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

STATE OF INDIANA

SINGLE AUDIT REPORT

July 1, 2005 to June 30, 2006

FILED

03/30/2007

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**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 FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: The Honorable Mitchell E. Daniels, Jr.
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, 2006, 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 27.5% and 8.8% of the assets and revenues of the colleges and universities discretely presented component units and 100% of the assets and revenues of the 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 opinions, insofar as they relate to those units, are 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, 2006, 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 and Community Development Authority and Indiana Comprehensive Health Insurance Association, discretely presented component units, report on a December 31, 2005, year-end.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(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 is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist 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 issued our report dated December 27, 2006, on our consideration of the State of Indiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Indiana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

December 27, 2006

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

TO: The Honorable Mitchell E. Daniels, Jr.,
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana, as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 27, 2006. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which represent 27.5% and 8.8% of the assets and revenues of the colleges and universities discretely presented component units and 100% of the assets and revenues of the 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 opinions, insofar as they relate to those units, are based upon the reports of the other auditors. 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 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.

## 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 an opinion 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 initiate, record, process, 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 and 2005-CAFR-1.

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

A material weakness is a reportable 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 caused by error or fraud 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. However, we believe that none of the reportable conditions described above is a material weakness.

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 27, 2006

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, 2006. 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. Because of prior period adjustments and reclassifications as described in Note IV(G) in the Notes to the Financial Statements, fiscal year (FY) 2005 numbers have been restated.

## Financial Highlights

- For FY 2006, on a government-wide basis, the assets of the State of Indiana exceeded its liabilities by $16.4 billion. This compares with $12.4 billion for FY 2005, as restated. Of this amount, $6.1 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 $1.4 billion, or 17.4% of the total general fund expenditures.
- On a government-wide basis for the primary government, the State incurred expenses net of program revenue of $13.4 billion, which are partially offset by general revenues and a special item totaling $17.4 billion, giving an increase in net assets of $4.0 billion. The financial position of the State has improved as can be seen in this increase in net assets.
- Indiana's economy is improving. Although the overall unemployment rate for Indiana increased from 5.3% to 5.4% in CY 2005, the total employed labor force increased from 3,004,188 to 3,035,204 in CY 2005. The national economy is also improving. For CY 2005 Gross Domestic Product (GDP) grew at a rate of 3.2%. Growth by quarter for the first three quarters of CY 2006 was at rates of 5.6%, 2.6%, 2.2%. Growth in the National Economy has a marked effect on Indiana. Gross Domestic State Product for Indiana was at $238.6 billion in CY 2005 as compared to $229.5 billion in CY 2004. As can be seen in this CAFR, economic growth has resulted in increased income tax and sales tax collections for the State.
- The Indiana Economic Development Corporation (IEDC) is the State of Indiana's economic development agency. It was created in February 2005 to replace the Commerce Department. The IEDC is a public/private partnership charged with leading Indiana's economic development efforts. It has incorporated all State entities with economic development responsibilities into its organizational structure. In 2005, IEDC closed 142 competitive deals, which included commitments for 15,407 new jobs and $2.7 billion in private capital investment. The 2006 data shows competitive commitments for 15,722 new jobs, $3.9 billion in private capital investment and an average wage per hour of $20.77 for new jobs commitments. This is significantly higher than Indiana's average wage of $16.70 per hour. As of August 2006, IEDC has closed 124 deals involving competitive projects in CY 2006.
- State government cut its full-time workforce during CY 2006. As can be seen by the employee count chart on the next page, full time headcount decreased from 36,708 in December of 2005 to 35,937 in December of 2006. This was a 2.1% decrease, most of it in employees under the governor's authority. Employees other than full time decreased from 4,869 in December of 2005 to 3,904 in December of 2006. This was a 19.8% decrease. Most of this decrease in employees other than full time was in the National Guard and the Department of Natural Resources. (see pages 180-183).
- General revenue for the primary government increased by $982.8 million, or 7.7%, from FY 2005. Income taxes and sales taxes were the driving force behind this increase, with growth rates of 6.0% and 7.8%, respectively. These grew in line with the economic growth progress of the State.
- The State of Indiana's credit outlook was upgraded from Aa1 negative to Aa1 stable by Moody's Investor Service in August, 2006 (on a scale where Aaa is the best). The State's credit outlook was also upgraded from AA to AA+ in January, 2006 by Standard & Poor's Ratings Service (on a scale where AAA is the best). According to Moody's, the positive change in the State's credit outlook was caused by the "State's diversifying economy and employment level, a balanced budget, and repayments to K-12 schools and local governments."

**Key Economic Indicators**

| | Dec 31, 2005 | Dec 31, 2004 | % Change |
|---|---|---|---|
| Total Employed Labor Force | 3,035,204 | 3,004,188 | 1.03% |
| Total Goods and Service Employment | 2,999,900 | 2,967,900 | 1.08% |
| Service-Providing Employment | 2,273,600 | 2,241,300 | 1.44% |
| Goods-Producing Employment | 726,300 | 726,600 | -0.04% |
| Unemployment Rate | 5.4% | 5.3% | 0.10% |
| Median Household Income | $ 43,993 | $ 42,195 | 4.26% |

Sources: Bureau of Labor Statistics and US Census Bureau

Salaries and benefits for State employees represent approximately 9-10% of governmental fund expenditures. The following table shows a ten year history of the count of full time 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 |
|---|---|---|---|---|---|
| 1997 | 35,911 | 776 | 994 | 1,098 | 38,779 |
| 1998 | 35,284 | 790 | 1,012 | 1,097 | 38,183 |
| 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 |
| 2004 | 36,276 | 899 | 1,039 | 1,288 | 39,502 |
| 2005 | 33,417 | 896 | 1,095 | 1,300 | 36,708 |
| 2006 | 32,759 | 903 | 1,136 | 1,139 | 35,937 |

For more information on people paid through the Auditor of State's Office, please see pages 176-184 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 Unemployment Compensation Fund.
- 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 Unemployment Compensation Fund, the Inns and Concessions Fund, and the Indiana Residual Malpractice Insurance Authority 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 Finance Authority, the Indiana Bond Bank, the Board for Depositories, the Indiana Housing and Community Development 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.

   Non-current 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. Non-current 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 Employee Health Insurance Fund.

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** | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | $ 13,093.1 | $ 7,235.1 | $ 511.7 | $ 502.6 | $ 13,604.8 | $ 7,737.7 |
| Capital assets | 10,060.4 | 9,968.3 | 11.2 | 11.9 | 10,071.6 | 9,980.2 |
| **Total assets** | 23,153.5 | 17,203.4 | 522.9 | 514.5 | 23,676.4 | 17,717.9 |
| Current liabilities | 5,663.8 | 3,813.4 | 19.9 | 15.6 | 5,683.7 | $ 3,829.0 |
| Long-term liabilities | 1,562.2 | 1,457.7 | 44.2 | 38.6 | 1,606.4 | 1,496.3 |
| **Total liabilities** | 7,226.0 | 5,271.1 | 64.1 | 54.2 | 7,290.1 | 5,325.3 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 8,764.1 | 8,708.8 | 11.2 | 11.9 | 8,775.3 | $ 8,720.7 |
| Restricted | 1,041.0 | 534.6 | 448.9 | 452.7 | 1,489.9 | 987.3 |
| Unrestricted | 6,122.4 | 2,688.9 | (1.3) | (4.3) | 6,121.1 | 2,684.6 |
| **Total net assets** | $ 15,927.5 | $ 11,932.3 | $ 458.8 | $ 460.3 | $ 16,386.3 | $ 12,392.6 |

At the end of the current fiscal year, net assets for governmental activities were $15.9 billion as compared to $11.9 billion in 2005. This increase of $4.0 billion can be broken down into two parts, an increase of total assets of $6.0 billion, offset by an increase of total liabilities of $2.0 billion.

Total asset increases were as follows: Due from component units increased by $3.6 billion due to the lease of the Indiana Toll Road, which was paid to the State in July, 2006, but accrued as a due from the Indiana Finance Authority as of June 30, 2006. Another $1.4 billion was securities lending collateral. This $1.4 billion increase was due to two factors. Short term interest rates increased by 2% from FY 2005 to 2006 and the average portfolio size increased by $0.5 billion. For more information on securities lending, please see Note I(D-1) in the Notes to the Financial Statements. Another $1.0 billion increase was cash, investments and receivables. This was due to the improved financial position of the State.

Total liability increases were as follows: Liability for securities lending increased by $1.4 billion, an offset to the securities lending asset increase. Intergovernmental payable increase by $0.5 billion, while another $0.1 billion was caused by an increase in accounts payable.

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. In other words, in good times the balance in the fund should increase, and in bad times, the money can be used to offset deficits. The fund had available assets of $328.1 million or 5.4% 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 | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 1,286.6 | $ 1,303.5 | $ 695.9 | $ 630.7 | $ 1,982.5 | $ 1,934.2 |
| Operating grants and contributions | 7,653.3 | 7,388.9 | - | - | 7,653.3 | 7,388.9 |
| Capital grants and contributions | 11.8 | 15.6 | - | - | 11.8 | 15.6 |
| General revenues | | | | | | |
| Individual and corporate income taxes | 5,396.9 | 5,090.3 | - | - | 5,396.9 | 5,090.3 |
| Sales taxes | 5,352.1 | 4,963.3 | - | - | 5,352.1 | 4,963.3 |
| Other | 3,016.0 | 2,722.4 | 26.7 | 32.9 | 3,042.7 | 2,755.3 |
| **Total revenues** | 22,716.7 | 21,484.0 | 722.6 | 663.6 | 23,439.3 | 22,147.6 |
| **Program Expenses** | | | | | | |
| General government | 4,317.5 | 4,028.3 | - | - | 4,317.5 | 4,028.3 |
| Public safety | 1,181.1 | 1,207.6 | - | - | 1,181.1 | 1,207.6 |
| Health | 333.7 | 426.5 | - | - | 333.7 | 426.5 |
| Welfare | 7,261.7 | 7,297.9 | - | - | 7,261.7 | 7,297.9 |
| Conservation, culture and development | 546.5 | 508.0 | - | - | 546.5 | 508.0 |
| Education | 6,971.2 | 6,598.6 | - | - | 6,971.2 | 6,598.6 |
| Transportation | 1,726.7 | 1,658.5 | - | - | 1,726.7 | 1,658.5 |
| Interest expense | 0.8 | 0.8 | - | - | 0.8 | 0.8 |
| Unemployment compensation fund | - | - | 692.9 | 713.1 | 692.9 | 713.1 |
| Other | - | (0.3) | 32.0 | 31.8 | 32.0 | 31.5 |
| **Total expenses** | 22,339.2 | 21,725.9 | 724.9 | 744.9 | 23,064.1 | 22,470.8 |
| Excess (deficiency) before transfers and special item | 377.5 | (241.9) | (2.3) | (81.3) | 375.2 | (323.2) |
| Special item | | | | | | |
| Proceeds from lease of Toll Road | 3,618.5 | - | - | - | 3,618.5 | - |
| Transfers | (0.8) | (1.0) | 0.8 | 1.0 | - | - |
| **Change in net assets** | 3,995.2 | (242.9) | (1.5) | (80.3) | 3,993.7 | (323.2) |
| Beginning net assets, as restated | 11,932.3 | 12,175.2 | 460.3 | 540.6 | 12,392.6 | 12,715.8 |
| Ending net assets | $ 15,927.5 | $ 11,932.3 | $ 458.8 | $ 460.3 | $ 16,386.3 | $ 12,392.6 |

## Governmental Activities

Program expenses exceeded program revenues by $13.4 billion. General revenues, transfers and special item were $17.4 billion, leaving an increase in net assets of $4.0 billion, which is 17.6% of total revenues. Last year, the State had a decrease in net assets of $242.9 million, which was 1.1% of total revenues.

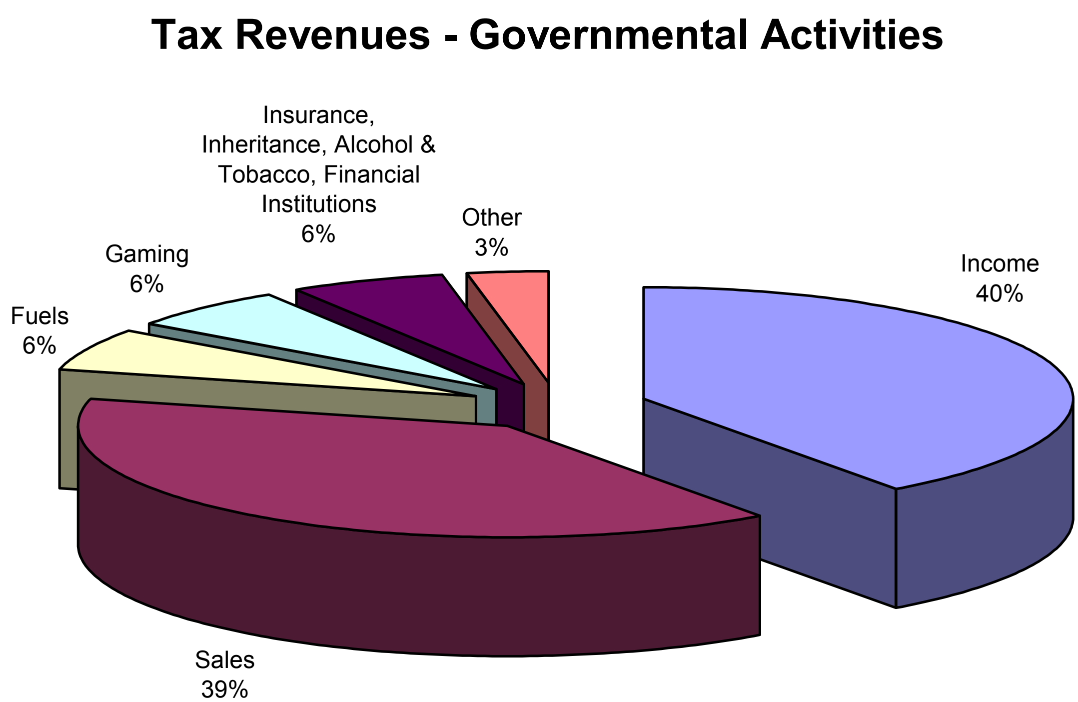
In May 2005, the Indiana Finance Authority (IFA) was formed, composed of five formerly independent bodies. The entities combined included the Indiana Development Finance Authority (IDFA), the State Office Building Commission (SOBC), the Indiana Transportation Finance Authority (ITFA), the Recreational Development Commission (RDC) and the State Revolving Fund (SRF). The purpose of this merger was to combine responsibility for State borrowing under one entity.

$3.6 billion of the $4.2 billion increase in the change in net asset from FY 2005 to FY 2006 was brought about by the IFA's lease of the Indiana Toll Road to Cintra Mcquarie, an independent company. Cintra Mcquarie made an up front lease payment of $3.8 billion to the IFA on June 29, 2006, of which $3.1 billion was paid to the primary government to fund the Major Moves Construction Fund and $0.5 billion was paid to fund the Next Generation Trust Fund. The other $0.6 billion increase was brought about by an increase of total revenues of $1.2 billion offset by an increase in total expenses of $0.6 billion.

Total revenues increased by $1.2 billion from FY 2005 to FY 2006. This is due to increases in sales taxes of $388.8 million, an increase in individual and corporate income taxes of $306.6 million, an increase in other taxes of $293.6 million, and an increase in operating grants and contributions of $264.4 million. These taxes are both based on income and spending in the Indiana economy. The Indiana economy has improved, as described on page 6, causing these increases.

Total expenses increased by $613.3 million, which was less than the growth in revenues. The increase in expenses was caused by increases in education and general government spending of $372.6 million and $289.2 million, respectively. These were offset by a decrease in spending for health of $92.8 million.

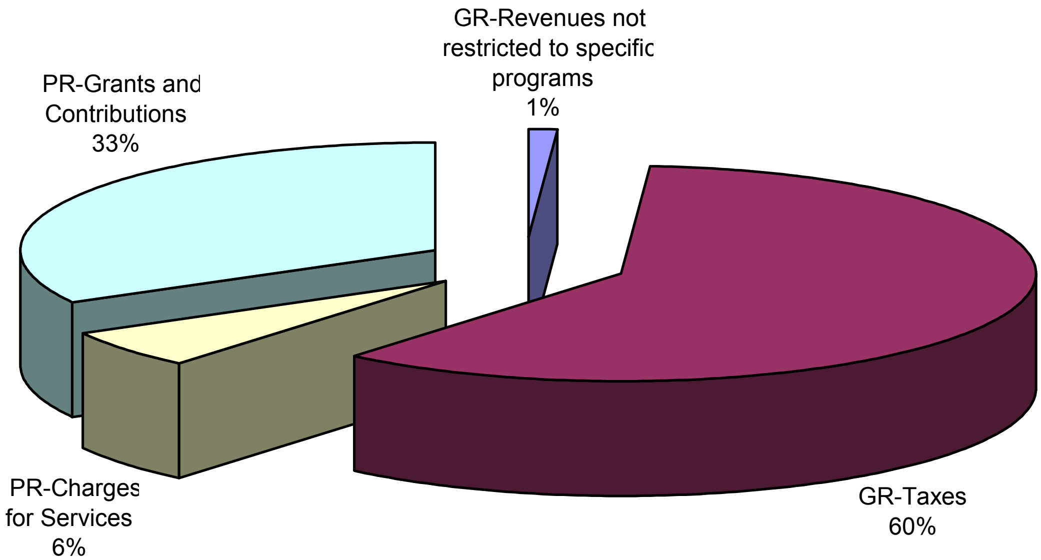
Tax revenues for governmental activities were broken down as follows:




Tax revenues of $13.6 billion represent 59.7% of total revenues for governmental activities. This compares to $12.7 billion in FY 2005 or 59.0% of total revenues in FY 2005. Program revenues accounted for $9.0 billion or 39.4% of total revenues. In FY 2005, program revenues accounted for $8.7 billion or 40.5% of total revenues. General revenues other than tax revenues were $209.7 million or 0.9% of total revenues. Of this $153.8 million was investment earnings. This compares to 2005, when general revenues other than taxes were $109.6 million or 0.5% of total revenues. Of this $109.6 million, $73.8 million was investment earnings. Investment earnings increased by $80.0 million from FY 2005 to FY 2006 or 108.4% due to rising interest rates. There was also a special revenue item $3.6 billion, which was proceeds from the Indiana Toll Road leases.

