-01	Consultant fee for Richard G. Cook	Gary CSC Title I Audit Mar. 6 - 18, 2001 66.75 hours @ $120/hr	$8,010.00
	Report preparation		1,579.60
	Reimbursement for mileage	366 miles @ .345/mi	126.27
05-29-01	Consultant fee for Richard G. Cook	Gary CSC Title I Audit May 2-3, 2001 9.15 hours @ $120/hr	$1,098.00
	Reimbursement for mileage	122 miles @ .345/mi	42.09
08-06-01	Consultant fee for Richard G. Cook	Gary CSC Title I Audit July 8 - 26, 2001 38 hours @ $120/hr	$4,560.00
	Reimbursement for mileage	644 miles @ .345	222.18
	Report preparation		111.51

Attachment 1
Response to SBA findings/March 29, 2004

STATE OF INDIANA
SECTION II CORRECTIVE ACTIONS

The following are the correction actions for section II findings.

FINDING 2003-CAFR-1 CAPITAL LEASES

State Agency: Indiana Department of Administration
Auditee Contact Person: Jeff Underwood
Phone Number: 317-234-2409

The State's e-procurement project was implemented in October 2003 and required all agencies subject to or utilizing the Department of Administration Procurement Division to enter all purchases above $500 for points 3, 4, and 5 into PeopleSoft via a requisition and then issue a PeopleSoft Purchase Order. Beginning with fiscal year 2005 the Department of Administration will be able to run a report that captures all purchases that might be eligible for consideration as a capital lease. For the current fiscal year we will be relying on the survey process that has been used in past years however we will be running the report to pull all potential purchases that may have been entered into PeopleSoft during the fiscal year.

FINDING 2003-CAFR-2 INFRASTRUCTURE

State Agency: Indiana Department of Transportation
Auditee Contact Person: Tony Hedge
Phone Number: 317-232-5358

Since the implementation of the GASB34 reporting requirements, INDOT has continued to work with the auditors in developing procedures for reporting infrastructure activity. The auditors and INDOT staff have recently agreed conceptually as to the type of reporting that is to be implemented for Fiscal Year 2005 starting July 2004. As the specific procedures are developed and implemented to ensure that all applicable infrastructure assets are capitalized on the Auditor of State's capital asset system, such procedures shall be documented.

FINDING 2003-CAFR-3 TRANSFERS

State Agency: Indiana's Auditor of State's Office
Auditee Contact Person: Bill Lantz
Phone Number: 317-233-9819

At the time State Board of Accounts found the problem with transfers, we met with accounting and State Board of Accounts and recommended two new procedures to correct these problems. The procedures were:

1. Modification of the journal voucher input process by our MIS staff to allow for the insertion of lines. This was a change from the current entry process that necessitated missed lines having to be added to the bottom of the JV.
2. Change of procedure relating to the numbering of JVs from the current "batch" numbering used to individual JV numbers for each submitted JV.

Accounting has since implemented these procedures. As an added precaution the MIS system is now balancing transfers by JV as they are entered. In addition, this year we have gone through all of the transfers manually to look for any where the agency has written up the transfer wrong, thereby pairing the entries incorrectly. We have corrected these manually before doing the transfer analysis.