

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FEDERAL SINGLE AUDIT REPORT

INDIANA STATE UNIVERSITY

TERRE HAUTE, INDIANA

July 1, 2015 to June 30, 2016



FILED
03/16/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4-5
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance	6-8
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	10-12
Notes to Schedule of Expenditures of Federal Awards.....	13-14
Schedule of Findings and Questioned Costs.....	15-17
Auditee-Prepared Documents:	
Summary Schedule of Prior Audit Findings.....	20-23
Corrective Action Plan	24
Other Reports.....	25

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President	Dr. Daniel J. Bradley	07-01-15 to 06-30-17
Vice President for Business Affairs Finance, and University Treasurer	Diann E. McKee	07-01-15 to 06-30-17
Associate Vice President for Finance and Assistant Treasurer	Domenic Nepote	07-01-15 to 06-30-17
Associate Vice President and University Controller	Jeffery J. Jacso	07-01-15 to 06-30-17
President of the Board of Trustees	David Campbell	07-01-15 to 06-30-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

We have audited the financial statements of the business-type activities and the discretely presented component unit of Indiana State University (University), a component unit of the State of Indiana, as of and for the year ended June 30, 2016, and have issued our report thereon dated October 26, 2016, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 26, 2016. Our report includes a reference to other auditors who audited the financial statements of the Indiana State University Foundation, as described in our report on the University's financial statements.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Award is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

October 26, 2016



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

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

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

We have audited, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component unit of Indiana State University (University), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 26, 2016. Our report includes a reference to other auditors who audited the financial statements of the Indiana State University Foundation (Foundation), as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


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

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

October 26, 2016



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

Report on Compliance for Each Major Federal Program

We have audited Indiana State University's (University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 University'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

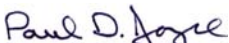
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 that we consider to be a material weakness.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

February 23, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the University. The schedule and notes are presented as intended by the University.

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
Research and Development Cluster				
<u>U.S. DEPARTMENT OF COMMERCE</u>				
Pass-Through Indiana Department of Natural Resources Coastal Zone Management Administration Awards	11.419	CZ 429	\$ -	37,261
Total for Federal Grantor Agency			-	37,261
<u>U.S. DEPARTMENT OF DEFENSE</u>				
Direct Grant Unknown	12.RD	N62470-14-2-9015	-	50,608
Total for Federal Grantor Agency			-	50,608
<u>U.S. DEPARTMENT OF THE INTERIOR</u>				
Direct Grants				
Endangered Species Conservation - Recovery Implementation Funds	15.657	F13AC00080	-	1,667
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P15AC00245	-	31,957
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P15AC00558	-	100,985
Pass-Through Wildlife Management Institute, Inc Endangered Species Conservation - Recovery Implementation Funds	15.657	WNS 2015-07	-	14,824
Pass-Through Purdue University				
Assistance to State Water Resources Research Institutes	15.805	4107-60373	-	3,702
National Land Remote Sensing_Education Outreach and Research	15.815	4107-64971	-	2,220
National Land Remote Sensing_Education Outreach and Research	15.815	4107-68430	-	1,000
National Land Remote Sensing_Education Outreach and Research	15.815	4107-68431	-	1,000
Total for Federal Grantor Agency			-	157,355
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through North Carolina Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	MA-2013-01 RP2013-35	-	26,285
Total for Highway Planning and Construction Cluster			-	26,285
Total for Federal Grantor Agency			-	26,285
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u>				
Pass-Through Purdue University				
Education	43.008	4103-63020	-	(2,462)
Education	43.008	4103-69545	-	12,375
Total for Federal Grantor Agency			-	9,913
<u>NATIONAL SCIENCE FOUNDATION</u>				
Direct Grants				
Mathematical and Physical Sciences	47.049	CHE-1531972	-	236,926
Biological Sciences	47.074	IOS-1052247	-	42,596
Social, Behavioral, and Economic Sciences	47.075	BCS-1061808	4,815	12,786
Social, Behavioral, and Economic Sciences	47.075	BCS-1157521	-	3,648
Education and Human Resources	47.076	DUE-0966219	-	92,500
Education and Human Resources	47.076	DUE-1140748	-	42,469
Education and Human Resources	47.076	DUE-1547789	-	38,649
ARRA - Trans - NSF Recovery Act Research Support	47.082	DUE-0934648	-	20,234
Pass-Through University of Arizona				
Geosciences	47.050	125161	-	78,725
Social, Behavioral, and Economic Sciences	47.075	160000	-	97
Total for Federal Grantor Agency			4,815	568,630
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Department of Environmental Management Great Lakes Program	66.469	A305-2-70	-	15,140
Total for Federal Grantor Agency			-	15,140
<u>U.S. DEPARTMENT OF ENERGY</u>				
Direct Grant Office of Science Financial Assistance Program	81.049	DE-FG02-06ER46304	-	63,657
Total for Federal Grantor Agency			-	63,657