Total revenues for governmental activities were broken down as follows:

## Revenues to Support Governmental Activities




PR = program revenues
GR = general revenues

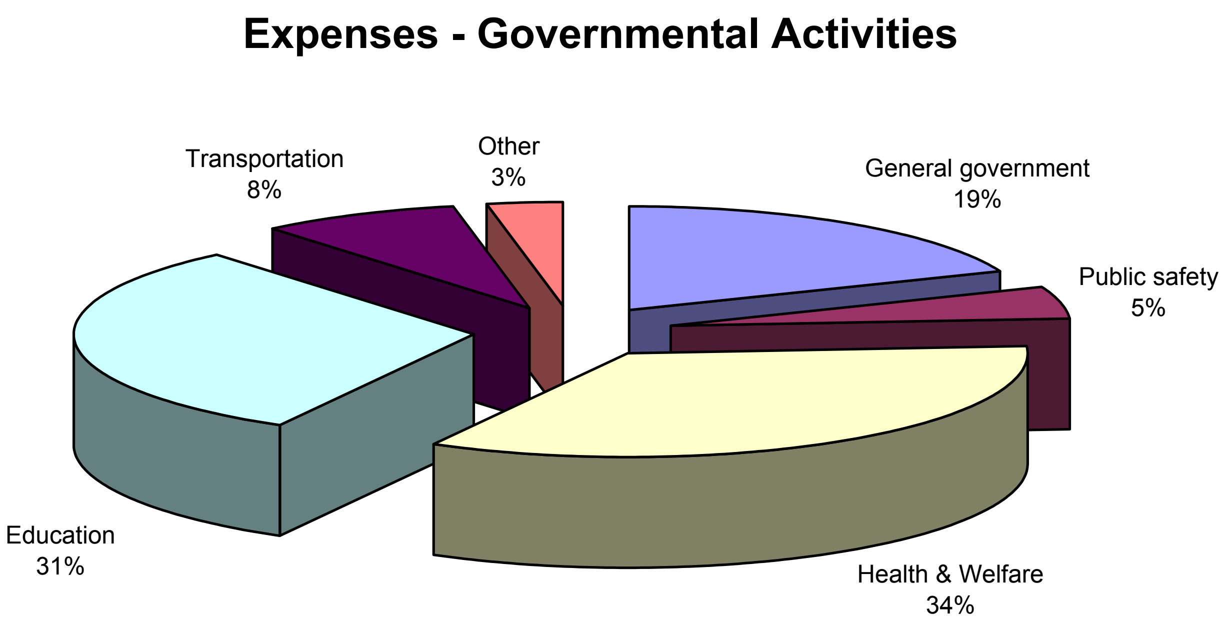
Total revenues were 101.7% of expenses, as compared to 98.9% in FY 2005, which explains most of the increase in net assets from FY 2005 to FY 2006. Total revenues grew 5.7% from $21.5 billion in FY 2005 to $22.7 billion in FY 2006. Expenses grew 2.8% from $21.7 billion in FY 2005 to $22.3 billion in FY 2006.

The largest portion of the State's expenses is Health and Welfare, which is $7.6 billion, or 34.0% of total expenses. This compares with $7.7 billion, or 35.6% of total expenses in FY 2005. 69.6% is funded through operating grants, with the majority of the remainder funded from general revenues. Some of the major expenses were Medicaid assistance, $4.8 billion, child care and development, $131.9 million, temporary aid to needy families assistance (TANF), $113.2 million, and Medicaid administration, $96.5 million.

Education comprises 31.2%, or $7.0 billion, of the State's expenses. In FY 2005, Education accounted for 30.4%, or $6.6 billion, of expenses. All but $869.8 million of this is funded from general revenues. Some of the major expenses were tuition support, $3.9 billion, State colleges and universities, $1.3 billion, Teachers' Retirement Pension, $542.3 million, handicapped education, $224.8 million, and the national school lunch program, $182.1 million.

$4.3 billion, or 19.3% of expenses, was spent for General Government. General Government comprised $4.0 billion or 18.5% of expenses in FY 2005. General Government 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 3.1% of the Primary Government's revenues and 3.1% of the expenses. The Unemployment Compensation Fund accounts for 95.0% of business-type activities' operating revenues and 96.1% of operating expenses. The change in net assets for business-type activities was a decline of $1.5 million. The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals. These benefits paid exceeded revenue in the fund by $3.8 million. This compares to FY 2005 when benefits paid exceeded revenue by $81.4 million. Employer contributions into the fund increased by $56.4 million from $573.1 million in FY 2005 to $629.5 million FY 2006. The increased total employed labor force in Indiana as explained on page 6 contributed to the improvement in the fund from FY 05 to FY 06.

**Net Cost of Primary Government**
**(in millions)**

| | June 30, 2006 | June 30, 2005 | % change |
|---|---|---|---|
| **Governmental Activities:** | | | |
| General government | $ 3,554.6 | $ 3,363.2 | 5.7% |
| Public safety | 488.8 | 475.3 | 2.8% |
| Health | 136.9 | 116.5 | 17.5% |
| Welfare | 2,000.1 | 2,195.7 | -8.9% |
| Conservation, culture, and development | 201.4 | 175.2 | 15.0% |
| Education | 6,101.4 | 5,847.9 | 4.3% |
| Transportation | 903.6 | 843.3 | 7.2% |
| Other | 0.8 | 0.8 | 0.0% |
| **Business-type Activities:** | | | |
| Unemployment Compensation Fund | 29.8 | 113.7 | -73.8% |
| Other | (0.9) | 0.5 | -280.0% |
| **TOTAL** | **$ 13,416.5** | **$ 13,132.1** | **2.2%** |

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. Please note that transfers in and transfers out for these funds are explained in much greater detail in the Notes to the Financial Statements IV(B).

### 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, 2006 was $1,833.6 million, which is 35.2% of assets. This compares to a fund balance at June 30, 2005 of $1,194.2 million, which was 35.5% of assets. This indicates that the State's financial position in the General Fund is better than the prior year by $639.4 million. The fund balance of $1,833.6 million is composed of reserves of $396.8 million and unreserved of $1,436.8 million. Major reserves are:

- Encumbrances of $41.5 million, which is money set aside to pay for future obligations.
- Loans of $33.6 million, which consists of $20.8 million in loans to entities outside the primary government and $12.8 million in interfund loans.
- Tuition support of $316.6 million, which is money set aside for 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, 2006, the surplus balance was $1,089.4 million. The balance increased by $339.7 million from the June 30, 2005 balance of $749.7 million. This surplus balance is composed of:

- $316.6 million tuition support, which is money set aside to pay for distributions to schools.
- $328.1 million rainy day fund, which is to assist in stabilizing revenue during periods of economic recession and is part of designated unreserved.
- $410.7 million, which represents the excess of revenues over expenditures.
- $34.0 million which represents the reserve for Medicaid.

The $410.7 million is on a cash basis. Accrual adjustments of $330.1 million reconcile this to the General Fund unreserved, undesignated fund balance on a GAAP basis of $740.8 million. The unreserved, undesignated fund balance of $740.8 million plus the unreserved fund balance designated for appropriations of $261.3 million, plus the unreserved fund balance designated for allotments of $434.7 million give the total unreserved fund balance of $1,436.8 million. This ties to the balance sheet for the General Fund. For more information on designations of unreserved fund balance, see the chart in the Notes to the Financial Statements III(C).

The General Fund's revenues increased 8.7%, or $734.4 million, from FY 2005, primarily due to a 7.9% increase, or $388.0 million, in income tax revenue and a 7.0% increase, or $168.1 million, in sales tax revenue. Revenue increases in income taxes and sales taxes were primarily caused by an improving Indiana economy. The General Fund's expenditures increased by 5.2%, or $412.5 million, from FY 2005. Increased expenditures were caused primarily by an increase of $407.5 million in education expenditures. The two major causes of this were an increase in tuition support of $249.8 million and an increase in distributions to the Teachers' Retirement Fund of $199.2 million.

The General Fund had transfers in of $2.9 billion compared to $2.5 billion in FY 2005. Transfers out were $3.2 billion compared to $3.1 billion in FY 2005. More detail on these transfers can be found in the Notes to the Financial Statements IV(B). Overall, the improved position of the General Fund in the amount of $640 million can be attributed to an improved economy and restrained increases in spending as outlined above.

### 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 $493.2 million in taxes vs $482.1 million in FY 2005, $53.4 million in International Registration Plan (IRP) fees from motor carriers vs $52.8 million in FY 2005, and $15.5 million in federal grants vs $19.5 million in FY 2005. Current service charges, including vehicle licenses, increased from $16.6 million in FY 2005 to $63.5 million in FY 2005. Vehicle license fees are now being direct deposited into the fund instead of transferred in as was the case in FY 2005, causing this increase. The fund received $232.5 million in transfers in, which are taxes and fees collected in other funds. This compares to $267.4 million in FY 2005. The fund distributed $308.5 million to local units of government, $188.9 million for public safety, and transferred $374.2 million to other funds, which include the Department of Transportation and the

Underground Petroleum Storage Tank Excess Liability Fund. These amounts compare to FY 2005 distributions of $289.0 million to local units of government, $180.8 million for public safety, and transfers of $363.9 million to other funds. The change in fund balance from FY 2005 to FY 2006 was a decline of $9.1 million.

**Medicaid Assistance Fund**

Medicaid is an insurance program for low-income people. It is jointly funded by the Federal government and the State. The Medicaid Assistance Fund received $3.3 billion in Federal revenue as compared to $3.0 billion in FY 2005. State funding comes through the $1.7 billion in transfers in. Transfer in were also $1.7 billion in FY 2005. Transfers out were $195.9 million compared with $83.3 million in FY 2005. The Fund distributed $4.9 billion in Medicaid assistance as compared to $4.6 billion in FY 2005. The change in fund balance from FY 2005 to FY 2006 was $32.6 million, caused principally by the increase in federal and state funding.

**Major Moves Construction Fund**

The Major Moves Construction Fund was created this fiscal year as part of the leasing of the Indiana Toll Road to Cintra-Mcquarie, a private company. This fund will distribute money received from the Toll Road lease for new constructions and major preservation of highways and bridges throughout Indiana. The Major Moves Construction Fund received a one time revenue payment from the Indiana Finance Authority (IFA), which owns the Indiana Toll Road. The payment came from the proceeds of the Toll Road lease and was made up of a $3.1 billion up front payment and $3.4 million in interest earnings. This revenue was accrued as of June 30, 2006. The Fund also accrued $355.0 million for future distributions.

Current plans are for the Major Moves Construction Fund to distribute $2.6 billion for Indiana Department of Transportation (INDOT) road and bridge projects, $800 thousand for Public Employees' Retirement Fund expenses, $240.0 million for the seven Toll Road counties, and $120.0 million for the Northwest Indiana Regional Development Authority. The fund will also distribute $150.0 million to the Motor Vehicle Highway Account for the 92 Indiana counties to address local road and transportation needs.

The Major Moves Construction Fund will also receive ongoing funding from the Next Generation Trust Fund. This fund received initially $0.5 billion from the lease of the Toll Road. The interest from this money will be transferred to the Major Moves Construction Fund once every five years.

**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 $670.1 million in grants and received $491.4 million in transfers in, which are taxes and revenues collected in other funds, compared with $675.3 million and $490.3 million in FY 2005, respectively. The fund also received $66.5 million in proceeds from a capital lease. The fund expended $1.2 billion during the year, compared with $1.3 billion in FY 2005. The change in fund balance from FY 2005 to FY 2006 was $146.8 million, caused principally by the decrease in expenditures and the proceeds from the capital lease.

**Property Tax Replacement Fund**

The Property Tax Replacement Fund collects sales taxes and receives as transfers from other funds, sales, income, and gaming taxes. These 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 2006, the fund collected $2.6 billion in sales taxes, as compared to $2.5 billion in FY 2005.

The fund received transfers in of $624.0 million for income taxes and $64.2 million in sales taxes collected in the General Fund. This compares to FY 2005 tax transfers of $580.9 and $52.2 million, respectively, from the General Fund. The fund received transfers in of $589.9 million from the State Gaming Fund, as compared to $584.7 million in FY 2005. The fund also received transfers in of $56.4 million in sales taxes collected in the Tax Collection Fund.

The fund transferred out $1.73 billion to the General Fund for tuition support, as compared to $1.63 billion in FY 2005. $92.3 million was transferred to the Build Indiana Fund, in contrast to FY 2005 when $113.9 million was transferred. $2.16 billion was distributed to local units of government for property tax relief, as compared to $2.00 billion in FY 2005. The change in fund balance from FY 2005 to FY 2006 was a decline of $133.1 million. This was caused principally by the increased distributions to local units of governments and by increased transfers out for tuition support.

**Tobacco Settlement Fund**

The Tobacco Settlement Fund is used to receive and distribute revenue from the Tobacco Master Settlement Agreement entered into on November 23, 1998, by the

State and leading United States tobacco product manufacturers. During fiscal year 2006, the State collected $119.3 million from tobacco product manufacturers as compared to $130.0 million in FY 2005. The fund collected $1.2 million in income from investments during FY 2006.

The State expended $14.7 million to fund operating and capital expenses associated with community health centers. $7.3 million was spent for land and buildings at State hospitals. $6.1 million was spent for tobacco education, prevention, and use control. $3.8 million was spent for the prescription drug program. $2.8 million was spent for the Indiana Local Health Department Trust Account for distribution to the counties, $2.5 million for rural development, $1.6 million for advertising, and $1.3 million for management consultants. Transfers out of the Fund were $129.6 million as compared to $117.4 million in FY 2005.

The change in fund balance from FY 2005 to FY 2006 was a decline of $47.7 million, caused by spending down investments to support the programs of the fund. Investments declined from $125.0 million at the end of FY 2005 to $82.8 million at the end of FY 2006.

## General Fund Budgetary Highlights

Actual State General Fund revenue collections for FY06 were 2.6% higher than the forecasted revenue expected at the time the budget was enacted by the Indiana General Assembly in April of 2005. This additional revenue plus other administrative actions taken by Governor Daniels allowed the State to close the books with a balanced budget for the first time in eight years. At year-end, the State had nearly $1.1 billion in reserves. The reserves consist of $34 million in Medicaid Reserves, $316.6 million of Tuition Support Reserves, $328.1 million in Rainy Day Funds, and $410.6 million in General Fund working balance. However, $622.1 million is owed to local units of government, K-12 schools and public universities.

The budget enacted in April of 2005 appropriated 2.2% more funds for FY06 over FY05 and 1.4% more for FY07 over FY06. This represented the smallest rate of growth in 50 years and compares to the average annual growth rate over the past ten years of 5.7%.

# Capital Asset and Debt Administration

## Capital Assets

Capital assets were $10.1 billion, which was 42.5% of total assets for the primary government. Related debt was $1.3 billion. Total capital assets net of related debt for the primary government was $8.8 billion. Related debt was 12.9% of capital assets. Total capital assets increased by $91.4 million or 0.9%. Infrastructure grew by $67.9 million, which was caused by an increase in the Indiana Department of Transportation (INDOT) infrastructure. This was made up of Interstate Roads, $39.7 million, Non-Interstate Roads, $24.1 million, and Bridges, $4.1 million. INDOT right of way land accounted for most of the $43.7 million increase in land. These increases were partially offset by an increase of $47.0 million in accumulated depreciation, caused by aging of the State's capital assets. More detailed information about the State's capital assets is presented in Note IV(D) to the Financial Statements.

The following table shows the percentage change from fiscal year 2005 to fiscal year 2006.

**State of Indiana**
**Capital Assets**
**(in millions of dollars)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Total % Change |
|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | |
| Land | $ 1,182.2 | $ 1,138.5 | $ - | $ - | $ 1,182.2 | $ 1,138.5 | 3.8% |
| Infrastructure | 7,598.4 | 7,530.5 | - | - | 7,598.4 | 7,530.5 | 0.9% |
| Construction in Progress | 426.2 | 428.1 | - | - | 426.2 | 428.1 | -0.4% |
| Property, plant and equipment | 1,759.4 | 1,730.0 | 22.3 | 23.0 | 1,781.7 | 1,753.0 | 1.6% |
| Less accumulated depreciation | (905.8) | (858.8) | (11.1) | (11.1) | (916.9) | (869.9) | 5.4% |
| **Total** | **$ 10,060.4** | **$ 9,968.3** | **$ 11.2** | **$ 11.9** | **$ 10,071.6** | **$ 9,980.2** | **0.9%** |

## Long-term Obligations

Major long-term obligations items are included in the following table. These items comprised 100% of total long-term liabilities and 22.0% of total liabilities.

The following table shows the percentage change from fiscal year 2005 to fiscal year 2006.

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

| | **Governmental Activities** | | **Business-type Activities** | | **Total Primary Government** | | **Total % Change** |
|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | |
| Accrued liability for compensated absences | $ 55.2 | $ 53.2 | $ 0.2 | $ 0.1 | $ 55.4 | $ 53.3 | 3.9% |
| Intergovernmental payable | 95.0 | | - | | 95.0 | - | 0.0% |
| Capital lease payable | 1,271.2 | 1,245.5 | - | - | 1,271.2 | 1,245.5 | 2.1% |
| Claims payable and benefits payable | 16.3 | - | 44.0 | 38.5 | 60.3 | 38.5 | 56.6% |
| Net pension obligations | 12.3 | 7.3 | - | - | 12.3 | 7.3 | 68.5% |
| Due to component units | 112.2 | 151.7 | - | - | 112.2 | 151.7 | -26.0% |
| **Total** | **$ 1,562.2** | **$ 1,457.7** | **$ 44.2** | **$ 38.6** | **$ 1,606.4** | **$ 1,496.3** | **7.4%** |

Total long-term liabilities increased by 7.4% or $110.1 million. The major factor contributing to this increase was an increase in intergovernmental payables of $95.0 million. This amount represents money that is scheduled to be distributed for infrastructure construction projects from the Major Moves Construction Fund in FY 2008 and 2009. Capital lease payables increased by $25.7 million or 2.1%. This is made up in part of an increase of $30.8 million in the direct financing lease with the Highway Revenue Bonds Fund of the Indiana Finance Authority. This increase was offset by a decrease in other capital leases of $5.1 million.

Claims payable and benefits payable increased by $21.8 million or 56.6% in FY2006. $16.3 million of the increase was caused by benefit obligations originating from the Major Moves Toll Road lease agreement. $5.5 million was due to an increase in the Indiana Residual Malpractice Insurance Authority's claims payable.

Due to component units decreased by $39.5 million or 26.0% due to the decrease in payment delays to the colleges and universities. Legislation provides that the State Budget Agency may delay one month of budgeted appropriations to the colleges and universities.

More detailed information about the State's long term obligations is presented in Note IV(F) to the Financial Statements.

## Infrastructure

As required by GASB Statement No. 34, the State has capitalized its infrastructure. This amounts to $7.6 billion in roads and bridges using the modified approach, $1.0 billion in right of way classified as land, and $14.2 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 27,662 lane miles of roads and approximately 5,196 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past three 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 FY 2006, 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 FY 2006, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Although the actual maintenance and preservation costs for Interstate and 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. In total, maintenance cost for all roads exceeded plan, as did total maintenance cost for all bridges.

## Economic Factors

The economic forecast upon which the state budget for FY06 was based was updated in April 2005. The April 2005 updated forecast projected real Gross Domestic Product (GDP) to increase by 3.5% in FY06. The U.S. Bureau of Economic Analysis currently estimates that real GDP increased by 3.4% during FY06. The April 2005 forecast for real GDP growth is 3.5% in FY06 and 3.2% in FY07.

The April 2005 forecast projected that Indiana non-farm personal income would increase by 5.2% in FY06. The U.S. Bureau of Economic Analysis currently estimates that Indiana non-farm personal income increased by 5.2% in FY06. The April 2005 forecast for Indiana non-farm personal income growth is 5.2% in FY06 and 5.2% in FY07.

## 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, 2006
**(amounts expressed in thousands)**

| | Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Total | Component Units |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current assets: | | | | |
| Cash, cash equivalents and investments | $ 3,686,218 | $ 477,457 | **$ 4,163,675** | $ 7,327,161 |
| Securities lending collateral | 2,805,288 | - | **2,805,288** | 678,607 |
| Receivables (net) | 1,890,932 | 33,710 | **1,924,642** | 623,199 |
| Intergovernmental receivable | - | - | **-** | 331 |
| Inventory | 5,670 | 501 | **6,171** | 28,374 |
| Prepaid expenses | - | 104 | **104** | 14,088 |
| Loans | 94,280 | - | **94,280** | - |
| Intergovernmental loans | - | - | **-** | 461,845 |
| Due from primary government | - | - | **-** | 46,183 |
| Due from component unit | 3,657,720 | - | **3,657,720** | - |
| Investment in direct financing lease | - | - | **-** | 37,660 |
| Funds held in trust by others | - | - | **-** | 26,298 |
| Other current assets | - | - | **-** | 56,065 |
| Total current assets | 12,140,108 | 511,772 | **12,651,880** | 9,299,811 |
| Noncurrent assets: | | | | |
| Cash, cash equivalents and investments - restricted | - | - | **-** | 2,308,346 |
| Taxes, interest, and penalties receivable | 268,283 | - | **268,283** | 4,369 |
| Other receivables | 53,997 | - | **53,997** | 3,700,305 |
| Investments - unrestricted | - | - | **-** | 3,111,156 |
| Loans | 393,567 | - | **393,567** | 60 |
| Bond issuance costs net of amortization | - | - | **-** | 48,442 |
| Intergovernmental loans | - | - | **-** | 1,623,058 |
| Due from primary government | - | - | **-** | 112,160 |
| Due from component unit | 980 | - | **980** | - |
| Investment in direct financing lease | - | - | **-** | 1,468,876 |
| Net pension assets | 236,092 | - | **236,092** | - |
| Other noncurrent assets | 15 | - | **15** | 73,307 |
| Capital assets: | | | | |
| Land | 1,182,179 | - | **1,182,179** | 329,650 |
| Infrastructure | 7,598,447 | - | **7,598,447** | 453,562 |
| Construction in progress | 426,198 | - | **426,198** | 724,550 |
| Property, plant, and equipment | 1,759,443 | 22,218 | **1,781,661** | 7,877,509 |
| Less accumulated depreciation | (905,839) | (11,054) | **(916,893)** | (3,369,361) |
| Total capital assets, net of depreciation | 10,060,428 | 11,164 | **10,071,592** | 6,015,910 |
| Total noncurrent assets | 11,013,362 | 11,164 | **11,024,526** | 18,465,989 |
| **Total assets** | **23,153,470** | **522,936** | **23,676,406** | **27,765,800** |
| **Liabilities:** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 406,525 | 7,003 | **413,528** | 347,770 |
| Claims payable | - | 2,137 | **2,137** | 12,750 |
| Interest payable | - | - | **-** | 134,963 |
| Current portion of long-term debt | - | - | **-** | 1,040,559 |
| Line of credit | - | - | **-** | 102,055 |
| Intergovernmental payable | 2,115,822 | - | **2,115,822** | 331 |
| Due to primary government | - | - | **-** | 3,657,720 |
| Due to component unit | 46,183 | - | **46,183** | - |
| Capital lease payable | 35,889 | - | **35,889** | 1,561 |
| Accrued prize liability | - | - | **-** | 58,068 |
| Salaries, health, disability, and benefits payable | 97,420 | 319 | **97,739** | 30,842 |
| Tax refunds payable | 35,655 | - | **35,655** | - |
| Deferred revenue | 35,093 | 8,760 | **43,853** | 295,021 |
| Accrued liability for compensated absences | 75,534 | 187 | **75,721** | 59,075 |
| Securities lending payable | 9,702 | - | **9,702** | - |
| Securities lending collateral | 2,805,288 | - | **2,805,288** | 678,606 |
| Deposits held in custody for others | - | - | **-** | 30,067 |
| Other current liabilities | 690 | 1,485 | **2,175** | 37,359 |
| Total current liabilities | 5,663,801 | 19,891 | **5,683,692** | 6,486,747 |

**State of Indiana**
**Statement of Net Assets**
**June 30, 2006**
**(amounts expressed in thousands)**

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| Long-term liabilities: | | | | |
| Accrued liability for compensated absences | $ 55,223 | $ 187 | **$ 55,410** | $ 39,891 |
| Claims payable | 16,309 | 44,058 | **60,367** | - |
| Intergovernmental payable | 95,000 | - | **95,000** | - |
| Accrued prize liability | - | - | **-** | 67,512 |
| Net pension obligations | 12,309 | - | **12,309** | - |
| Due to component unit | 112,160 | - | **112,160** | - |
| Due to primary government | - | - | **-** | 980 |
| Deferred revenue | - | - | **-** | 3,730,442 |
| Capital lease payable | 1,271,183 | - | **1,271,183** | 10,882 |
| Funds held in trust for others | - | - | **-** | 111,613 |
| Advances from federal government | - | - | **-** | 29,906 |
| Revenue bonds/notes payable | - | - | **-** | 10,518,129 |
| Other noncurrent liabilities | - | - | **-** | 102,137 |
| Total long-term liabilities | 1,562,184 | 44,245 | **1,606,429** | 14,611,492 |
| **Total liabilities** | **7,225,985** | **64,136** | **7,290,121** | **21,098,239** |
| **Net Assets:** | | | | |
| Invested in capital assets net of related debt | 8,764,090 | 11,164 | **8,775,254** | 2,804,395 |
| Restricted-nonexpendable: | | | | |
| Grants/constitutional restrictions | 529,880 | - | **529,880** | 2,497 |
| Permanent funds | 505,282 | - | **505,282** | - |
| Future debt service | - | - | **-** | 106,594 |
| Instruction and research | - | - | **-** | 146,824 |
| Student aid | - | - | **-** | 117,715 |
| Other purposes | - | - | **-** | 104,557 |
| Total restricted-nonexpendable | 1,035,162 | - | **1,035,162** | 478,187 |
| Restricted-expendable: | | | | |
| Instruction and research | - | - | **-** | 129,450 |
| Future debt service | - | - | **-** | 167,938 |
| Pension fund distribution | - | - | **-** | 8,405 |
| Public safety programs | 5,791 | - | **5,791** | - |
| Student aid | - | - | **-** | 80,203 |
| Auxiliary enterprises | - | - | **-** | 3,980 |
| Capital projects | - | - | **-** | 187,684 |
| Unemployment compensation | - | 448,929 | **448,929** | - |
| Other purposes | - | - | **-** | 2,223,546 |
| Total restricted-expendable | 5,791 | 448,929 | **454,720** | 2,801,206 |
| Unrestricted | 6,122,442 | (1,293) | **6,121,149** | 583,773 |
| **Total net assets** | **$ 15,927,485** | **$ 458,800** | **$ 16,386,285** | **$ 6,667,561** |

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, 2006**
**(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 | $ 4,317,441 | $ 464,728 | $ 298,096 | $ - | $ (3,554,617) | $ - | $ (3,554,617) | $ - |
| Public safety | 1,181,061 | 516,316 | 164,168 | 11,754 | (488,823) | - | (488,823) | - |
| Health | 333,740 | 12,702 | 184,188 | - | (136,850) | - | (136,850) | - |
| Welfare | 7,261,688 | 157,221 | 5,104,406 | - | (2,000,061) | - | (2,000,061) | - |
| Conservation, culture and development | 546,489 | 114,004 | 231,106 | - | (201,379) | - | (201,379) | - |
| Education | 6,971,170 | 3,045 | 866,718 | - | (6,101,407) | - | (6,101,407) | - |
| Transportation | 1,726,735 | 18,542 | 804,616 | - | (903,577) | - | (903,577) | - |
| Unallocated interest expense | 787 | - | - | - | (787) | - | (787) | - |
| Total governmental activities | 22,339,111 | 1,286,558 | 7,653,298 | 11,754 | (13,387,501) | - | (13,387,501) | - |
| Business-type activities: | | | | | | | | |
| Unemployment Compensation Fund | 692,907 | 663,084 | - | - | - | (29,823) | (29,823) | - |
| Other | 31,981 | 32,846 | - | - | - | 865 | 865 | - |
| Total business-type activities | 724,888 | 695,930 | - | - | - | (28,958) | (28,958) | - |
| Total primary government | $ 23,063,999 | $ 1,982,488 | $ 7,653,298 | $ 11,754 | (13,387,501) | (28,958) | (13,416,459) | - |
| **Component units:** | | | | | | | | |
| Proprietary | 5,170,289 | 1,265,524 | 364,021 | 23 | - | - | - | (3,540,721) |
| Colleges and universities | 4,800,601 | 2,337,755 | 1,221,054 | 84,007 | - | - | - | (1,157,785) |
| Total component units | $ 9,970,890 | $ 3,603,279 | $ 1,585,075 | $ 84,030 | - | - | - | (4,698,506) |
| General Revenues: | | | | | | | | |
| Income tax | | | | | 5,396,926 | - | 5,396,926 | - |
| Sales tax | | | | | 5,352,132 | - | 5,352,132 | - |
| Fuels tax | | | | | 879,313 | - | 879,313 | - |
| Gaming tax | | | | | 806,271 | - | 806,271 | - |
| Inheritance tax | | | | | 139,365 | - | 139,365 | - |
| Alcohol & tobacco tax | | | | | 373,921 | - | 373,921 | - |
| Insurance tax | | | | | 181,501 | - | 181,501 | - |
| Financial institutions tax | | | | | 79,018 | - | 79,018 | - |
| Other tax | | | | | 346,816 | - | 346,816 | - |
| Total taxes | | | | | 13,555,263 | - | 13,555,263 | - |
| Revenue not restricted to specific programs | | | | | | | | |
| Investment earnings | | | | | 153,834 | 26,617 | 180,451 | 408,786 |
| Payments from State of Indiana | | | | | - | - | - | 1,337,926 |
| Other | | | | | 55,848 | - | 55,848 | 73,985 |
| Special item | | | | | | | | |
| Proceeds from lease of Toll Road | | | | | 3,618,528 | - | 3,618,528 | - |
| Transfers within primary government | | | | | (818) | 818 | - | - |
| Total general revenues, special items, and transfers | | | | | 17,382,655 | 27,435 | 17,410,090 | 1,820,697 |
| Changes in net assets | | | | | 3,995,154 | (1,523) | 3,993,631 | (2,877,809) |
| Net assets - beginning, as restated | | | | | 11,932,331 | 460,323 | 12,392,654 | 9,545,370 |
| Net assets - ending | | | | | $ 15,927,485 | $ 458,800 | $ 16,386,285 | $ 6,667,561 |

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, 2006
**(amounts expressed in thousands)**

| | General Fund | Motor Vehicle Highway Fund | Medicaid Assistance Fund | Major Moves Construction Fund |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash, cash equivalents and investments-unrestricted | $ 1,406,448 | $ - | $ 34,636 | $ - |
| Securities lending collateral | 2,452,549 | - | - | - |
| Receivables: | | | | |
| Taxes (net of allowance for uncollectible accounts) | 1,278,215 | 21,234 | - | - |
| Securities lending | 8,226 | - | - | - |
| Accounts | 10,839 | - | - | - |
| Grants | 5,059 | 1,160 | 11,314 | - |
| Interest | 11,130 | - | - | 3,453 |
| Interfund loans | 12,818 | - | - | - |
| Due from component unit | 354 | - | - | 3,118,388 |
| Prepaid expenditures | 198 | 667 | - | - |
| Loans | 21,669 | - | - | - |
| Total assets | $ 5,207,505 | $ 23,061 | $ 45,950 | $ 3,121,841 |
| **Liabilities:** | | | | |
| Accounts payable | $ 140,896 | $ 1,383 | $ 49 | $ - |
| Salaries and benefits payable | 35,182 | 5,289 | - | - |
| Interfund loans | - | 3,812 | - | - |
| Interfund services used | 1,854 | 1,440 | - | - |
| Intergovernmental payable | 194,826 | 27,598 | - | 355,000 |
| Due to component unit | 7 | - | - | - |
| Tax refunds payable | 30,610 | 5 | - | - |
| Deferred revenue | 507,381 | 10,442 | - | - |
| Accrued liability for compensated absences-current | 2,424 | 53 | - | - |
| Securities lending payable | 8,226 | - | - | - |
| Securities lending collateral | 2,452,549 | - | - | - |
| Total liabilities | 3,373,955 | 50,022 | 49 | 355,000 |
| **Fund balance:** | | | | |
| Reserved: | | | | |
| Encumbrances | 41,503 | 8,271 | - | - |
| Special purposes | 5,059 | 1,160 | 11,314 | - |
| Tuition support | 316,553 | - | - | - |
| Interfund loans | 12,818 | - | - | - |
| Long-term loans and advances | 20,803 | - | - | - |
| Unreserved fund balance reported in: | | | | |
| General fund | 1,436,814 | - | - | - |
| Special revenue funds | - | (36,392) | 34,587 | 2,766,841 |
| Capital projects funds | - | - | - | - |
| Permanent funds | - | - | - | - |
| Total fund balances | 1,833,550 | (26,961) | 45,901 | 2,766,841 |
| **Total liabilities and fund balances** | $ 5,207,505 | $ 23,061 | $ 45,950 | $ 3,121,841 |

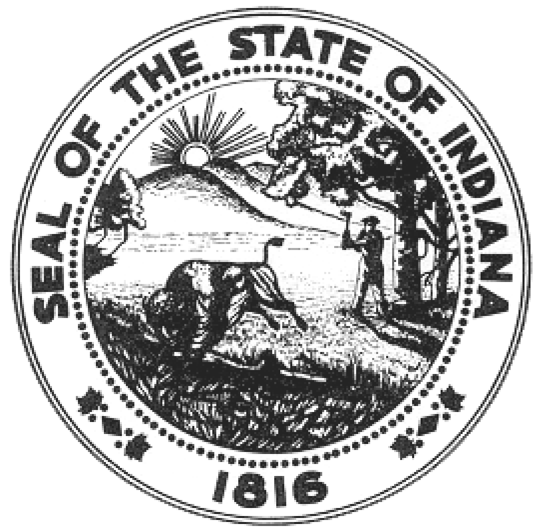
The notes to the financial statements are an integral part of this statement.

| State Highway Department Fund | Property Tax Replacement Fund | Tobacco Settlement Fund | Non-major Governmental Funds | Total |
|---|---|---|---|---|
| $ 371,640 | $ 3,954 | $ 171,876 | $ 1,621,435 | **$ 3,609,989** |
| 5,129 | - | 11,052 | 336,559 | **2,805,289** |
| - | 325,686 | - | 163,515 | **1,788,650** |
| 21 | - | 64 | 1,391 | **9,702** |
| 1,381 | - | - | 19,402 | **31,622** |
| 52,768 | - | - | 151,909 | **222,210** |
| - | - | 35 | 1,534 | **16,152** |
| - | - | - | 436 | **13,254** |
| 2,170 | - | - | 536,808 | **3,657,720** |
| - | - | - | 40 | **905** |
| 7,745 | - | - | 458,434 | **487,848** |
| $ 440,854 | $ 329,640 | $ 183,027 | $ 3,291,463 | **$ 12,643,341** |
| $ 11,134 | $ 817 | $ 4,763 | $ 151,724 | **$ 310,766** |
| 7,160 | - | 54 | 26,060 | **73,745** |
| - | - | - | 9,442 | **13,254** |
| 615 | - | 3 | 3,806 | **7,718** |
| - | 1,454,958 | - | 83,440 | **2,115,822** |
| - | - | - | 6,176 | **6,183** |
| - | - | - | 5,040 | **35,655** |
| 938 | 98,007 | - | 89,383 | **706,151** |
| 575 | - | 1 | 2,108 | **5,161** |
| 21 | - | 64 | 1,391 | **9,702** |
| 5,129 | - | 11,052 | 336,559 | **2,805,289** |
| 25,572 | 1,553,782 | 15,937 | 715,129 | **6,089,446** |
| 958,128 | - | 3,124 | 368,184 | **1,379,210** |
| 52,768 | - | - | 151,364 | **221,665** |
| - | - | - | - | **316,553** |
| - | - | - | 436 | **13,254** |
| 7,745 | - | - | 457,315 | **485,863** |
| - | - | - | - | **1,436,814** |
| (603,359) | (1,224,142) | 163,966 | 917,653 | **2,019,154** |
| - | - | - | 91,149 | **91,149** |
| - | - | - | 590,233 | **590,233** |
| 415,282 | (1,224,142) | 167,090 | 2,576,334 | **6,553,895** |
| $ 440,854 | $ 329,640 | $ 183,027 | $ 3,291,463 | **$ 12,643,341** |

# State of Indiana
# Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
## June 30, 2006
**(amounts expressed in thousands)**

| | | | | |
|---|---|---|---|---|
| **Total fund balances-governmental funds** | | | $ | 6,553,895 |
| 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 | $ | 1,182,179 | | |
| Infrastructure assets | | 7,598,447 | | |
| Construction in progress | | 426,187 | | |
| Property, plant, and equipment | | 1,716,529 | | |
| Accumulated depreciation | | (880,939) | | |
| Total capital assets, net of depreciation | | | | 10,042,403 |
| The State's pension funds have net pension assets not reported as assets in the funds. | | | | 236,092 |
| Initial funding for the startup of the Recreational Development Commission 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. | | | | 809,667 |
| 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. | | | | (304,220) |
| 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. | | | | 71,378 |
| 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 | | (122,959) | | |
| Loan from the Indiana Board for Depositories | | (50,000) | | |
| Capital lease payable | | (1,296,962) | | |
| Net pension obligations | | (12,309) | | |
| Total long-term liabilities | | | | (1,482,230) |
| **Net assets of governmental activities** | | | $ | 15,927,485 |

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


SEAL OF THE STATE OF INDIANA
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# State of Indiana
# Statement of Revenues, Expenditures, and Changes in Fund Balances
# Governmental Funds
# For the Year Ended June 30, 2006
**(amounts expressed in thousands)**

| | General Fund | Motor Vehicle Highway Fund | Medicaid Assistance Fund |
|---|---|---|---|
| **Revenues:** | | | |
| Taxes: | | | |
| Income | $ 5,292,697 | $ - | $ - |
| Sales | 2,554,675 | - | - |
| Fuels | - | 493,225 | - |
| Gaming | 85,548 | - | - |
| Inheritance | 139,341 | - | - |
| Alcohol and tobacco | 313,140 | - | - |
| Insurance | 176,891 | - | - |
| Financial Institutions | - | - | - |
| Other | 180,121 | - | - |
| Total taxes | 8,742,413 | 493,225 | - |
| Current service charges | 236,560 | 63,542 | - |
| Investment income | 153,721 | - | - |
| Sales/rents | 1,143 | 393 | - |
| Grants | 11,622 | 15,456 | 3,335,873 |
| Other | 54,705 | 60,351 | 9,344 |
| Total revenues | 9,200,164 | 632,967 | 3,345,217 |
| **Expenditures:** | | | |
| Current: | | | |
| General government | 1,188,610 | 308,525 | - |
| Public safety | 600,863 | 188,859 | - |
| Health | 96,587 | - | - |
| Welfare | 346,883 | - | 4,860,732 |
| Conservation, culture and development | 72,968 | - | - |
| Education | 5,962,957 | 273 | - |
| Transportation | 952 | 2,760 | - |
| Total expenditures | 8,269,820 | 500,417 | 4,860,732 |
| Excess (deficiency) of revenues over expenditures | 930,344 | 132,550 | (1,515,515) |
| **Other financing sources (uses):** | | | |
| Transfers in | 2,935,594 | 232,479 | 1,743,994 |
| Transfers (out) | (3,225,935) | (374,158) | (195,926) |
| Proceeds from capital lease | - | - | - |
| Total other financing sources (uses) | (290,341) | (141,679) | 1,548,068 |
| **Special item:** | | | |
| Proceeds from lease of Toll Road | - | - | - |
| **Net change in fund balances** | 640,003 | (9,129) | 32,553 |
| **Fund Balance July 1, as restated** | 1,193,547 | (17,832) | 13,348 |
| **Fund Balance June 30** | **$ 1,833,550** | **$ (26,961)** | **$ 45,901** |

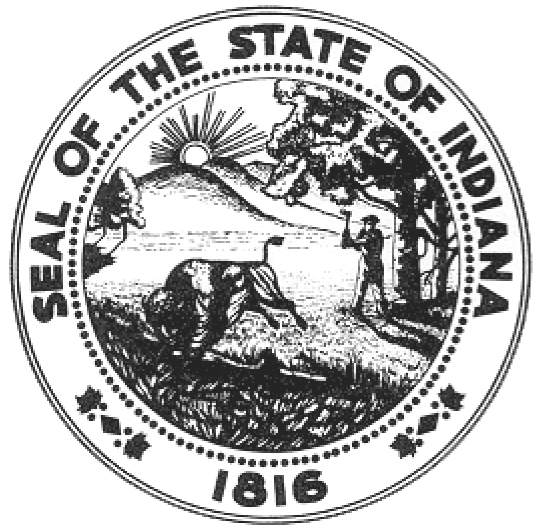
The notes to the financial statements are an integral part of this statement.