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

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
Research and Development Cluster (Continued)				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Direct Grant				
Fund for the Improvement of Postsecondary Education	84.116	P116F140237	57,077	235,534
Total for Federal Grantor Agency			57,077	235,534
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Union Hospital, Inc				
Telehealth Programs	93.211		-	54,127
Pass-Through Indiana University				
Allergy and Infectious Diseases Research	93.855	1801887	-	13,960
Pass-Through Iowa State University				
Biomedical Research and Research Training	93.859	430-17-04A	-	38,646
Total for Federal Grantor Agency			-	106,733
Total for Research and Development Cluster			61,892	1,271,116
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child and Adult Care Food Program	10.558		-	39,833
Total for Federal Grantor Agency			-	39,833
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through State of Indiana/Office of Small Business and Entrepreneurship				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	A69-15-SBDC-1007	-	7,504
Total for Federal Grantor Agency			-	7,504
<u>U.S. DEPARTMENT OF LABOR</u>				
Pass-Through Indiana Department of Workforce Development				
Trade Adjustment Assistance	17.245	C1-5-TAA-82972-71449	-	4,856
Total for Federal Grantor Agency			-	4,856
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u>				
Pass-Through Purdue University				
Education	43.008	4103-69546	-	8,960
Total for Federal Grantor Agency			-	8,960
<u>NATIONAL ENDOWMENT FOR THE ARTS</u>				
Pass-Through Arts Illiana				
Promotion of the Arts_Partnership Agreements	45.025	APS-16007	-	1,231
Promotion of the Arts_Partnership Agreements	45.025	APS-16009	-	1,231
Total for Federal Grantor Agency			-	2,462
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>				
Pass-Through Indiana State Library				
Grants to States	45.310	A64-15-15L-98A	-	12,725
Total for Federal Grantor Agency			-	12,725
<u>SMALL BUSINESS ADMINISTRATION</u>				
Pass-Through State of Indiana/Office of Small Business and Entrepreneurship				
Small Business Development Centers	59.037	A69-15-SBDC-1007	-	45,181
Small Business Development Centers	59.037	A69-16-SBDC-2004	-	20,350
Total for Federal Grantor Agency			-	65,531
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Direct Grants				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants	84.007		-	303,904
Federal Work-Study Program	84.033		-	432,478
Federal Perkins Loan Program_Federal Capital Contributions	84.038		-	7,942,178
Federal Pell Grant Program	84.063		-	21,266,289
Federal Direct Student Loans	84.268		-	70,539,430
Total for Student Financial Assistance Cluster			-	100,484,279