| Major Moves Construction Fund | State Highway Department Fund | Property Tax Replacement Fund | Tobacco Settlement Fund | Non-Major Governmental Funds | Total |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ 216,371 | **$ 5,509,068** |
| - | - | 2,578,491 | - | 187,232 | **5,320,398** |
| - | - | - | - | 378,919 | **872,144** |
| - | - | - | - | 720,687 | **806,235** |
| - | - | - | - | - | **139,341** |
| - | - | - | - | 60,794 | **373,934** |
| - | - | - | - | 4,611 | **181,502** |
| - | - | - | - | 88,803 | **88,803** |
| - | - | - | - | 162,494 | **342,615** |
| - | - | 2,578,491 | - | 1,819,911 | **13,634,040** |
| - | 14,678 | - | 119,346 | 896,301 | **1,330,427** |
| 3,452 | 385 | - | 1,246 | 27,692 | **186,496** |
| - | 2,082 | - | - | 21,740 | **25,358** |
| - | 670,124 | - | 247 | 3,189,612 | **7,222,934** |
| - | 76,597 | - | 1,571 | 228,177 | **430,745** |
| 3,452 | 763,866 | 2,578,491 | 122,410 | 6,183,433 | **22,830,000** |
| - | 179 | 2,157,222 | 15,864 | 644,555 | **4,314,955** |
| - | - | - | - | 401,497 | **1,191,219** |
| - | - | - | 32,127 | 204,816 | **333,530** |
| - | - | - | - | 2,054,616 | **7,262,231** |
| - | - | - | 155 | 467,832 | **540,955** |
| - | - | - | - | 987,850 | **6,951,080** |
| 354,999 | 1,167,819 | - | - | 211,884 | **1,738,414** |
| 354,999 | 1,167,998 | 2,157,222 | 48,146 | 4,973,050 | **22,332,384** |
| (351,547) | (404,132) | 421,269 | 74,264 | 1,210,383 | **497,616** |
| - | 491,391 | 1,341,219 | 7,567 | 1,784,313 | **8,536,557** |
| - | (6,927) | (1,895,596) | (129,563) | (2,703,939) | **(8,532,044)** |
| - | 66,481 | - | - | - | **66,481** |
| - | 550,945 | (554,377) | (121,996) | (919,626) | **70,994** |
| 3,118,388 | - | - | - | 500,139 | **3,618,527** |
| 2,766,841 | 146,813 | (133,108) | (47,732) | 790,896 | **4,187,137** |
| - | 268,469 | (1,091,034) | 214,822 | 1,785,438 | **2,366,758** |
| **$ 2,766,841** | **$ 415,282** | **$ (1,224,142)** | **$ 167,090** | **$ 2,576,334** | **$ 6,553,895** |

## 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, 2006
**(amounts expressed in thousands)**

| | | |
|---|---|---|
| Net change in fund balances-total governmental funds | $ | 4,187,137 |
| 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. | | 102,002 |
| 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 ($58,876) exceeds net capital outlays ($49,679) in the current period. | | (9,197) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (112,956) |
| Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds. | | (171,736) |
| Payment delays to colleges and universities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. | | (458) |
| The change in net pension assets and net pension obligations do not provide or require the use of current financial resources: | | |
| Decrease in net pension assets | | (12,814) |
| Decrease in net pension obligations | | 16,359 |
| 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. | | (3,183) |
| Change in net assets of governmental activities. | $ | 3,995,154 |

The notes to the financial statements are an integral part of this statement.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# State of Indiana
# Statement of Fund Net Assets
# Proprietary Funds
# June 30, 2006
**(amounts expressed in thousands)**

| | Unemployment Compensation Fund | Other Enterprise Funds | Total | Internal Service Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash, cash equivalents and investments - unrestricted | $ 422,929 | $ 54,528 | **$ 477,457** | $ 76,227 |
| Receivables: | | | | |
| Accounts | 28,297 | 433 | **28,730** | 6,748 |
| Interest | - | 636 | **636** | - |
| Grants | 4,344 | - | **4,344** | - |
| Interfund services provided | - | - | **-** | 7,721 |
| Inventory | - | 501 | **501** | 5,670 |
| Prepaid expenses | - | 104 | **104** | - |
| Total current assets | 455,570 | 56,202 | **511,772** | 96,366 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Construction in progress | - | - | **-** | 11 |
| Property, plant, and equipment | - | 22,218 | **22,218** | 42,914 |
| Less accumulated depreciation | - | (11,054) | **(11,054)** | (24,900) |
| Total capital assets, net of depreciation | - | 11,164 | **11,164** | 18,025 |
| Other assets | - | - | **-** | 15 |
| Total noncurrent assets | - | 11,164 | **11,164** | 18,040 |
| **Total assets** | **455,570** | **67,366** | **522,936** | **114,406** |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 6,641 | 362 | **7,003** | 6,240 |
| Claims payable | - | 2,137 | **2,137** | - |
| Salaries and benefits payable | - | 319 | **319** | 1,005 |
| Capital lease payable | - | - | **-** | 675 |
| Health/disability benefits payable | - | - | **-** | 21,439 |
| Accrued liability for compensated absences | - | 187 | **187** | 1,478 |
| Interfund services used | - | - | **-** | 3 |
| Deferred revenue | - | 8,760 | **8,760** | 904 |
| Other liabilities | - | 1,485 | **1,485** | 690 |
| Total current liabilities | 6,641 | 13,250 | **19,891** | 32,434 |
| Noncurrent liabilities: | | | | |
| Accrued liability for compensated absences | - | 187 | **187** | 1,159 |
| Capital lease payable | - | - | **-** | 9,435 |
| Claims payable | - | 44,058 | **44,058** | - |
| Total noncurrent liabilites | - | 44,245 | **44,245** | 10,594 |
| **Total liabilities** | **6,641** | **57,495** | **64,136** | **43,028** |
| **Net assets** | | | | |
| Invested in capital assets net of related debt | - | 11,164 | **11,164** | 7,915 |
| Restricted-expendable: | | | | |
| Unemployment compensation | 448,929 | - | **448,929** | **-** |
| Unrestricted | - | (1,293) | **(1,293)** | 63,463 |
| **Total net assets** | **$ 448,929** | **$ 9,871** | **$ 458,800** | **$ 71,378** |

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

# State of Indiana
# Statement of Revenues, Expenses and Changes in Fund Net Assets
# Proprietary Funds
# For the Fiscal Year Ended June 30, 2006
**(amounts expressed in thousands)**

| | Unemployment Compensation Fund | Other Enterprise Funds | Total | Internal Service Funds |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Sales/rents/premiums | $ - | $ 32,698 | **$ 32,698** | $ 368,056 |
| Employer contributions | 629,513 | - | **629,513** | - |
| Charges for services | - | - | **-** | 1,499 |
| Other | - | 148 | **148** | 112 |
| Total operating revenues | 629,513 | 32,846 | **662,359** | 369,667 |
| Cost of sales | - | 3,444 | **3,444** | 28,220 |
| Gross margin | 629,513 | 29,402 | **658,915** | 341,447 |
| **Operating expenses:** | | | | |
| General and administrative expense | - | 19,476 | **19,476** | 91,102 |
| Claims expense | - | 8,095 | **8,095** | - |
| Health / disability benefit payments | - | - | **-** | 244,293 |
| Unemployment compensation benefits | 692,907 | - | **692,907** | - |
| Depreciation and amortization | - | 575 | **575** | 2,897 |
| Other | - | 145 | **145** | - |
| Total operating expenses | 692,907 | 28,291 | **721,198** | 338,292 |
| Operating income (loss) | (63,394) | 1,111 | **(62,283)** | 3,155 |
| **Nonoperating revenues (expenses):** | | | | |
| Interest and other investment income | 26,044 | 573 | **26,617** | 2 |
| Interest and other investment expense | - | - | **-** | (787) |
| Gain (Loss) on disposition of assets | - | (246) | **(246)** | (48) |
| Other | 33,571 | - | **33,571** | (212) |
| Total nonoperating revenues (expenses) | 59,615 | 327 | **59,942** | (1,045) |
| Income before contributions and transfers | (3,779) | 1,438 | **(2,341)** | 2,110 |
| Capital contributions | - | - | **-** | 38 |
| Transfers in | - | 818 | **818** | 4,010 |
| Transfers (out) | - | - | **-** | (9,341) |
| **Change in net assets** | (3,779) | 2,256 | **(1,523)** | (3,183) |
| **Total net assets, July 1, as restated** | **452,708** | **7,615** | **460,323** | **74,561** |
| **Total net assets, June 30** | **$ 448,929** | **$ 9,871** | **$ 458,800** | **$ 71,378** |

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

# State of Indiana
# Statement of Cash Flows
# Proprietary Funds
# For the Fiscal Year Ended June 30, 2006
**(amounts expressed in thousands)**

| | Unemployment Compensation Fund | Other Enterprise Funds | Total | Internal Service Funds |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Cash received from customers | $ 633,167 | $ 34,222 | **$ 667,389** | $ 365,763 |
| Cash paid for general and administrative | - | (18,824) | **(18,824)** | (90,344) |
| Cash paid for salary/health/disability benefit payments | - | - | **-** | (248,352) |
| Cash paid to suppliers | - | (3,379) | **(3,379)** | (26,406) |
| Cash paid for claims expense | (690,925) | (2,408) | **(693,333)** | - |
| Net cash provided (used) by operating activities | (57,758) | 9,611 | **(48,147)** | 661 |
| **Cash flows from noncapital financing activities:** | | | | |
| Transfers in | - | - | **-** | 4,010 |
| Transfers out | - | - | **-** | (9,972) |
| Other | 29,380 | - | **29,380** | (212) |
| Net cash provided (used) by noncapital financing activities | 29,380 | - | **29,380** | (6,174) |
| **Cash flows from capital and related financing activities:** | | | | |
| Acquisition/construction of capital assets | - | (93) | **(93)** | (2,885) |
| Proceeds from sale of assets | - | - | **-** | 720 |
| Principal payments -- capital leases | - | - | **-** | (1,357) |
| Capital contributions | - | 818 | **818** | - |
| Interest paid | - | - | **-** | (15) |
| Net cash provided (used) by capital and related financing activities | - | 725 | **725** | (3,537) |
| **Cash flows from investing activities:** | | | | |
| Proceeds from sales of investments | - | 3,869 | **3,869** | - |
| Purchase of investments | - | (11,315) | **(11,315)** | - |
| Interest income (expense) on investments | 26,044 | 573 | **26,617** | 2 |
| Net cash provided (used) by investing activities | 26,044 | (6,873) | **19,171** | 2 |
| **Net increase (decrease) in cash and cash equivalents** | (2,334) | 3,463 | **1,129** | (9,048) |
| **Cash and cash equivalents, July 1, as restated** | 425,263 | 3,271 | **428,534** | 85,275 |
| **Cash and cash equivalents, June 30** | **$ 422,929** | **$ 6,734** | **$ 429,663** | **$ 76,227** |
| **Reconciliation of cash , cash equivalents and investments:** | | | | |
| Cash and cash equivalents unrestricted at end of year | $ 422,929 | $ 6,734 | **$ 429,663** | $ 76,227 |
| Investments unrestricted | - | 47,794 | **47,794** | - |
| **Cash, cash equivalents and investments per balance sheet** | **$ 422,929** | **$ 54,528** | **$ 477,457** | **$ 76,227** |
| **Noncash investing, capital and financing activities:** | | | | |
| Increase in fair value of investments | $ - | $ 2,138 | **$ 2,138** | $ - |
| Acquisition of capital assets through capital leases | - | - | **-** | 127 |

# State of Indiana
# Statement of Cash Flows
# Proprietary Funds
# For the Fiscal Year Ended
# June 30, 2006
**(amounts expressed in thousands)**

| | Unemployment Compensation Fund | Other Enterprise Funds | Total | Internal Service Funds |
|---|---|---|---|---|
| **Reconciliation of operating income to net cash provided (used) by operating activities:** | | | | |
| Operating income (loss) | $ (63,394) | $ 1,111 | **$ (62,283)** | $ 3,155 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation/amortization expense | - | 575 | **575** | 2,897 |
| (Increase) decrease in receivables | 3,654 | (40) | **3,614** | (108) |
| (Increase) decrease in interfund services provided | - | - | **-** | (2,581) |
| (Increase) decrease in inventory | - | 66 | **66** | 283 |
| (Increase) decrease in prepaid expenses | - | (72) | **(72)** | - |
| (Increase) decrease in claims payable | - | 5,687 | **5,687** | - |
| Increase (decrease) in benefits payable | - | - | **-** | (4,058) |
| Increase (decrease) in accounts payable | 1,982 | (139) | **1,843** | 1,445 |
| Increase (decrease) in deferred revenue | - | 1,415 | **1,415** | (1,213) |
| Increase (decrease) in salaries payable | - | (64) | **(64)** | 316 |
| Increase (decrease) in compensated absences | - | 49 | **49** | 525 |
| Increase (decrease) in other payables | - | 1,023 | **1,023** | - |
| Net cash provided (used) by operating activities | **$ (57,758)** | **$ 9,611** | **$ (48,147)** | **$ 661** |

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

# State of Indiana
# Statement of Fiduciary Net Assets
# Fiduciary Funds
# June 30, 2006
**(amounts expressed in thousands)**

| | Pension and Other Employee Benefits Trust Funds | Private-Purpose Trust Funds | Agency Funds |
|---|---|---|---|
| **Assets:** | | | |
| Cash, cash equivalents and non-pension investments | $ 1,446,497 | $ 47,910 | $ 573,007 |
| Securities lending collateral | 4,126,068 | 5,821 | 85,444 |
| Receivables: | | | |
| Taxes | - | - | 13,185 |
| Contributions | 174,416 | - | - |
| Interest | 73,790 | 105 | - |
| Securities lending | - | 28 | 358 |
| Member loans | 6,944 | - | - |
| Due from other funds | 11,862 | - | - |
| Due from component unit | 826 | - | - |
| From investment sales | 1,175,050 | - | - |
| Other | 1,000 | - | 61 |
| Pension and other employee benefit investments at fair value: | | | |
| Equity Securities | 12,589,842 | - | - |
| Debt Securities | 7,187,030 | - | - |
| Mutual Funds | 2,060,079 | - | - |
| Other | 379,696 | - | - |
| Total investments | 22,216,647 | - | - |
| Other assets | - | - | 137,218 |
| Property, plant and equipment net of accumulated depreciation | 3,120 | - | - |
| **Total assets** | **29,236,220** | **53,864** | **809,273** |
| **Liabilities:** | | | |
| Accounts/escrows payable | 17,534 | 5,242 | 670,445 |
| Securities purchased payable | 2,253,555 | - | - |
| Salaries and benefits payable | 574 | - | - |
| Due to other funds | 11,862 | - | - |
| Securities lending payable | - | 28 | 358 |
| Due to component unit | 826 | - | - |
| Compensated absences | 528 | - | - |
| Securities lending collateral | 4,126,068 | 5,821 | 85,444 |
| Other | 241 | - | 53,026 |
| **Total liabilities** | **6,411,188** | **11,091** | **$ 809,273** |
| **Net assets:** | | | |
| Held in trust for: | | | |
| Employees' pension benefits | 22,825,032 | - | |
| Trust beneficiaries | - | 42,773 | |
| **Total net assets** | **$ 22,825,032** | **$ 42,773** | |

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, 2006
**(amounts expressed in thousands)**

| | Pension and Other Employee Benefits Trust Funds | Private-Purpose Trust Funds |
|---|---|---|
| **Additions:** | | |
| Member contributions | $ 315,840 | $ 72,492 |
| Employer contributions | 1,032,755 | - |
| Contributions from the State of Indiana | 93,358 | - |
| Net investment income (loss) | 2,191,467 | 910 |
| Less investment expense | (221,818) | - |
| Donations/escheats | - | 77,822 |
| Transfers in | 6,605 | - |
| Other | 278 | - |
| Total additions | 3,418,485 | 151,224 |
| **Deductions:** | | |
| Pension benefits | 1,279,185 | - |
| Disability and other benefits | 9,771 | - |
| Payments to participants/beneficiaries | - | 157,233 |
| Refunds of contributions and interest | 69,173 | - |
| Administrative | 23,899 | - |
| Pension relief distributions | 125,075 | - |
| Depreciation | 24 | - |
| Transfers out | 6,606 | - |
| Other | 3,092 | 337 |
| Total deductions | 1,516,825 | 157,570 |
| Net increase (decrease) in net assets | 1,901,660 | (6,346) |
| Net assets held in trust, July 1, as restated | 20,923,372 | 49,119 |
| **Net assets held in trust, June 30** | **$ 22,825,032** | **$ 42,773** |

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
# June 30, 2006
# (amounts expressed in thousands)

| | Proprietary | Colleges and Universities | Total |
|---|---|---|---|
| **Assets:** | | | |
| Current assets: | | | |
| Cash, cash equivalents and investments | $ 6,194,310 | $ 1,132,851 | **$ 7,327,161** |
| Securities lending collateral | 165,057 | 513,550 | **678,607** |
| Receivables (net) | 288,248 | 334,951 | **623,199** |
| Intergovernmental receivable | 331 | - | **331** |
| Inventory | 359 | 28,015 | **28,374** |
| Prepaid expenses | 3,184 | 10,904 | **14,088** |
| Intergovernmental loans | 461,845 | - | **461,845** |
| Due from primary government | 6,183 | 40,000 | **46,183** |
| Investment in direct financing lease | 37,660 | - | **37,660** |
| Funds held in trust by others | 6,817 | 19,481 | **26,298** |
| Other current assets | 11,835 | 44,230 | **56,065** |
| Total current assets | 7,175,829 | 2,123,982 | **9,299,811** |
| Noncurrent assets: | | | |
| Cash, cash equivalents and investments - restricted | 689,146 | 1,619,200 | **2,308,346** |
| Taxes, interest, and penalties receivable | 4,369 | - | **4,369** |
| Other receivables | 3,451,479 | 248,826 | **3,700,305** |
| Investments - unrestricted | 87,329 | 3,023,827 | **3,111,156** |
| Loans | - | 60 | **60** |
| Bond issuance costs net of amortization | 48,340 | 102 | **48,442** |
| Intergovernmental loans | 1,623,058 | - | **1,623,058** |
| Due from primary government | 50,000 | 62,160 | **112,160** |
| Investment in direct financing lease | 1,459,163 | 9,713 | **1,468,876** |
| Other noncurrent assets | 7,039 | 66,268 | **73,307** |
| Capital assets: | | | |
| Land | 164,770 | 164,880 | **329,650** |
| Infrastructure | 209,739 | 243,823 | **453,562** |
| Construction in progress | 355,278 | 369,272 | **724,550** |
| Property, plant, and equipment | 1,088,076 | 6,789,433 | **7,877,509** |
| Less accumulated depreciation | (302,578) | (3,066,783) | **(3,369,361)** |
| Capital assets, net of accumulated depreciation | 1,515,285 | 4,500,625 | **6,015,910** |
| Total noncurrent assets | 8,935,208 | 9,530,781 | **18,465,989** |
| **Total assets** | **16,111,037** | **11,654,763** | **27,765,800** |
| **Liabilities:** | | | |
| Current liabilities: | | | |
| Accounts payable | 65,381 | 282,389 | **347,770** |
| Claims payable | 12,750 | - | **12,750** |
| Interest payable | 133,231 | 1,732 | **134,963** |
| Current portion of long-term debt | 941,095 | 99,464 | **1,040,559** |
| Line of credit | 102,055 | - | **102,055** |
| Intergovernmental payable | 331 | - | **331** |
| Due to primary government | 3,657,720 | - | **3,657,720** |
| Capital lease payable | - | 1,561 | **1,561** |
| Accrued prize liability | 58,068 | - | **58,068** |
| Salaries, health, disability, and benefits payable | 87 | 30,755 | **30,842** |
| Deferred revenue | 55,596 | 239,425 | **295,021** |
| Accrued liability for compensated absences | - | 59,075 | **59,075** |
| Securities lending collateral | 165,056 | 513,550 | **678,606** |
| Deposits held in custody for others | 808 | 29,259 | **30,067** |
| Other current liabilities | 6,227 | 31,132 | **37,359** |
| Total current liabilities | 5,198,405 | 1,288,342 | **6,486,747** |
| Long-term liabilities: | | | |
| Accrued liability for compensated absences | - | 39,891 | **39,891** |
| Accrued prize liability | 67,512 | - | **67,512** |
| Due to primary government | 980 | - | **980** |
| Deferred revenue | 3,718,195 | 12,247 | **3,730,442** |
| Capital lease payable | - | 10,882 | **10,882** |
| Funds held in trust for others | - | 111,613 | **111,613** |
| Advances from federal government | 625 | 29,281 | **29,906** |
| Revenue bonds/notes payable | 8,714,573 | 1,803,556 | **10,518,129** |
| Other noncurrent liabilities | 9,825 | 92,312 | **102,137** |
| Total long-term liabilities | 12,511,710 | 2,099,782 | **14,611,492** |
| **Total liabilities** | **17,710,115** | **3,388,124** | **21,098,239** |
| **Net Assets:** | | | |
| Invested in capital assets net of related debt | 120,544 | 2,683,851 | **2,804,395** |
| Restricted-nonexpendable: | | | |
| Grants/constitutional restrictions | 2,497 | - | **2,497** |
| Future debt service | 106,594 | - | **106,594** |
| Instruction and research | - | 146,824 | **146,824** |
| Student aid | - | 117,715 | **117,715** |
| Other purposes | - | 104,557 | **104,557** |
| Total restricted-nonexpendable | 109,091 | 369,096 | **478,187** |
| Restricted-expendable: | | | |
| Instruction and research | - | 129,450 | **129,450** |
| Future debt service | 167,938 | - | **167,938** |
| Pension fund distribution | 8,405 | - | **8,405** |
| Student aid | - | 80,203 | **80,203** |
| Auxiliary enterprises | - | 3,980 | **3,980** |
| Capital projects | 16,117 | 171,567 | **187,684** |
| Other purposes | 787,765 | 1,435,781 | **2,223,546** |
| Total restricted-expendable | 980,225 | 1,820,981 | **2,801,206** |
| Unrestricted | (2,808,938) | 3,392,711 | **583,773** |
| **Total net assets** | **$ (1,599,078)** | **$ 8,266,639** | **$ 6,667,561** |

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

# State of Indiana
# Combining Statement of Activities
# Discretely Presented Component Units
# For the Fiscal Year Ended June 30, 2006
# (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 | Proprietary | Colleges and Universities | Net (Expense) Revenue |
| Proprietary | $ 5,170,289 | $ 1,265,524 | $ 364,021 | $ 23 | $ (3,540,721) | $ - | $ (3,540,721) |
| Colleges and universities | 4,800,601 | 2,337,755 | 1,221,054 | 84,007 | - | (1,157,785) | (1,157,785) |
| Total component units | $ 9,970,890 | $ 3,603,279 | $ 1,585,075 | $ 84,030 | (3,540,721) | (1,157,785) | (4,698,506) |
| | | General Revenues: | | | | | |
| | | Investment earnings | | | 72,243 | 336,543 | 408,786 |
| | | Payments from State of Indiana | | | 1,218 | 1,336,708 | 1,337,926 |
| | | Other | | | - | 73,985 | 73,985 |
| | | Total general revenues | | | 73,461 | 1,747,236 | 1,820,697 |
| | | Change in net assets | | | (3,467,260) | 589,451 | (2,877,809) |
| | | Net assets - beginning, as restated | | | 1,868,182 | 7,677,188 | 9,545,370 |
| | | Net assets - ending | | | $ (1,599,078) | $ 8,266,639 | $ 6,667,561 |

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 -**
**Proprietary Funds**
**June 30, 2006**
**(amounts expressed in thousands)**

| | Indiana Finance Authority | Indiana Bond Bank | Indiana Housing and Community Development Authority | Board for Depositories |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash, cash equivalents and investments | $ 5,333,262 | $ 92,524 | $ 68,155 | $ 169,430 |
| Securities lending collateral | 6,838 | - | - | 158,219 |
| Receivables (net) | 136,549 | 29,270 | 333 | 2,149 |
| Intergovernmental receivable | 331 | - | - | - |
| Inventory | - | - | - | - |
| Prepaid expenses | - | - | - | - |
| Intergovernmental loans | - | 461,845 | - | - |
| Due from primary government | 6,183 | - | - | - |
| Investment in direct financing lease | 37,660 | - | - | - |
| Funds held in trust by others | 6,817 | - | - | - |
| Other current assets | 2,531 | - | 1,758 | - |
| Total current assets | 5,530,171 | 583,639 | 70,246 | 329,798 |
| Noncurrent assets: | | | | |
| Cash, cash equivalents and investments - restricted | - | 37,650 | 576,113 | - |
| Taxes, interest, and penalties receivable | - | - | 4,369 | - |
| Loans receivable | 1,525,948 | - | 685,125 | - |
| Investments - unrestricted | - | - | - | 87,329 |
| Bond issuance costs, net of amortization | 17,061 | 23,236 | 8,043 | - |
| Intergovernmental loans | - | 1,623,058 | - | - |
| Due from primary government | - | - | - | 50,000 |
| Investment in direct financing lease | 1,459,163 | - | - | - |
| Other noncurrent assets | 164 | - | 766 | - |
| Capital assets: | | | | |
| Land | 85,531 | - | - | - |
| Infrastructure | 209,739 | - | - | - |
| Construction in progress | 141,969 | - | - | - |
| Property, plant, and equipment | 1,028,264 | - | 1,807 | 490 |
| Less accumulated depreciation | (279,608) | - | (1,628) | (466) |
| Total capital assets, net of depreciation | 1,185,895 | - | 179 | 24 |
| Total noncurrent assets | 4,188,231 | 1,683,944 | 1,274,595 | 137,353 |
| **Total assets** | **9,718,402** | **2,267,583** | **1,344,841** | **467,151** |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 10,078 | 213 | 1,502 | 539 |
| Claims payable | - | - | - | - |
| Interest payable | 69,215 | 40,164 | 21,611 | - |
| Current portion of long-term debt | 201,465 | 537,149 | 199,481 | - |
| Line of credit | - | - | 45,205 | - |
| Intergovernmental payable | 331 | - | - | - |
| Due to primary government | 3,621,125 | - | - | - |
| Accrued prize liability | - | - | - | - |
| Salaries, health, disability, and benefits payable | - | - | - | - |
| Deferred revenue | 50,281 | - | - | - |
| Securities lending collateral | 6,838 | - | - | 158,218 |
| Deposits held in custody for others | - | - | 808 | - |
| Other current liabilities | 2,692 | - | - | 5 |
| Total current liabilities | 3,962,025 | 577,526 | 268,607 | 158,762 |
| Long-term liabilities: | | | | |
| Accrued prize liability | - | - | - | - |
| Due to primary government | 980 | - | - | - |
| Deferred revenue | 3,718,195 | - | - | - |
| Advances from federal government | 625 | - | - | - |
| Revenue bonds/notes payable | 4,366,786 | 1,675,856 | 896,217 | - |
| Other noncurrent liabilities | - | 521 | 591 | - |
| Total long-term liabilities | 8,086,586 | 1,676,377 | 896,808 | - |
| **Total liabilities** | **12,048,611** | **2,253,903** | **1,165,415** | **158,762** |
| **Net assets** | | | | |
| Invested in capital assets net of related debt | 4,463 | - | 179 | 24 |
| Restricted-nonexpendable | | | | |
| Grants/constitutional restrictions | - | - | 2,497 | - |
| Future debt service | - | - | 106,594 | - |
| Total restricted-nonexpendable | - | - | 109,091 | - |
| Restricted-expendable | | | | |
| Future debt service | 160,200 | 2,122 | - | - |
| Pension fund distribution | - | - | - | 8,405 |
| Capital projects | - | - | - | - |
| Other purposes | 787,765 | - | - | - |
| Total restricted-expendable | 947,965 | 2,122 | - | 8,405 |
| Unrestricted (deficit) | (3,282,637) | 11,558 | 70,156 | 299,960 |
| **Total net assets** | **$ (2,330,209)** | **$ 13,680** | **$ 179,426** | **$ 308,389** |

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

| Secondary Market for Education Loans | State Lottery Commission | Indiana Stadium and Convention Building Authority | Non-Major | Total Component Units |
|---|---|---|---|---|
| $ 193,027 | $ 84,867 | $ 222,038 | $ 31,007 | **$ 6,194,310** |
| - | - | - | - | **165,057** |
| 74,175 | 29,368 | 10,436 | 5,968 | **288,248** |
| - | - | - | - | **331** |
| - | 349 | - | 10 | **359** |
| - | 3,087 | - | 97 | **3,184** |
| - | - | - | - | **461,845** |
| - | - | - | - | **6,183** |
| - | - | - | - | **37,660** |
| - | - | - | - | **6,817** |
| 7,546 | - | - | - | **11,835** |
| 274,748 | 117,671 | 232,474 | 37,082 | **7,175,829** |
| - | 74,883 | - | 500 | **689,146** |
| - | - | - | - | **4,369** |
| 1,240,406 | - | - | - | **3,451,479** |
| - | - | - | - | **87,329** |
| - | - | - | - | **48,340** |
| - | - | - | - | **1,623,058** |
| - | - | - | - | **50,000** |
| - | - | - | - | **1,459,163** |
| 6,109 | - | - | - | **7,039** |
| - | - | - | 79,239 | **164,770** |
| - | - | - | - | **209,739** |
| - | - | 213,309 | - | **355,278** |
| 2,438 | 12,993 | - | 42,084 | **1,088,076** |
| (289) | (10,186) | - | (10,401) | **(302,578)** |
| 2,149 | 2,807 | 213,309 | 110,922 | **1,515,285** |
| 1,248,664 | 77,690 | 213,309 | 111,422 | **8,935,208** |
| **1,523,412** | **195,361** | **445,783** | **148,504** | **16,111,037** |
| 3,482 | 22,729 | 26,554 | 284 | **65,381** |
| - | - | - | 12,750 | **12,750** |
| 2,115 | - | 126 | - | **133,231** |
| 3,000 | - | - | - | **941,095** |
| 56,850 | - | - | - | **102,055** |
| - | - | - | - | **331** |
| - | 36,595 | - | - | **3,657,720** |
| - | 58,068 | - | - | **58,068** |
| - | - | - | 87 | **87** |
| - | 1,059 | - | 4,256 | **55,596** |
| - | - | - | - | **165,056** |
| - | - | - | - | **808** |
| - | 2,810 | - | 720 | **6,227** |
| 65,447 | 121,261 | 26,680 | 18,097 | **5,198,405** |
| - | 67,512 | - | - | **67,512** |
| - | - | - | - | **980** |
| - | - | 3,097 | - | **3,721,292** |
| - | - | - | - | **625** |
| 1,374,850 | - | 400,864 | - | **8,714,573** |
| 5,616 | - | - | - | **6,728** |
| 1,380,466 | 67,512 | 403,961 | - | **12,511,710** |
| **1,445,913** | **188,773** | **430,641** | **18,097** | **17,710,115** |
| 2,149 | 2,807 | - | 110,922 | **120,544** |
| - | - | - | - | **2,497** |
| - | - | - | - | **106,594** |
| - | - | - | - | **109,091** |
| 5,616 | - | - | - | **167,938** |
| - | - | - | - | **8,405** |
| - | - | 15,142 | 975 | **16,117** |
| - | - | - | - | **787,765** |
| 5,616 | - | 15,142 | 975 | **980,225** |
| 69,734 | 3,781 | - | 18,510 | **(2,808,938)** |
| **$ 77,499** | **$ 6,588** | **$ 15,142** | **$ 130,407** | **$ (1,599,078)** |

# State of Indiana
# Combining Statement of Activities
# Discretely Presented Component Units - Proprietary Funds
# For the Fiscal Year Ended June 30, 2006

**(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 Finance Authority | Indiana Bond Bank | Indiana Housing and Community Development Authority |
| Indiana Finance Authority | $ 3,881,413 | $ 265,341 | $ 40,324 | $ - | $ (3,575,748) | $ - | $ - |
| Indiana Bond Bank | 97,855 | 393 | 97,874 | - | - | 412 | - |
| Indiana Housing and Community Development Authority | 210,752 | 52,227 | 149,552 | - | - | - | (8,973) |
| Board for Depositories | 13,666 | - | 16,860 | - | - | - | - |
| Secondary Market for Educational Loans | 55,970 | - | 59,002 | - | - | - | - |
| State Lottery Commission | 814,440 | 816,566 | - | - | - | - | - |
| Indiana Stadium and Convention Building Authority | - | 15,096 | - | - | - | - | - |
| Non-Major Proprietary | 96,193 | 115,901 | 409 | 23 | - | - | - |
| Total component units | $ 5,170,289 | $ 1,265,524 | $ 364,021 | $ 23 | (3,575,748) | 412 | (8,973) |
| General revenues: | | | | | | | |
| Investment earnings | | | | | 72,387 | 378 | (495) |
| Payments from State of Indiana | | | | | - | - | - |
| Total general revenues | | | | | 72,387 | 378 | (495) |
| Change in net assets | | | | | (3,503,361) | 790 | (9,468) |
| Net assets - beginning, as restated | | | | | 1,173,152 | 12,890 | 188,894 |
| Net assets - ending | | | | | $ (2,330,209) | $ 13,680 | $ 179,426 |

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

continued on next page

# State of Indiana
# Combining Statement of Activities
# Discretely Presented Component Units -
# Proprietary Funds
# For the Fiscal Year Ended June 30, 2006
**(amounts expressed in thousands)**

| | Net (Expense) Revenue and Changes in Net Assets | | | | | |
|---|---|---|---|---|---|---|
| | Board for Depositories | Secondary Market for Education Loans | State Lottery Commission | Indiana Stadium and Convention Building Authority | Non-Major | Net (Expense) Revenue |
| Indiana Finance Authority | $ - | $ - | $ - | $ - | $ - | $ (3,575,748) |
| Indiana Bond Bank | - | - | - | - | - | 412 |
| Indiana Housing and Community Development Authority | - | - | - | - | - | (8,973) |
| Board for Depositories | 3,194 | - | - | - | - | 3,194 |
| Secondary Market for Educational Loans | - | 3,032 | - | - | - | 3,032 |
| State Lottery Commission | - | - | 2,126 | - | - | 2,126 |
| Indiana Stadium and Convention Building Authority | - | - | - | 15,096 | - | 15,096 |
| Non-Major Proprietary | - | - | - | - | 20,140 | 20,140 |
| Total component units | 3,194 | 3,032 | 2,126 | 15,096 | 20,140 | (3,540,721) |
| General revenues: | | | | | | |
| Investment earnings | - | - | (538) | 46 | 465 | 72,243 |
| Payments from State of Indiana | - | - | - | - | 1,218 | 1,218 |
| Total general revenues | - | - | (538) | 46 | 1,683 | 73,461 |
| Change in net assets | 3,194 | 3,032 | 1,588 | 15,142 | 21,823 | (3,467,260) |
| Net assets - beginning, as restated | 305,195 | 74,467 | 5,000 | - | 108,584 | 1,868,182 |
| Net assets - ending | $ 308,389 | $ 77,499 | $ 6,588 | $ 15,142 | $ 130,407 | $ (1,599,078) |

# State of Indiana
# Combining Statement of Net Assets
# Discretely Presented Component Units - Colleges and Universities
# June 30, 2006

**(amounts expressed in thousands)**

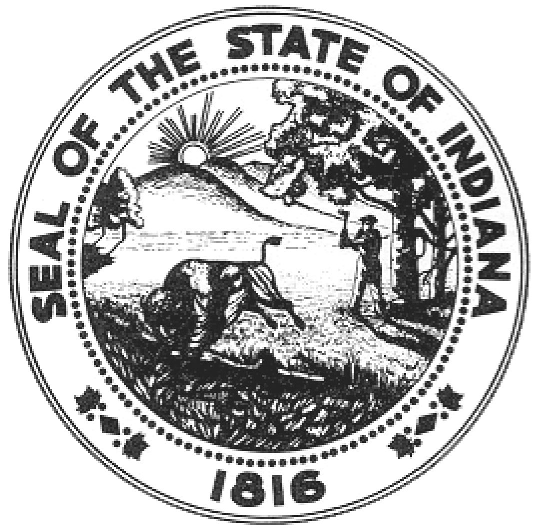
| | Indiana University | Purdue University | Non-Major Colleges and Universities | Totals |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash, cash equivalents and investments | $ 553,428 | $ 231,809 | $ 347,614 | **$ 1,132,851** |
| Securities lending collateral | 263,056 | 250,494 | - | **513,550** |
| Receivables (net) | 119,118 | 126,123 | 89,710 | **334,951** |
| Inventory | 17,069 | - | 10,946 | **28,015** |
| Prepaid expenses | - | - | 10,904 | **10,904** |
| Due from primary government | 15,667 | 10,795 | 13,538 | **40,000** |
| Funds held in trust by others | - | - | 19,481 | **19,481** |
| Other current assets | 13,893 | 27,685 | 2,652 | **44,230** |
| Total current assets | 982,231 | 646,906 | 494,845 | **2,123,982** |
| Noncurrent assets: | | | | |
| Cash, cash equivalents and investments - restricted | - | 1,558,567 | 60,633 | **1,619,200** |
| Other receivables | 167,254 | 61,498 | 20,074 | **248,826** |
| Investments - unrestricted | 1,740,665 | 736,694 | 546,468 | **3,023,827** |
| Loans | - | 60 | - | **60** |
| Bond issuance costs net of amortization | - | - | 102 | **102** |
| Due from primary government | 24,447 | 17,189 | 20,524 | **62,160** |
| Investment in direct financing lease | 9,713 | - | - | **9,713** |
| Other noncurrent assets | - | 45,902 | 20,366 | **66,268** |
| Capital assets: | | | | |
| Land | 47,453 | 22,345 | 95,082 | **164,880** |
| Infrastructure | 134,810 | 48,388 | 60,625 | **243,823** |
| Construction in progress | 133,691 | 135,884 | 99,697 | **369,272** |
| Property, plant, and equipment | 2,943,235 | 2,209,056 | 1,637,142 | **6,789,433** |
| Less accumulated depreciation | (1,371,901) | (994,990) | (699,892) | **(3,066,783)** |
| Total capital assets, net of depreciation | 1,887,288 | 1,420,683 | 1,192,654 | **4,500,625** |
| Total noncurrent assets | 3,829,367 | 3,840,593 | 1,860,821 | **9,530,781** |
| **Total assets** | **4,811,598** | **4,487,499** | **2,355,666** | **11,654,763** |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 194,288 | 46,998 | 41,103 | **282,389** |
| Interest payable | - | - | 1,732 | **1,732** |
| Current portion of long-term debt | 37,224 | 28,873 | 33,367 | **99,464** |
| Capital lease payable | 1,526 | - | 35 | **1,561** |
| Salaries, health, disability, and benefits payable | - | 14,097 | 16,658 | **30,755** |
| Deferred revenue | 167,887 | 49,683 | 21,855 | **239,425** |
| Accrued liability for compensated absences | 30,537 | 21,555 | 6,983 | **59,075** |
| Securities lending collateral | 263,056 | 250,494 | - | **513,550** |
| Deposits held in custody for others | - | 18,361 | 10,898 | **29,259** |
| Other current liabilities | - | 22,781 | 8,351 | **31,132** |
| Total current liabilities | 694,518 | 452,842 | 140,982 | **1,288,342** |
| Long-term liabilities: | | | | |
| Accrued liability for compensated absences | 10,079 | 16,875 | 12,937 | **39,891** |
| Deferred revenue | - | - | 12,247 | **12,247** |
| Capital lease payable | 10,781 | - | 101 | **10,882** |
| Funds held in trust for others | 50,718 | 52,088 | 8,807 | **111,613** |
| Advances from federal government | - | 20,456 | 8,825 | **29,281** |
| Revenue bonds/notes payable | 658,231 | 600,143 | 545,182 | **1,803,556** |
| Other noncurrent liabilities | 75,492 | 2,876 | 13,944 | **92,312** |
| Total long-term liabilities | 805,301 | 692,438 | 602,043 | **2,099,782** |
| **Total liabilities** | **1,499,819** | **1,145,280** | **743,025** | **3,388,124** |
| **Net assets** | | | | |
| Invested in capital assets net of related debt | 1,259,567 | 791,088 | 633,196 | **2,683,851** |
| Restricted-nonexpendable | | | | |
| Instruction and research | - | 146,824 | - | **146,824** |
| Student aid | - | 111,307 | 6,408 | **117,715** |
| Other purposes | 64,991 | 24,766 | 14,800 | **104,557** |
| Total restricted-nonexpendable | 64,991 | 282,897 | 21,208 | **369,096** |
| Restricted-expendable | | | | |
| Instruction and research | 67,490 | 60,611 | 1,349 | **129,450** |
| Student aid | 20,221 | 55,638 | 4,344 | **80,203** |
| Auxiliary enterprises | - | 3,980 | - | **3,980** |
| Capital projects | 15,175 | 84,040 | 72,352 | **171,567** |
| Other purposes | 23,370 | 1,152,740 | 259,671 | **1,435,781** |
| Total restricted-expendable | 126,256 | 1,357,009 | 337,716 | **1,820,981** |
| Unrestricted (deficit) | 1,860,965 | 911,225 | 620,521 | **3,392,711** |
| **Total net assets** | **$ 3,311,779** | **$ 3,342,219** | **$ 1,612,641** | **$ 8,266,639** |