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

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF EDUCATION (Continued)</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA)				
Special Education_Grants to States	84.027	A58-1-11DL-004	-	205,097
Special Education_Grants to States	84.027	A58-5-15DL-2243	150,896	2,793,327
Special Education_Grants to States	84.027	A58-6-16DL-0176	-	194,049
			<u>150,896</u>	<u>3,192,473</u>
Total for Special Education Cluster				
Direct Grant				
TRIO Cluster				
TRIO_Student Support Services	84.042	P042A101065	-	42,766
TRIO_Student Support Services	84.042	P042A150220	-	269,783
			<u>-</u>	<u>312,549</u>
Total for TRIO Cluster				
Direct Grant				
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	H326T130078	-	224,521
Pass-Through Vigo County School Corporation				
Mathematics and Science Partnerships	84.366	15-095	-	15,332
Pass-Through University of Southern Indiana				
Mathematics and Science Partnerships	84.366	16-014-E	-	46,583
Pass-Through Indiana Commission for Higher Education				
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	J22-15-C0354	-	100,430
College Access Challenge Grant Program	84.378	J22-15-C0369	-	40,419
Pass-Through Ball State University				
Career and Technical Education - Basic Grants to States	84.048	A58-6-16CI-0147	-	8,376
Pass-Through Indiana Department of Education				
Career and Technical Education - Basic Grants to States	84.048	A58-5-15CI-2761	-	81,472
			<u>150,896</u>	<u>104,506,434</u>
Total for Federal Grantor Agency				
<u>Vietnam Education Foundation</u>				
Direct Grant				
Fellowship Program	85.802		-	24,321
			<u>-</u>	<u>24,321</u>
Total for Federal Grantor Agency				
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Direct Grant				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1H79T125977	36,106	104,609
Pass-through Indiana University				
Area Health Education Centers	93.107	1617563	27,155	38,805
Area Health Education Centers	93.107	IN4683368ISU	3,700	37,156
Pass-Through Indiana Family & Social Services Administration				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	A55-3-84-13-PS-0286	25,942	54,180
CCDF Cluster				
Child Care and Development Block Grant	93.575		-	258,935
Block Grants for Prevention and Treatment of Substance Abuse	93.959	A55-3-84-13-IM-0286	-	(846)
			<u>92,903</u>	<u>492,839</u>
Total for Federal Grantor Agency				
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through Indiana Department of Workforce Development - Serve Indiana				
AmeriCorps	94.006	C1-5-AF-4-264	-	14,040
AmeriCorps	94.006	AF-5-264	-	102,147
			<u>-</u>	<u>116,187</u>
Total for Federal Grantor Agency				
Total federal awards expended			<u>\$ 305,691</u>	<u>\$ 106,552,768</u>

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

INDIANA STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires an annual audit of any entity expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of universities shall be conducted annually.

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Indiana State University (University) for the year ended June 30, 2016 and is presented in accordance with the requirements of Uniform Guidance. The accompanying Schedule has been prepared in a format that presents summary financial information of the federal funds awarded to Indiana State University directly from federal agencies as well as amounts received as a subgrantee of other organizations. For purposes of the Schedule, federal assistance includes all federal assistance and procurement relationships entered into directly between Indiana State University and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Because the Schedule presents only a selective portion of the activities of Indiana State University, it is not intended to and does not present the financial position, change in financial position, or cash flows of Indiana State University.

Indiana State University did not elect to use the 10% de minimis cost rate. The University uses a federally negotiated facilities & administration rate of 33% on federal awards when the rate is not restricted by federal regulation. This facilities & administration rate was approved by the US Department of Health & Human Services and is effective through 6/30/2017.

The accounting principles followed by Indiana State University and used in preparing the accompanying Schedule are as follows:

Awards Other Than Student Financial Assistance

Deductions (expenditures) for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in Uniform Guidance. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general university activities (indirect costs) which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates.

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

Student Financial Assistance

Expenditures for non-loan awards made to students are recognized and reported in the Schedule. Student loan programs are funded by the federal government under various programs; e.g., Perkins Student Loan Program. Activity related to these loan programs includes federal capital contributions, loan repayments, interest earned on loans, cancellation of loans, and administrative and collection costs.

Note 2. Federal Direct Student Loans

The Schedule of Expenditures of Federal Awards includes Federal Direct Student Loans which were not made by Indiana State University but were received by its students. Indiana State University is responsible only for the performance of certain administrative duties with respect to these loans.

The number of guaranteed loans and the total amount processed for each Direct Loan Program for the year ended June 30, 2016 were as follows:

<u>Program Title</u>	<u>Number of Loans Issued</u>	<u>Loan Amount</u>
Direct Loan Program (Subsidized and Unsubsidized)	13,041	\$58,186,690
Direct PLUS Loans (Parent and Graduate PLUS Loans)	1,515	\$12,352,740
Totals	14,556	\$ 70,539,430

Note 3. Federal Perkins Student Loan Program

Indiana State University participates in the Federal Perkins Loan Program. A revolving loan fund is maintained for the administration of the Program, the balances and transactions relating to the program are included in the University's financial statements. The Schedule of Federal Expenditures includes the entire amount of the revolving loan fund including the outstanding loans to students. The following schedule represents loans outstanding as of June 30, 2016:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Federal Perkins Loan Program	84.038	\$ 7,942,178

INDIANA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Research and Development Cluster	Unmodified
Student Financial Assistance Cluster	Unmodified
TRIO Cluster	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

**FINDING 2016-001 - SPECIAL TESTS AND PROVISIONS -
DISBURSEMENTS TO OR ON BEHALF OF STUDENTS**

Federal Agency: U.S. Department of Education
Federal Program: Federal Direct Student Loans; Federal Perkins Loan Program_Federal Capital Contributions
CFDA Number: 84.268; 84.038
Federal Award Number and Year (or Other Identifying Number): FY16

A similar finding appeared in the immediate prior year report. The prior year finding number was 2015-003.