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, 2006
**(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 | $ 2,225,569 | $ 1,190,910 | $ 579,454 | $ 21,134 | $ (434,071) | $ - | $ - | $ (434,071) |
| Purdue University | 1,448,562 | 703,198 | 362,338 | 53,027 | - | (329,999) | - | (329,999) |
| Non-Major Colleges and Universities | 1,126,470 | 443,647 | 279,262 | 9,846 | - | - | (393,715) | (393,715) |
| Total component units | $ 4,800,601 | $ 2,337,755 | $ 1,221,054 | $ 84,007 | (434,071) | (329,999) | (393,715) | (1,157,785) |
| General revenues: | | | | | | | | |
| Investment earnings | | | | | 170,695 | 112,501 | 53,347 | 336,543 |
| Payments from State of Indiana | | | | | 528,615 | 358,282 | 449,811 | 1,336,708 |
| Other | | | | | 8,257 | 59,297 | 6,431 | 73,985 |
| Total general revenues | | | | | 707,567 | 530,080 | 509,589 | 1,747,236 |
| Change in net assets | | | | | 273,496 | 200,081 | 115,874 | 589,451 |
| Net assets - beginning, as restated | | | | | 3,038,283 | 3,142,138 | 1,496,767 | 7,677,188 |
| Net assets - ending | | | | | $ 3,311,779 | $ 3,342,219 | $ 1,612,641 | $ 8,266,639 |

The notes to the financial statements are an integral part of this statement.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# NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

Notes to the Financial Statements
June 30, 2006

# STATE OF INDIANA
## Notes to the Financial Statements
## June 30, 2006
## (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 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 Indiana Housing and Community Development Authority and the Indiana Comprehensive Health Insurance Association have a December 31, 2005, 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. These component units are audited by the State Board of Accounts.

The Bureau of Motor Vehicle Commission is responsible for the operation and administration of the State's license branches. The five member commission is appointed by the governor. It consists of four individuals and a commissioner. No more than three of the members may be of the same political party.

The Indiana Economic Development Corporation was created to improve the quality of life for the citizens of Indiana by encouraging the diversification of Indiana's economy, by the orderly economic development and growth of Indiana, the creation of new jobs, the retention of existing jobs, the growth and modernization of existing industry and the promotion of Indiana.

The Corporation is composed of 12 members, none of whom may be members of the general assembly. These members consist of the governor and 11 individuals appointed by the governor. At least five members must belong to the same political party as the governor. At least three members must belong to a major political party other than the party of which the governor is a member.

*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 proprietary component units are audited by outside auditors. The State Board of Accounts audits the colleges, universities, and the discrete pension trust funds. College and university foundations are audited by outside auditors.

Formed on May 15, 2005, the Indiana Finance Authority (IFA) combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Programs were transferred to the IFA as the successor entity. The IFA is a body both corporate and politic, and though separate from the State of Indiana (State); the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State.

The IFA finances and refinances state hospitals, state office buildings, state garages, correctional facilities, recreational facilities, highways, bridges, airport facilities, and other related facilities for the benefit of the State. The IFA also provides low interest loans to Indiana communities for environmental improvements. It also promotes business and employment opportunities by issuing tax-exempt financing for industrial development projects, rural development projects, childcare financing, and educational facility projects.

The IFA's revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals. The Authority 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 Public Finance 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 and Community Development 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 Public Finance Director of the Indiana Finance Authority, the Lieutenant Governor, the State Treasurer and four persons appointed by the Governor. The Lieutenant Governor chairs the board. 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 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 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, public employees' retirement, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement the Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a proprietary fund.

Effective May 15, 2005, the Indiana Stadium and Convention Building Authority was established pursuant to House Bill 1120, which has now been codified at Indiana Code 5-1-17, as a new entity of the State to finance, design, construct and own the new Indiana Stadium in Indianapolis and the upcoming expansion of the adjacent Indiana Convention Center. The Building Authority is governed by a seven member board, comprised of four appointments by the Governor, two appointments by the Mayor of the City of Indianapolis and one appointment by the Governor following nomination from one of the counties surrounding Marion County. The Authority is reported as a proprietary fund.

The White River State Park Development Commission has the responsibility to design and implement a plan for the establishment and development of park, exposition, educational, athletic, and recreational projects to be located within one mile from the banks of the Indiana White River in a consolidated first-class city and county. The Commission is reported as a proprietary fund.

The Indiana Comprehensive Health Insurance Association was created by the State of Indiana to assure that health insurance is made available throughout the year to each eligible Indiana resident applying to the Association for coverage. The board of directors of the Association consists of nine members whose principal residence is in Indiana. Four members are appointed by the insurance commissioner from the members of the Association, one of which must be a representative of health maintenance organization. Two members are appointed by the commissioner and shall be consumers representing policyholders. Other members are the state budget director or designee and the commissioner of the department of insurance or designee. One member appointed by the commissioner must be a representative of health care providers. The Association is reported as a proprietary fund.

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, Gaming Agent 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(E) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in PERF's 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(E) 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; Ivy Tech Community College has a fourteen-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

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

| | | |
|---|---|---|
| Indiana Finance Authority<br>One North Capitol Ave., Suite 900<br>Indianapolis, IN 46204 | Indiana Bond Bank<br>10 West Market St. Suite 2980<br>Indianapolis, IN 46204 | State Lottery Commission of Indiana<br>Pan Am Plaza<br>201 S. Capitol, Suite 1100<br>Indianapolis, IN 46225 |
| Indiana Stadium and Convention<br>Building Authority<br>425 W. South Street<br>Indianapolis, IN 46225 | Indiana Housing and Community<br>Development Authority<br>30 South Meridian, Suite 1000<br>Indianapolis, IN 46204 | Secondary Market for Education Loans, Inc.<br>Capital Center, Suite 400<br>251 N. Illinois<br>Indianapolis, IN 46204 |
| Indiana Board for Depositories<br>One North Capitol Ave, Suite 444<br>Indianapolis, IN 46204 | Indiana White River State Park<br>Development Commission<br>801 West Washington Street<br>Indianapolis, IN 46204 | Accounting Services<br>Attn: Purdue University<br>401 South Grant Street<br>West Lafayette, IN 47907-2024 |
| Mark Husk<br>Assistant Treasurer<br>Ivy Tech Community College<br>50 West Fall Creek Parkway North Drive<br>Indianapolis, IN 46208 | Diana M. Biggs<br>Director of Internal Audit<br>University of Southern Indiana<br>8600 University Boulevard<br>Evansville, IN 47712 | Office of the Vice President and CFO<br>Attn: Joan Hagen<br>Poplar's Room. 500, 107 S. Indiana Ave.<br>Indiana University<br>Bloomington, IN 47405-1202 |
| Jeffery J. Jacso<br>Assistant Controller Financial Accounting<br>Office of the Controller<br>Indiana State University<br>200 N. 7th Street<br>Terre Haute, IN 47809 | Linda Waldroup, Controller<br>Vincennes University<br>1002 North 1st Street<br>Vincennes, IN 47591 | William A. McCune, Controller<br>Administration Bldg., 301<br>2000 West University Avenue<br>Ball State University<br>Muncie, IN 47306 |
| State of Indiana<br>Public Employees' Retirement Fund<br>Harrison Building<br>143 West Market Street<br>Indianapolis, IN 46204 | Indiana State Teachers' Retirement Fund<br>150 West Market Street, Suite 300<br>Indianapolis, IN 46204-2809 | Indiana Comprehensive Health Insurance<br>Association<br>311 West Washington St.<br>Indianapolis, IN 46204-2787 |

## 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 enterprise 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, and vehicle license fees 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 *Major Moves Construction Fund* distributes money received from the Toll Road lease. This money is used for new constructions and major preservation of highways and bridges throughout Indiana.
- 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 tobacco master settlement agreement and is used to fund the children’s health insurance program.

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. 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 enterprise funds:

- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.
- The *Indiana Residual Malpractice Insurance Authority* makes malpractice liability insurance available to health care providers.
- The *Inns and Concessions Fund* collects revenues received from Inns and Concessions throughout Indiana and Indiana State Parks.

The *Unemployment Compensation Fund* is reported as a major enterprise fund.

*Internal service funds* account for operations that provide goods and services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The goods and services provided include fleet management, information technology and communication, printing, products of correctional industries, 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 and other employee benefits trust funds include 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, except for the cash and cash equivalents of the Tobacco Settlement Fund, which are at 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% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Investments which are authorized for the State Teachers' Retirement Fund include: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. 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.

### *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 because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

### *4. Inventories and Prepaid Items*

Inventories for the Inns & Concessions, Institutional Industries and Administration Services Revolving are valued at cost. 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 National Highway Safety (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 | 3-14 |
| 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 Administration's 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. In addition, qualifying retiring employees are paid an additional payment up to a maximum of $5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused sick leave.

Employees of the legislative and judicial branches may convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are deposited into the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate.

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 in the functional line items.

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. 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. In addition, expenditures under many federal grants are required to be spent before they are reimbursed by the federal government. 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.

### B. Deficit Fund Equity

At June 30, 2006, 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 | $ (3,812) | $ (23,149) |
| Property Tax Relief Fund | - | (1,224,142) |
| County Welfare Administration | - | (5,132) |
| Primary Road and Street | (69) | (2,751) |
| Federal Food Stamp Program | (8,662) | (364) |
| Major Construction Army National Guard | - | (50) |

### 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, 2006:

**Unreserved Fund Balance**

| | Designations of Unreserved Fund Balance | | | |
|---|---|---|---|---|
| | Designated for Appropriations | Designated for Allotments | Undesignated | Total Unreserved Fund Balance |
| **Governmental Funds** | | | | |
| General Fund | $ 261,328 | $ 434,654 | $ 740,832 | $ 1,436,814 |
| Motor Vehicle Highway Fund | - | - | (36,392) | (36,392) |
| Medicaid Assistance | 15,625 | 18,962 | - | 34,587 |
| Major Moves Construction Fund | 716,624 | - | 2,050,217 | 2,766,841 |
| State Highway Department | - | - | (603,359) | (603,359) |
| Property Tax Replacement Fund | - | - | (1,224,142) | (1,224,142) |
| Tobacco Settlement Fund | - | - | 163,966 | 163,966 |
| Non-Major Special Revenue Funds | 298,088 | 434,816 | 184,749 | 917,653 |
| Non-Major Capital Projects Funds | 9,672 | 5,809 | 75,668 | 91,149 |
| Non-Major Permanent Funds | - | 88,260 | 501,973 | 590,233 |
| Total Governmental Funds | $ 1,301,337 | $ 982,501 | $ 1,853,512 | $ 4,137,350 |

## IV. DETAILED NOTES ON ALL FUNDS

### A. Deposits, Investments and Securities Lending

#### 1. *Primary Government – Other than Master Tobacco Settlement Fund and Pension and Other Employee Benefits Funds*

*Investment Policy*

Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Indiana Tobacco Master Settlement Agreement Fund, a special revenue fund, has separate investment authority as established under Indiana Code 4-12-1-14.3 to be invested in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5. For more information, please see the PERF policy in IV(A)3.

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.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2006:

**Primary Government**
(Amounts are in thousands)

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1** | **1-5** | **6-10** |
| **Treasurer of State** | | | | |
| U.S. Treasuries | $ 96,865 | $ 53,521 | $ 28,954 | $ 14,390 |
| U.S. Agencies | 3,103,137 | 3,038,497 | 64,640 | - |
| Certificate of Deposits | 323,239 | 323,239 | - | - |
| Money Market Mutual Funds | 224,400 | 224,400 | - | - |
| **Total** | **$ 3,747,641** | **$ 3,639,657** | **$ 93,594** | **$ 14,390** |

*Custodial Credit Risk*

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2006, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with it's obligations under the applicable securities lending agreement.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Indiana Code 5-13-9-2 authorizes the State Treasurer to invest or reinvest in securities fully guaranteed and issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The State Treasurer also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

The following is a summary of the Credit Risk Disclosure as of June 30, 2006:

**Primary Government**
(Amounts are in thousands)

| | S & P | Moody's | Fair Value |
|---|---|---|---|
| **Treasurer of State** | | | |
| U.S. Agencies | AAA | Aaa | $ 3,103,137 |
| Certificate of Deposits | Unrated | Unrated | 323,239 |
| Money Market Mutual Funds | AAA | Aaa | 224,400 |
| **Total** | | | **$ 3,650,776** |

*Concentration of Credit Risk*

For an investment, concentration of credit risk is the risk of loss attributed to the magnitude of a State's investment in a single issuer. Indiana Code 5-13-10-3 states that the State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

Investments in any one issuer that represent 5% or more of the total investments are:

| | | |
|---|---|---|
| Fannie Mae: | 46.4% | $1,716,049,254 |
| Freddie Mac: | 22.3% | $ 824,238,560 |
| Federal Home Loan Bank: | 15.2% | $ 562,849,210 |

*Securities Lending Credit Risk*

The Treasurer of State is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository, 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 or (2) a financial institution located either in or out of Indiana aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities. 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% 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.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

### *Master Tobacco Settlement Fund*

*Investment Policy*

Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Indiana Tobacco Master Settlement Agreement Fund has separate investment authority as established under Indiana Code 4-12-1-14.3 to be invested in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2006:

**Master Tobacco Settlement Fund**
(Amounts are in thousands)

| | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1** | **1-5** | **6-10** | **More than 10** |
| U.S. Treasuries | $ 7,765 | $ 2,557 | $ 2,706 | $ 986 | $ 1,516 |
| Mortgage Backed | | | | | |
| Government Pass-Through | 8,265 | - | 1,604 | 164 | 6,497 |
| Corporate Pass-Through | 4,218 | - | 1,083 | - | 3,135 |
| Collateralized Mortgage Obligations | | | | | |
| Govt CMO's | 6,992 | - | 579 | 430 | 5,983 |
| Corp CMO's | 19,762 | - | - | - | 19,762 |
| Corporate Bonds | 8,554 | 833 | 3,232 | 934 | 3,555 |
| Corporate Asset Backed | 4,093 | - | 477 | - | 3,616 |
| Private Placements | 3,725 | - | 980 | - | 2,745 |
| Municipal Bonds | 4,206 | 171 | 586 | 1,009 | 2,440 |
| Yankee Bonds | 444 | - | 444 | - | - |
| Non-U.S. Fixed Income | 4,424 | - | 891 | 1,272 | 2,261 |
| Money Market Mutual Funds | 6,564 | 6,564 | - | - | - |
| **Total** | **$ 79,012** | **$ 10,125** | **$ 12,582** | **$ 4,795** | **$ 51,510** |

*Custodial Credit Risk*

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2006, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with it's obligations under the applicable securities lending agreement.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Investments in any one issuer that represent 5% or more of the total investments are:

| | | |
|---|---|---|
| Fannie Mae: | 11.6% | $9,135,186 |
| Freddie Mac: | 6.9% | $5,482,513 |

*Securities Lending Credit Risk*

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

The following is a summary of the Credit Risk Disclosure as of June 30, 2006:

**Master Tobacco Settlement Fund**
(Amounts are in thousands)

| | S & P | Moody's | Fair Value |
|---|---|---|---|
| Mortgage Backed | | | |
| Corporate Pass-Through | AAA | Aaa | $ 3,115 |
| Corporate Pass-Through | Unrated | Aa2 | 426 |
| Corporate Pass-Through | Unrated | Aaa | 676 |
| Government Pass-Through | AAA | Aaa | 8,265 |
| Collateralized Mortgage Obligations | | | |
| Corp CMO's | AAA | Aaa | 9,612 |
| Corp CMO's | AAA | Unrated | 6,246 |
| Corp CMO's | AAA | Unrated | 292 |
| Corp CMO's | Unrated | Aaa | 3,612 |
| Gov't CMO's | AAA | Aaa | 6,991 |
| Corporate Bonds | | | |
| | A | A1 | 787 |
| | A | A2 | 815 |
| | A | A3 | 454 |
| | A | Aa3 | 241 |
| | A | Baa1 | 213 |
| | A | Baa2 | 304 |
| | AA | A2 | 223 |
| | AAA | Aaa | 364 |
| | BB | Baa2 | 139 |
| | BB | Baa3 | 685 |
| | BBB | A3 | 303 |
| | BBB | Baa1 | 499 |
| | BBB | Baa2 | 2,074 |
| | BBB | Baa3 | 1,097 |
| | Unrated | Baa2 | 356 |
| Corporate Asset Backed | A | Unrated | 180 |
| | AAA | Aaa | 3,528 |
| | BBB | Unrated | 311 |
| | Unrated | Unrated | 75 |
| Private Placements | A | A3 | 342 |
| | A | Baa1 | 340 |
| | AA | Aa2 | 617 |
| | BB | Ba1 | 229 |
| | BBB | Baa1 | 573 |
| | BBB | Baa2 | 576 |
| | BBB | Baa3 | 1,047 |
| Municipal Bonds | AA | Aaa | 96 |
| | AAA | Aaa | 1,211 |
| | AAA | Unrated | 47 |
| | Unrated | Aaa | 2,718 |
| | Unrated | Unrated | 135 |
| Yankee Bonds | BBB | Baa3 | 444 |
| Non-U.S. Fixed Income | | | |
| Foreign Governmental Corp Debt | A | A1 | 903 |
| Foreign Governmental Corp Debt | A | A3 | 837 |
| Foreign Governmental Corp Debt | A | Aaa | 112 |
| Foreign Governmental Corp Debt | AAA | Aaa | 393 |
| Foreign Governmental Corp Debt | BBB | A2 | 42 |
| Foreign Governmental Corp Debt | BBB | Baa1 | 296 |
| Foreign Governmental Corp Debt | BBB | Baa2 | 1,461 |
| Foreign Governmental Corp Debt | Unrated | A2 | 239 |
| Foreign Governmental Corp Debt | Unrated | Baa3 | 142 |
| Money Market Mutual Funds | Unrated | Unrated | 6,531 |
| Money Market Mutual Funds | BB | Baa3 | 33 |
| **Total** | | | **$ 71,247** |

## 2. *Pension and Other Employee Benefits Trust Funds – Primary Government*

*State Police Pension Fund*

Investment Policy – The Indiana State Police Pension Trust was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits.