INDIANA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition

The University had not established an effective internal control system over one of the requirements related to the Special Test and Provision - Disbursements To and On Behalf of Students.

The University did not send all the required notifications, including the right to cancel language, to students with multiple loan (i.e. subsidized, unsubsidized, or Perkins) disbursements made during the fiscal year.

Context

Twenty-three loan recipients out of twenty-five sampled had not received proper notification for 40 out of 88 (45%) disbursements credited to their accounts. Loan recipients were notified for the first disbursement of the loan (typically in the fall semester); however, notifications were not sent for subsequent disbursements between August 2015 and April 2016.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 668.165(a) states in part:

" . . . (2) Except in the case of a post-withdrawal disbursement made in accordance with § 668.22(a)(5), if an institution credits a student ledger account with Direct Loan, Federal Perkins Loan, or TEACH Grant program funds, the institution must notify the student or parent of -

(i) The anticipated date and amount of the disbursement;

(ii) The student's or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds or TEACH Grant proceeds returned to the Secretary; and

(iii) The proceeds and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

(3) The institution must provide the notice described in paragraph (a)(2) of this section in writing -

(i) No earlier than 30 days before, and no later than 30 days after, crediting the student's ledger account at the institution, if the institution obtains affirmative confirmation from the student under paragraph (a)(6)(i) of this section. . . ."

INDIANA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

The University had not established a proper system of internal controls to prevent or detect errors in the computer programming relied upon to send all required notifications to students and/or parents.

The notifications were not generated by the computer system due to a coding error in the computer software.

Effect

The failure to establish effective internal controls enabled material noncompliance to go undetected.

Noncompliance of the grant agreement or the compliance requirement could have resulted in the loss of federal funds.

Questioned Cost

There were no questioned costs identified.

Recommendation

We recommended that the University implement effective internal controls related to the Special Test and Provision - Disbursements To and On Behalf of Students compliance requirement. Additionally, the University should have ensured that appropriate notification was made to all federal loan recipients within the required time frame.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is a part of this report.

(This page intentionally left blank.)

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the University. The documents are presented as intended by the University.



**Office of Student
Financial Aid**

220 North 7th Street
Terre Haute, Indiana 47809
812-237-2215
Fax 812-237-4330
isu-finaid@mail.indstate.edu

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-001

Fiscal year in which finding initially occurred: 2015

Federal Agency: U.S. Department of Education

Contact Person Responsible for Corrective Action: Crystal Baker, Rita Worrall

Contact Phone Number: (812) 237-2215, (812) 237-2301

Three out of thirty-two participants who received grant aid were not Pell grant recipients. Each participant received \$1,500 in grant aid. This resulted in \$4,500 of grant aid paid on behalf of ineligible participants.

Status of Audit Finding:

Corrective action was taken. The University returned to U.S. Department of Education \$4,500 for the 2014-2015 year for the three students who were deemed ineligible. No grant aid was awarded during the 2015-2016 year.

Crystal Baker
(Signature)

Director of Financial Aid
(Title)

2/19/17
(Date)

Rita Worrall
(Signature)

Director, Student Support Services
(Title)

2/21/17
(Date)



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-002

Fiscal year in which the finding initially occurred: 2015
Federal Agency: U.S. Department of Education
Contact Person Responsible for Corrective Action: April Hay
Contact Phone Number: (812) 237-2020

Status of Audit Finding:

The steps outlined in the Corrective Action Plan submitted on March 3, 2016 have been followed, specifically, in the manner described below:

- Effective March 1, 2016, each student withdrawal was being manually reported to the NSC within 7 business days, in addition to the regularly scheduled monthly mass transmissions.
- Effective for Fall 2016, at 9pm, August 9, 2016, changes were put into our production banner system to allow students to drop their last class on-line. These changes should prevent any lag in processing time. With this implementation, the manual NSC processing has been eliminated during the scheduled monthly mass transmissions (with the exception of administrative and retroactive withdrawals; these are still being updated manually in the NSC system). Once our last scheduled monthly mass transmission is sent to NSC after the close of the term, we will manually update any approved retroactive withdrawals.
- Effective with Summer 2016, we have made sure to coordinate the timing of the enrollment uploads so that files are sent at least every 30 days. The Registration and Records Leadership team reviews the proposed schedule from NSC, agrees upon set dates, and then communicates the proposed schedule with our Internal Audit Department and the Office of Student Financial Aid for review. Schedules are reviewed one month prior to priority registration.
- Trainings were held between the Office of Student Financial Aid, Internal Audit Department, and Office of Registration and Records to discuss requirements and processes related to enrollment and degree reporting requirements
 - March 4, 2016-Internal Training
 - May 25, 2016-Internal Follow up on corrective action plan progress
 - June 22, 2016-NSC Webinar: NSC Presents the Audit Resource Center: Preparing for Your Annual Audit
- Based on an email from the NSC on 3/15/16, they are not able to send us an output file off all "G" status codes on our students, therefore we have incorporated an additional verification step to check late degree submissions.
 - In addition to the mass degree NSC file uploads when the degrees are posted at the end of the term from the degree verification lists; degree uploads now continue to be sent to NSC every month for the prior term/semester for three months to pick up degrees that are posted after the verification lists are completed.

- Additionally, one time a week, a report is also generated out of Argos to identify all degrees that were awarded in banner during the prior week. This output is looked at to identify if any degrees were posted prior to the current term. If so, a manual update is entered thru the NSC system.

April Hay
(Signature)

Registrar
(Title)

2/17/2017
(Date)


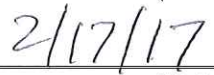
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***FINDING 2015-003***

Fiscal year in which the finding initially occurred: 2015
Federal Agency: U.S. Department of Education
Contact Person Responsible for Corrective Action: Crystal Baker
Contact Phone Number: (812) 237-2215

Status of Audit Finding: In progress

In response to the 15FY A-133 audit, ISU acknowledged failure to provide disbursement and cancellation notifications to federal loan borrowers due to a transition from a paper process to electronic. In Spring 2015, we began automatically sending email notifications to Direct Loan borrowers, based on a nightly disbursement feed to the Accounts Receivable module in Banner.

In Summer 2016, ISU conducted an internal review of the loan notification process. As a result of this review, we have begun working with the Office of Information Technology to refine our error resolution process and identify exceptions. This process should be completed by the end of the academic year.


(Signature)
(Title)
(Date)

CORRECTIVE ACTION PLAN***FINDING 2016-001***

Contact Person Responsible for Corrective Action: Crystal Baker, Director of Financial Aid
Contact Phone Number: 812-237-4232

Views of Responsible Official:

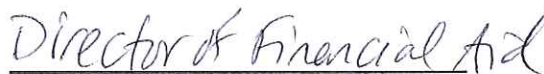
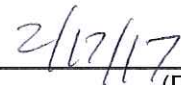
Indiana State University concurs with the finding. In spring 2016, the IN State Board of Accounts issued a finding for failing to provide notice to students and parents of loan disbursements for the 2014-2015 academic year. Shortly thereafter, process enhancements were made to generate emails to borrowers within one business day of their initial loan payment. However, a coding error prevented students from receiving additional loan notifications for subsequent disbursements. This was corrected in May 2016 for future disbursements.

ISU is committed to providing timely information to borrowers about disbursements and their ability to cancel all or a portion of these disbursements. In a good faith effort to comply with the intent of 34 CFR 668.165(a), an email notification was sent to all loan borrowers who received a federal loan during the 2015-2016 academic year listing their cumulative loan activity to date. This email was sent in July 2016 to over 7,300 unique recipients.

Description of Corrective Action Plan:

In order to ensure that all loan notifications are sent within the 30-day requirement, we have begun transitioning to using one synchronous system (Ellucian Banner) to both disburse loans as well as notify loan recipients. This will ensure that as the disbursement process occurs, borrowers will be notified simultaneously. In previous cycles, two systems (Banner and Argos) were utilized separately.

Anticipated Completion Date: Spring 2017


(Signature)
(Title)
(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the University. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.