Indiana Code 10-12-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust's assets. IC 10-12-2-2(c) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities (in thousands):

**State Police Pension Trust**
(Amounts are in thousands)

| | S & P | Moody's | Fair Value |
|---|---|---|---|
| U.S. Government Agency | AAA | Aaa | $ 5,466 |
| Mortgage Backed | | | |
| Government Pass-Through | AAA | Aaa | 48,757 |
| Corporate Pass-Through | AAA | Aaa | 5,119 |
| Corporate Pass-Through | AAA | Unrated | 191 |
| Corporate Pass-Through | Unrated | Aaa | 294 |
| Collateralized Mortgage Obligations | | | |
| Govt CMO's | AAA | Aaa | 17,935 |
| Corp CMO's | AAA | Aa1 | 123 |
| Corp CMO's | AAA | Aaa | 5,932 |
| Corp CMO's | AAA | Unrated | 4,067 |
| Corp CMO's | Unrated | Aaa | 845 |
| Corporate Bonds | A | A1 | 2,558 |
| | A | A2 | 3,056 |
| | A | A3 | 1,643 |
| | A | Aa2 | 988 |
| | A | Aa3 | 1,089 |
| | A | Baa1 | 858 |
| | A | Baa2 | 298 |
| | AA | A1 | 100 |
| | AA | Aa3 | 387 |
| | AAA | Aaa | 1,890 |
| | B | B1 | 106 |
| | B | B2 | 201 |
| | B | Ba2 | 1,249 |
| | B | Ba3 | 408 |
| | B | Caa1 | 464 |
| | BB | Ba1 | 618 |
| | BB | Ba2 | 220 |
| | BBB | A2 | 202 |
| | BBB | A3 | 538 |
| | BBB | Ba1 | 160 |
| | BBB | Baa1 | 3,188 |
| | BBB | Baa2 | 1,800 |
| | BBB | Baa3 | 2,141 |
| | Unrated | A3 | 1,628 |
| | Unrated | Unrated | 242 |
| Corporate Asset Backed | A | Unrated | 433 |
| | A1 | Unrated | 101 |
| | AAA | A2 | 1,679 |
| | AAA | Aaa | 9,663 |
| | AAA | Ba2 | 542 |
| | AAA | Baa1 | 997 |
| | AAA | Unrated | 738 |
| | BBB | Baa1 | 366 |
| | Unrated | A2 | 1,033 |
| | Unrated | A3 | 704 |
| | Unrated | Aaa | 991 |
| | Unrated | Baa2 | 599 |
| Private Placements | A | A3 | 117 |
| | A | A1 | 83 |
| | AA | A1 | 184 |
| | AA | Aa3 | 347 |
| | AA | Aaa | 273 |
| | B | B2 | 137 |
| | B | Ba1 | 501 |
| | B | Ba3 | 141 |
| | BB | Ba1 | 444 |
| | BBB | Baa2 | 165 |
| | BBB | Unrated | 1,011 |
| | BBB | Baa3 | 582 |
| | BBB | A3 | 20 |
| | CCC | B3 | 128 |
| | Unrated | B3 | 1,367 |
| Yankee Bonds | B | B1 | 127 |
| Supernational | AAA | Aaa | 208 |
| Non-U.S. Fixed Income | | | |
| Foreign Governmental Bonds | AAA | Aaa | 782 |
| Foreign Governmental Bonds | A | Aa3 | 443 |
| Foreign Governmental Corp Debt | A | A1 | 185 |
| Foreign Governmental Corp Debt | A | A3 | 345 |
| Foreign Governmental Corp Debt | A | Baa1 | 28 |
| Foreign Governmental Corp Debt | BBB | A3 | 130 |
| Foreign Governmental Corp Debt | BBB | Baa2 | 160 |
| Money Market Mutual Funds | AAA | Aaa | 14,089 |
| **Total** | | | **$ 154,604** |

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2006, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk
The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the customer. None of the Indiana State Police Pension Trust's investments are exposed to custodial credit risk because they are held in the name of the Indiana State Police Pension Trust. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with it's obligations under the applicable securities lending agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has eight different investment managers. The purchase of securities in any one nongovernmental corporation shall be limited to an initial cost of 5% of the market value of an investment manager's portfolio. Additionally, the following limits are set to further limit credit exposure:

Large/Mid/Small Capitalization Equity Manager: equity holdings in any one company should not exceed 7.5%.

Non-US Equity Investment Manager: equity holdings in any one international company shall not exceed 7.5% of the total value of all investments in international equity securities.

Domestic Core Fixed/ Domestic Core Plus Manager: securities of any one issuer is limited to not more that 5% of the investment manager's portion of the portfolio. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations. Investments in high-yield and non-US debt securities should be limited to 20% high-yield and 20% non-U.S. debt with a combined exposure to those sectors not to exceed 30%.

Investments in any one issuer that represent 5% or more of the total investments are:

US Treasuries: 7.50 % $25,671,367
Freddie Mac: 7.06 % $24,181,634

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments.

The following table provides interest rate risk disclosure for the Indiana State Police Pension Fund (in thousands):

**State Police Pension Trust**
(Amounts are in thousands)

| Investment Type | Fair Value | Investment Maturities (in Years) Less Than 1 | 1-5 | 6-10 | More than 10 |
|---|---|---|---|---|---|
| U.S. Treasuries | $ 22,993 | $ - | $ 8,789 | $ 6,209 | $ 7,995 |
| U.S. Agencies | 5,466 | 5,466 | - | - | - |
| Mortgage Backed | | | | | |
| Government Pass-Through | 48,757 | 10 | 11,515 | 6,622 | 30,610 |
| Corporate Pass-Through | 5,604 | - | - | - | 5,604 |
| Collateralized Mortgage Obligations | | | | | |
| Govt CMO's | 17,935 | - | 336 | 1,277 | 16,322 |
| Corp CMO's | 10,968 | - | - | 534 | 10,434 |
| Corporate Bonds | 26,032 | 439 | 5,871 | 5,177 | 14,545 |
| Corporate Asset Backed | 17,844 | 101 | 3,998 | 431 | 13,314 |
| Private Placements | 5,500 | - | 2,892 | 1,062 | 1,546 |
| Yankee Bonds | 126 | - | - | 49 | 77 |
| Supernational | 208 | - | - | - | 208 |
| Non-U.S. Fixed Income | | | | | |
| Foreign Governmental Bonds | 1,225 | - | - | 781 | 444 |
| Foreign Governmental Corp Debt | 849 | - | 319 | 345 | 185 |
| Money Market Mutual Funds | 14,089 | 14,089 | - | - | - |
| **Total** | **$ 177,596** | **$ 20,105** | **$ 33,720** | **$ 22,487** | **$ 101,284** |

### 3. *Pension and Other Employee Benefits Trust Funds – Discrete Component Units*

*Public Employees' Retirement System*

Investment Policy – The Indiana General Assembly enacted the prudent investor standard to apply to the PERF's Board of Trustees and govern all PERF's investments. Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards.

Within these governing statutes, the Board has broad authority to invest the assets of the plans. The Board utilizes external investment managers each with specific mandates to implement the investment program. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled account, mutual funds or other structures acceptable to the Board.

Currently, the Board has established the following asset allocation strategy for the investments held in the Consolidated Retirement Investment Fund (CRIF):

| **Asset Classes** | **Target Norm** | **Allowable Ranges** |
|---|---|---|
| Equities – Domestic | 45% | 42% - 51% |
| Equities – International | 11% | 8% - 17% |
| Equities – Global | 9% | 6% - 15% |
| Fixed Income – Core | 20% | 17% - 26% |
| Fixed Income – TIPS | 10% | 7% - 16% |
| Alternatives | 5% | 2% - 11% |

Investment in the Annuity Savings Accounts and Legislature's Defined Contribution plans are directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested to a target of seventy percent Fixed Income – Core and thirty percent Equities – Domestic. The Special Death Benefit Funds are one hundred percent fixed income.

The following identifies investment types that are currently prohibited by the investment policy:

- Short sales of any kind
- Repurchase agreements that may create any kind of leverage in the portfolio. (Repurchase agreements as cash equivalents are permitted.)
- Purchases of letter or restricted stock
- Buying or selling on the margin
- Purchases of futures and options, except where specifically noted in Specific Guidelines
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director
- Purchases of Interest Only or Principal Only collateralized mortgage obligations
- Purchases of Guaranteed Investment Contract (GIC's) or Bank Investment Contracts (BIC's)
- Any transactions giving rise to unrelated business taxable income (excluding current holdings)
- Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503
- Purchases of precious metals
- Purchases of commodities
- Purchases of inverse floaters

Deposit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash Deposits held with the custodian are carried at cost and are not insured or collateralized. Time deposits held with the custodian are collateralized with securities on loan that are held by the pledging financial institution.

| Cash Deposits (in thousands) | Total | Chase Benefits | National City Administration |
|---|---|---|---|
| Demand deposit account – carrying value | $ 796 | $ 467 | $329 |
| Demand deposit account – bank balance | 41,102 | 40,593 | 509 |
| Held with Treasurer of State | 9,139 | | |
| Held with Custodian: | | | |
| Cash | 28,801 | | |
| Time Deposits – Cash collateral | 20,000 | | |

Credit Risk – PERF's debt securities portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and as outlined in each portfolio manager contract. The quality rating of investments in debt securities as described by the nationally recognized statistical rating organization (NRSRO) Standard and Poor's at June 30, 2006, are as follows ($ in millions):

| Quality Rating | Fair Value | Percentage of Portfolio |
|---|---|---|
| AAA | $2,963 | 68.3% |
| AA | 74 | 1.7% |
| A | 224 | 5.2% |
| A-1 | 97 | 2.2% |
| BBB | 169 | 3.9% |
| BB | 39 | 1.0% |
| B | 28 | 0.6% |
| CCC | 1 | 0.0% |
| Not rated | 743 | 17.1% |
| **Grand Total** | **$4,338** | **100.00%** |

Debt securities are equal to $3,663 million. The credit risk schedule also includes short-term money market funds, bond mutual funds and bond commingled funds. Approximately fifty-seven percent of the total fair value reported is AAA rated US Treasury, US Agency, or US Agency Mortgage Backed Securities ($2,474 million). The remaining balance of $1,864 million, or forty-three percent of debt securities, consists of corporate debt, short-term custodial money market funds, commingled or mutual funds, and asset- and mortgage-backed securities of various credit quality ratings. Of the $743 million (seventeen and one tenths percent of total debt securities) not rated by Standard & Poor's, $56.9 million, or seven and seven tenths percent are rated by Moody's, another NRSRO. Of those, $51.1 million are rated A2 or better, $5 million are rated B1 through Ba1, and $0.8 million are rated Ca through Caa1. Also included in the not-rated category are $634 million (eighty-five and three tenths percent of non-rated) in non-rated money market funds, mutual funds, or commingled funds. The remaining $52.1 million are not rated by Moody's or Standard and Poor's.

Custodial Credit Risk – Custodial credit risk is the risk that the PERF will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty of the counterparty's trust department of agent but not in PERF's name.

There was no custodial credit risk for investments including investments related to securities-lending collateral. Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, all fund investments are held by banks under custodial agreements, all custodians are domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under PERF's Investment Policy Statement, exposure to a single issuer, with the exception of the U.S. Government and it agencies, is generally limited to an initial cost of five percent of the market value of assets managed by each investment manager. For such investment managers, through capital appreciation, the exposure to a single issuer should not exceed seven and one-half percent of market value of the assets managed by the manager.

For managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer, with the exception of the U.S. Government and it agencies, is limited to seven and one-half percent of the portfolio of the manager based upon initial cost and no more than fifteen percent of the market value of the portfolio as a result of capital appreciation.

At June 30, 2006, there was no concentration of credit risks for the CRIF or separately managed fund portfolios.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is an indicator of a bond price's sensitivity to a one hundred-basis point charge in interest rates.

PERF's fixed income portfolio investment policy sets duration guidelines that are linked directly, or indirectly, to the benchmark indices for each of its sub asset classes and as outlined in each portfolio manager contract. Several sub-asset classes require that duration of the portfolio may not vary more than twenty percent above or below the duration of the applicable benchmark index.

Duration information is provided below (in millions):

| Investment Type | Net Asset Fair Value | Percentage Fair Value | Duration |
|---|---|---|---|
| Short Term Investment Fund | $344 | 8.0% | 0.01 |
| Government and Agency Obligations | 1,851 | 42.8% | 4.92 |
| Residential and Commercial Mortgage-Backed Securities | 1,093 | 25.3% | 3.57 |
| Corporate Bonds | 551 | 12.7% | 4.53 |
| Asset Backed | 195 | 4.5% | 0.61 |
| Municipal Securities | 1 | 0.0% | 1.02 |
| Debt Securities Mutual Funds | 290 | 6.7% | 4.57 |
| **Total** | **$4,325** | **100.0%** | **3.92** |

All PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Significant investment types that are considered highly sensitive have been identified in the derivatives financial instruments section. Debt securities, debt securities mutual funds and commingled funds, and short-term cash and cash-equivalents represent the portions of the portfolio most sensitive to interest rate risk and are included in the duration information. Fair value of debt securities includes all debt securities, including debt securities mutual funds and commingled funds, and short term cash and equivalents, gross of pending transactions, totaling $4,325 million at June 30, 2006.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERF's foreign currency exposure is primarily focused in international and global equity holdings. Futures currency contracts are reported in the following schedule at gross exposure value. Forward currency contracts values included both receivables and payables.

PERF's portfolio investment policy refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub asset class or as outlined in each portfolio manager contract. Certain fixed securities portfolio sub asset classes allow for up to twenty percent investment in non-US dollar government and corporate securities. The Equity portfolio sub asset classes have specific guidelines for international equities and global equity investments. Certain sub-asset classes do not allow "emerging" markets investments while some allow up to twenty percent of market value to be held in emerging markets.

PERF has exposure to foreign currency fluctuation as follows (in millions):

| Currency | Fair Value | Percentage of Foreign Currency |
|---|---|---|
| Euro | $743 | 34.2% |
| Japanese Yen | 439 | 20.2% |
| Pound Sterling | 400 | 18.4% |
| Australian Dollar | 141 | 6.5% |
| Swiss Franc | 96 | 4.4% |
| Swedish Krone | 87 | 4.0% |
| Other | 266 | 12.3% |
| **Grand Total** | **$2,172** | **100.0%** |

Securities Lending – Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of PERF may be loaned. The purpose of such a program is to provide additional revenue for PERF.

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities. The Board requires that collateral securities and cash be initially pledged at one hundred two percent of the market value of the securities lent. No more than forty percent of the Fund's total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide one hundred percent indemnification to the Board and the Fund against borrower default, overnight market risk, and failure to return loaned securities. Securities received as collateral cannot be pledged or sold by the Board unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments were subject to the investment guidelines specified by the Board. The Board policy includes that the maximum weighted average days to maturity may not exceed sixty. The average term to maturity of the cash collateral portfolio was seventeen days at June 30, 2006. The securities lending agents match the maturities of the investments of cash collateral for the securities loans with stated termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

The fair value of securities lent for cash collateral at June 30, 2006, was (in millions):

| Investment Type | Loan Value |
|---|---|
| Government Obligation | $1,150 |
| Corporate Bonds | 52 |
| Equities | 1,569 |
| **Total Fair Value** | **$2,771** |

The credit quality of the cash collateral investments at June 30, 2006, was (in millions):

| Cash Collateral Investments Quality Rating | Fair Value | Percentage of Portfolio |
|---|---|---|
| AAA | $181 | 6.4% |
| AA | 197 | 7.0% |
| A-1 and A-1+ | 2,332 | 83.0% |
| Not rated | 100 | 3.6% |
| **Total** | **2,810** | **100.0%** |

The majority of AAA rated collateral investments were asset backed securities. The majority of AA rated collateral investments were Guaranteed Investment Contracts. The majority of A-1 and A-1+ collateral investments were medium term corporate bonds and negotiable certificates of deposits. The Not Rated collateral investments were all repurchase agreements.

At June 30, 2006, PERF had loaned $327 million US Treasury and Government Agency Obligations for securities collateral. The securities collateral value was $334 million which represented one hundred two percent coverage.

At fiscal year end, PERF has no credit risk exposure to borrowers because the amount PERF owes the borrowers exceeds the amount the borrowers owe the Fund.

Derivative Financial Instruments – PERF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. PERF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, PERF's derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign stock and debt security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2006, PERF's investments included the following currency forwards balances (in millions):

| | |
|---|---|
| Forward Currency Contract Receivables | $250.2 |
| Forward Currency Contract Payables | 251.2 |

PERF's debt securities managers invest in CMOs to improve the yield or adjust the duration of the debt securities portfolio. As of June 30, 2006, the carrying value of the PERF's CMO holdings totaled $213.1 million.

TIPS are used by PERF's debt securities managers to provide a real return against inflation (as measured by the Consumer Price Index). In addition, PERF employs TIPS at the total fund level in order to utilize their diversification benefits. As of June 30, 2006, the carrying value of the System's TIPS holdings totaled $1,086.2 million.

PERF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, PERF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. As of June 30, 2006, the only derivative positions held by PERF are equity index futures.

The PERF Board of Trustees had approved commitments and PERF had entered into agreements to fund limited liability partnerships of $302.2 million as of June 30, 2006. The fund has paid out $70.5 million of the commitments as of June 30, 2006. The funding period for the entire amount is July 2002 to December 2015. Additionally, as of June 30, 2006, a commitment of $125 million was approved by the Board of Trustees and an agreement was entered into on July 14, 2006.

*State Teachers' Retirement Fund*
Investment Policy - The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules. See IC 5-10.2 and IC 21-6.1

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses. Thus, the primary governing statutory provision is that the Board must invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Board is also required to diversify such investments in accordance with prudent investment standards (IC 21-6.1-3-9).

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

At its April 27, 2004 meeting, the Board changed the strategic asset allocation to:

| | |
|---|---|
| Domestic Equities | 42% |
| International Equities | 18% |
| Private Equity | 5% |
| Real Estate | 5% |
| Absolute Return | 5% |
| Fixed Income | 25% |
| | 100% |

At its October 26, 2004 meeting, the Board also adjusted the domestic equity manager structure to the following: 20% large cap passive; 30% large cap enhanced; 10% large cap value; 10% large cap growth; 10% midcap core; 5% midcap value; 5% midcap growth; 5% small cap value; 5% small cap growth.

At its November 30, 2004 meeting, the Board adjusted the international equity manager structure to the following: 40% enhanced index and 60% to active management.

Credit Risk - The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard and Poor's.
The Fund's investment policy limits each fixed income manager's purchase of below Baa grade securities to 10% of the total market value of the manager's portfolio.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's. On securities that Moody's did not provide a rating then a rating was obtained from Standard and Poor's.

| Rating | Fair Value | Percentage of Portfolio |
|---|---|---|
| Aaa | $2,694,941 | 62.03% |
| Aa1 | 117,838 | 2.71% |
| A1 | 380,612 | 8.76% |
| Baa1 | 238,777 | 5.50% |
| Ba1 | 102,367 | 2.36% |
| B1 | 45,718 | 1.05% |
| Caa1 | 8,714 | 0.20% |
| Unrated | 755,926 | 17.39% |
| Total | $4,344,893 | 100.00% |

Of the total fair value, seventy-seven percent or $3,362 million are debt securities. Approximately forty-seven percent of the total fair value reported is AAA rated US Treasury, US Agency, or US Agency Mortgage Backed Securities ($2,058 million). The remaining balance of $2,287 million consists of corporate debt, commingled funds, and asset- and mortgage-backed securities of various credit quality ratings.

Custodial Credit Risk – Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund.

There was no custodial credit risk for investments including investments related to securities-lending collateral. Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, all fund investments are held by banks under custodial agreements, all custodians are domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana.

Deposit Risks – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit account are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash Deposits held with the custodian are carried at cost and are not insured or collateralized.

| Cash Deposits (in thousands) | Total | National City Bank |
|---|---|---|
| Demand deposit account – bank balance | $1,203 | $1,203 |
| Held with Treasurer of State | 3,770 | |
| Cash held with Custodian | 26,324 | |

Concentration of Credit Risk – At June 30, 2006, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

Interest Rate Risk – The Fund uses the Lehman Brothers Aggregate Index (LBA) as the benchmark for performance measurement of their fixed income managers. TRF's investment policy states that each fixed income manager must manage their portfolio so that the duration is no less than 80% and no more than 120% of the duration of the index.

Foreign Currency Risk – As of June 30, 2006, 13.19% of the Fund's investments were in foreign currencies. In addition to the Fund's international equity managers, fixed income managers are allowed to invest up to 10% of their portfolio in international bonds. The table below breaks down the Fund's exposure to each foreign currency:

| Currency | Total Fair Value | Percentage of Total Fund Fair Value |
|---|---|---|
| Euro Currency Unit | $365,348,581 | 4.72% |
| Japanese Yen | 223,071,208 | 2.88% |
| British Pound Sterling | 178,047,155 | 2.30% |
| Canadian Dollar | 47,394,034 | 0.61% |
| Swiss Franc | 46,107,210 | 0.60% |
| Hong Kong Dollar | 32,370,557 | 0.42% |
| Australian Dollar | 30,507,867 | 0.39% |
| Norwegian Krone | 15,638,987 | 0.20% |
| South Korean Won | 14,178,721 | 0.18% |
| Swedish Krona | 11,895,106 | 0.15% |
| Other | 27,222,202 | 0.74% |
| Totals | $991,781,628 | 13.19% |

The following is a summary of the Interest Rate Risk Disclosure for Teachers' Retirement Funds as of June 30, 2006:

As of June 30, 2006, TRF had the following investments and maturities (Amounts are in thousands).

| | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1** | **1-5** | **6-10** | **More than 10** |
| U.S. Treasuries | $ 421,808 | $ 95,989 | $ 54,021 | $ 83,661 | $ 188,137 |
| U.S. Agencies | 388,040 | 206,830 | 76,275 | 56,125 | 48,810 |
| Asset backed securities | 150,042 | 1,740 | 105,715 | 7,768 | 34,819 |
| Mortgage backed securities | 1,587,218 | - | 13,866 | 126,592 | 1,446,760 |
| Non-government backed C.M.O.s | 118,573 | - | - | 8,660 | 109,913 |
| Commercial paper | 128,560 | 128,560 | - | - | - |
| Short term investment funds | 670,798 | 670,798 | - | - | - |
| Corporate bonds | 848,307 | 108,340 | 446,540 | 136,510 | 156,917 |
| Index linked government bonds | 8,744 | 637 | - | 3,239 | 4,868 |
| Municipal/provincial bonds | 7,801 | - | - | 7,075 | 726 |
| **Total** | **$ 4,329,891** | **$ 1,212,894** | **$ 696,417** | **$ 429,630** | **$ 1,990,950** |

Securities Lending – State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year-end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceed the amounts the borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Total cash collateral of $1,317 million is invested in a pooled fund.

As of June 30, 2006, the Fund had the following securities on loan:

| Security Type | Market Value of Loaned Securities Collateralized by Cash | Market Value of Loaned Securities Collateralized by Noncash | Total Securities Loaned |
|---|---|---|---|
| Global Equities | $166,936,415 | $719,847 | $167,656,262 |
| U.S. Agencies | 135,925,385 | 21,200,113 | 157,125,498 |
| U.S. Corporate Fixed | 137,385,775 | 18,183,128 | 155,568,903 |
| U.S. Equities | 381,574,460 | 17,383,235 | 398,957,695 |
| U.S. Gov't Fixed | 472,386,763 | 5,420,632 | 477,807,395 |
| Total | $1,294,208,798 | $62,906,955 | $1,357,115,753 |

Derivative Financial Instruments – TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. TRF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included cash and cash equivalent futures, equity derivatives-options, fixed income derivatives – options, rights/warrants, swaps, foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

Cash and cash equivalent futures are used to manage exposure at the front end of the yield curve. These include swaps with duration of 1 year or less, and Eurodollar, Euribor and other futures based on short-term interest rates. At June 30, 2006 TRF's investments in these instruments totaled a negative $ 2.0 million.

Equity derivatives – options are used to gain exposure to an index or market sector. These may offer an opportunity to outperform due to active management of the liquid portfolio backing the exposure. Exposure is backed by underlying fixed-income portfolio. At June 30, 2006, the carrying value of TRF's equity derivatives – options totaled a negative $ .3 million

Stock Rights/Warrants give the holder the right to buy a stock at a certain price until a certain date. At June future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to 30, 2006, the carrying value of TRF's stock rights and warrants totaled $.6 million

Swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("received fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure. At June 30, 2006, the carrying value of TRF's swaps was $2.5 million.

TRF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2006, the carrying value of the TRF's CMO holdings totaled $118.6 million.

Treasury inflation protected securities (TIPS) are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2006, the carrying value of the System's TIPS holdings totaled $8.7 million.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. At June 30, 2006 the total offset was $652 million. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

## B. Interfund Transactions

### Interfund Loans

Interfund loans of $275 thousand represents amounts owed by the Alcohol Beverage Commission Research Fund to the General Fund. The purpose of this loan was to cover a deficit cash balance in prior years. Interfund loans of $436 thousand represents amounts owed by the Voluntary Compliance Research Fund to the Environmental Management Fund to cover a deficit cash balance in prior years. Both of these funds are nonmajor governmental funds.

As explained in Note III(B) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2006, the following funds had temporary cash overdrafts covered by loans from the General Fund: the Motor Vehicle Highway Fund, $3.8 million, the Federal Food Stamp Program Fund $8.7 million, and the Primary Road and Street Fund, a non-major governmental fund, $69,000.

The following is a summary of the Interfund Loans as of June 30, 2006:

**Interfund Loans - Current**

| | Loans To Governmental Funds | Loans From Governmental Funds |
|---|---|---|
| **Governmental Funds** | | |
| General Fund | $ 12,818 | $ - |
| Motor Vehicle Highway Fund | - | 3,812 |
| Nonmajor Governmental Funds | 436 | 9,442 |
| Total Governmental Funds | 13,254 | 13,254 |
| **Total Interfund Loans** | **$ 13,254** | **$ 13,254** |

### Interfund Services Provided/Used

Interfund Services Provided of $7.7 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2006:

**Interfund Services Provided/Used**

| | Interfund Services Provided To Governmental Funds | Interfund Services Used By Governmental Funds |
|---|---|---|
| **Governmental Funds** | | |
| General Fund | $ - | $ 1,854 |
| Motor Vehicle Highway Fund | - | 1,440 |
| State Highway Department | - | 615 |
| Tobacco Settlement Fund | - | 3 |
| Nonmajor Governmental Funds | - | 3,806 |
| Total Governmental Funds | - | 7,718 |
| **Proprietary Funds** | | |
| Internal Service Funds | 7,721 | 3 |
| Total Proprietary Funds | 7,721 | 3 |
| **Total Interfund Services Provided/Used** | **$ 7,721** | **$ 7,721** |

### Due From/Due Tos

*Current* – Interfund balances of $40.0 million represent the total of payment delays from the General Fund to the seven discretely presented colleges and universities throughout the State of Indiana. The Interfund balance of $36.6 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund. In addition, interfund balances of $6.2 million represent the amount owed by the Integrated Public Safety Commission to the Indiana Finance Authority. $7.2 thousand is owed by the General Fund to the Indiana Finance Authority.

Interfund balances of $3.6 billion are composed of $3.1 billion that represent amounts owed by the Indiana Finance Authority to the Major Moves Construction Fund and $0.5 billion that represent amounts owed by the Indiana Finance Authority to the Next Generation Trust Fund. These interfund balances were the results of a lease of the Indiana Toll Road in FY 2006. In addition, $2.2 million represents amount owed by the Indiana Finance Authority to the State Highway Department. The Indiana Finance Authority also owed $0.4 million and $73.4 thousand to the General Fund and the Integrated Public Safety Commission, respectively.

*Non-current* – Interfund balances of $62.2 million represent the total of payment delays from the General Fund to the seven discretely presented colleges and universities throughout the State of Indiana. In June, 2004, the General Fund borrowed $50.0 million, interest free, from the Indiana Board for Depositories, a discretely presented component unit. This money is due to be repaid, either from the General Fund prior to January 1, 2013, or by a budget request submitted to the 2013 session of the general assembly. These non-current interfund balances appear on the government-wide statements, but not the General Fund statements.

Interfund balances of $980 thousand are composed of $480 thousand and $500 thousand that represent amounts owed to the Brownfield Cleanup Revolving Fund and the Cigarette Tax Fund, respectively, from the Indiana Finance Authority.

The following are current and non-current schedules of Due From/Due Tos of Component Units, as of June 30, 2006:

**Component Units - Current**

| | Due From Primary Government | Due To Component Units | Due From Component Units | Due To Primary Government |
|---|---|---|---|---|
| **Governmental Funds** | | | | |
| General Fund | $ - | $ 40,007 | $ 354 | $ - |
| Major Moves Construction Fund | - | - | 3,118,388 | - |
| State Highway Department | - | - | 2,170 | - |
| Nonmajor Governmental Funds | - | 6,176 | 536,808 | - |
| Total Governmental Funds | - | 46,183 | 3,657,720 | - |
| **Component Units** | | | | |
| Indiana University | 15,667 | - | - | - |
| Purdue University | 10,795 | - | - | - |
| Nonmajor Universities | 13,538 | - | - | - |
| Indiana Finance Authority | 6,183 | - | - | 3,621,125 |
| State Lottery Commission | - | - | - | 36,595 |
| Total Component Units | 46,183 | - | - | 3,657,720 |
| **Total Due From/To** | **$ 46,183** | **$ 46,183** | **$ 3,657,720** | **$ 3,657,720** |

**Component Units - Non-current**

| | Due From Primary Government | Due To Component Units | Due From Component Units | Due To Primary Government |
|---|---|---|---|---|
| **Governmental Funds** | | | | |
| General Fund | $ - | $ 112,160 | $ 480 | $ - |
| Nonmajor Governmental Funds | - | - | 500 | - |
| Total Governmental Funds | - | 112,160 | 980 | - |
| **Component Units** | | | | |
| Indiana University | 24,447 | - | - | - |
| Purdue University | 17,189 | - | - | - |
| Nonmajor Universities | 20,524 | - | - | - |
| Indiana Finance Authority | - | - | - | 980 |
| Board for Depositories | 50,000 | - | - | - |
| Total Component Units | 112,160 | - | - | 980 |
| **Total Due From/To** | **$ 112,160** | **$ 112,160** | **$ 980** | **$ 980** |

Transfers of a member's reserves are made between the State Teachers' Retirement Fund (TRF) and the Public Employees' Retirement Fund (PERF) when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF if the member was last employed in a TRF covered position. If the member was last employed in a PERF covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the time the retirement is calculated TRF sets up a receivable from PERF (Due from component unit) for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable (Due to component unit) in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit. The reverse of the above holds true for PERF.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2006:

**Within Component Units**

| | Due From Component Units | Due To Component Units |
|---|---|---|
| **Discretely Presented Component Units Pension Trust:** | | |
| Pension Trust | | |
| Public Employees' Retirement Fund | $ - | $ 826 |
| State Teachers' Retirement Fund | 826 | - |
| Total Discretely Presented Component Units Pension Trust | 826 | 826 |
| **Total Due From / To** | **$ 826** | **$ 826** |

**Interfund Transfers**

*Major Governmental Funds*

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

**General Fund** – The General Fund had the following transfers in: $1.73 billion was transferred in to reimburse the General Fund for the Property Tax Replacement Fund's (PTRF) share of tuition support per legislation. $45.2 million was transferred in from the PTRF per legislation in IC 6-1.1-21-4. $7.0 million came from the PTRF instead of being distributed to Marion County. This money was applied to Marion County's juvenile detention charges delinquent balance. $353.9 million in tax collections was transferred in from the Collections Fund for personal and corporate income taxes and sales taxes. The General Fund's Motor Vehicle Excise Tax Replacement Account received $236.2 million in transfers in from the Build Indiana Fund per legislation. The General Fund also received $180.4 million in transfers in from the Mental Institutions Fund. This was reimbursement for the Medicaid expenses that the General Fund incurred throughout the year. $62.7 million and $48.2 million were transferred in from Public Welfare-Medicaid Assistance fund, for quality assessment fees collected in FY 2006 and for the disproportionate share hospital (DSH) program, respectively. $56.9 million was transferred in from the Tobacco Settlement Fund for health and welfare purposes. $41.4 million was received to transfer the balance of the Financial Institutions Tax Fund not needed for distributions to counties. $34.4 million was transferred in from the Bureau of Motor Vehicles (BMV) Holding Account, representing motor vehicle sales tax collected for the General Fund.

$12.0 million and $9.1 million were transferred in from Family and Social Services Administration (FSSA) to the State Facilities Contingency Account and the FSSA central office, respectively. $10.5 million was transferred to the State Emergency Management Account from the Fire Prevention and Building Safety Department. $10.1 million was transferred in from the Comfort and Welfare Fund to the General Fund for the Indiana Veterans Home. Administrative Services, an internal service fund, transferred $5.5 million to the General Fund pursuant to the provisions of Public Law 224 2003 which authorized the Auditor of State to make an appropriation transfer between the Indiana Office of Technology (IOT) and the Department of Administration.

The following were the transfers out from the General Fund: $1.54 billion was transferred to the Medicaid Assistance Fund for Medicaid and disability and the disproportionate share hospital (DSH) program. Transfers to the PTRF included $624.0 million in income taxes and $64.2 million in sales taxes collected in the General Fund. The General Fund also transferred 5.3 million to the PTRF in riverboat tax credits per IC 6-3.1-20-7. $107.3 million represents appropriation transfers out to the Higher Education Fund. $94.3 million, $89.5 million, and $62.2 million of grant appropriations were transferred from the General Fund to the Welfare-State and Federal Assistance Fund, the Mental Health Center Fund, and the DCS Local Office Administration Fund, respectively. In addition, $56.5 million in grant appropriations were transferred to the County Welfare Administration Fund.

$49.4 million went to the Common School Principal Fund to post repayment of construction loans for schools rather than distributing their appropriations to them. $44.8 million was transferred from the General Fund to the Motor Vehicle Highway Fund for State Police expenditures, pensions, and overtime. $46.2 million and $41.8 million represent appropriation transfers out to the Welfare-Medicaid Administration Fund and the Freedom of Choice Fund, respectively. Another $35.6 million of grants were transferred to the Title XX Fund for aging, community service, and welfare. $22.7 million of grants were transferred to the Public Health Service Fund for auto emission testing, environmental and water management operation, and substance abuse treatment. $20.4 million for administration and awards went to the 21st Century Scholars Fund. $20.0 million of grants were transferred to the Vocational Rehabilitation Fund for vocational rehabilitation and case management. Grant and appropriations of $19.6 million were transferred to the Welfare-Work Incentive Fund for the Family and Social Services Administration (FSSA) and TANF. $17.6 million of riverboat admissions tax was transferred to the Indiana Horse Racing Commission. $17.6 million represents appropriation transfers to the Mental Health Services Block Grant Fund.

$17.2 million represents grant appropriation and interest transfers for the Central Reimbursement Office (CRO) Program Administration, the Electronic Benefits Transfer Project, Support of Enforcement Tracking, and Revenue Recovery in the Title 4D Social Security Fund. $11.1 million represents transfers out of sales and income taxes to the Collection Fund. $10.8 million and $10.8 million represent transfers out to the Training 2000 Fund and appropriation and allotment transfers to the State Parks and Reservoirs Fund, respectively. $9.9 million represents transfers out from the General Fund collection tax account to the financial institutions account. $9.3 million represents transfers to the Department of Corrections Title XX Fund. There was $9.1 million in transfers to the Fish and Wildlife Fund. $8.4 million represents transfers from the General Fund collection tax account to the Returned Check Revolving Fund. There were $8.2 million in allotment transfers to the Build Indiana Fund. $7.3 million was transferred to the Public Defense Fund. $7.1 million, $7.0 million, and $6.2 million of appropriation grants were transferred to the Welfare, Child Services Fund, the Environmental Management Permit Operations Fund, and the Healthy Families Indiana Fund, respectively. $5.4 million was transfers to the Employment and Training Fund. $5.0 million was transferred to the Encompass (PeopleSoft) project.

**Motor Vehicle Highway Fund** – The Motor Vehicle Highway Fund received transfers in of $65.9 million from the Bureau of Motor Vehicles Holding Account, representing vehicle licenses and fees. $44.8 million was transferred in from the General Fund to reimburse the Motor Vehicle Fund for expenses it incurred for the State Police. $35.4 million was transferred in from the International Registration Plan fund and represents Indiana's share of revenues collected under this plan. $32.0 million was transferred in from the Gasoline and Special Fuel Tax fund for distribution to counties, cities, and towns per IC 6-6-1.1-801.5(c). $28.3 million was transferred in from the Motor Carrier Clearing Account, representing collections for the motor carrier surtax. $7.2 million was transferred in from the Indiana State Trooper Costs Account, representing State trooper salaries, benefits, and overtime charged to riverboats. $4.4 million was transferred in from the Motor Carrier Regulation Fund.

Transfers out included $319.0 million to the State Highway Department Fund. By legislation the remainder of the amount in the Motor Vehicle Highway Fund, after distributions to cities, towns, and counties, and after other legislative required transfers, goes to the State Highway Department Fund. $30.7 million was transferred out to the Underground Petroleum Storage Tank (UPST) Excess Liability Fund. This represents fees, fines and penalties assessed to owners of underground storage tanks. $15.5 million was motor carrier surtaxes transferred out to the Road and Street Primary Highway Fund.

**Medicaid Assistance Fund** – The Medicaid Assistance Fund had a transfer in of $1.54 billion from the General Fund for Medicaid and Disability and the disproportionate share hospital (DSH) program. There were also transfers in of $126.8 million from the Mental Health Center Fund, $28.6 million from the Tobacco Settlement Fund for the Children's Health Insurance Program (CHIP Assistance), $21.7 million from the Hospital Care for the Indigent Fund, $13.7 million from the Medical Assistance for Wards Fund and $12.6 million from the Division of Family and Children Title 20 Fund.

Transfers out included $82.0 million to the Mental Institutions Fund for Medicaid DSH providers, $62.7 million to the General Fund for the quality assessment fees collected in FY 2006, and $48.2 million to the General Fund for the DSH program.

**State Highway Department Fund** – The State Highway Department had the following transfers in: $319.0 million was transferred in from the Motor Vehicle Highway Fund. This is a legislative transfer as described above under the Motor Vehicle Highway Fund. $151.7 million was transferred in from the Road and Street Primary Highway Fund. $20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund. This $20.0 million represents the State Highway Department's share of gas and special fuel taxes collected in that fund.

**Property Tax Replacement Fund** – The Property Tax Replacement Fund (PTRF) received the following transfers in: $624.0 million in income taxes and $64.2 million in sales taxes were collected in the General Fund and transferred to the PTRF. $5.3 million came from the General Fund in riverboat tax credits per IC 6-3.1-20-7. $589.9 million in gaming taxes were collected in the State Gaming Fund and transferred to the PTRF. Another $56.4 million in sales taxes were collected in the Tax Collection Fund and transferred to the PTRF.

The PTRF had the following transfers out: $1.73 billion was transferred to reimburse the General Fund for the PTRF's share of tuition support per legislation. $92.3 million of wagering tax was transferred out to the Build Indiana Fund per legislation. $45.2 million went into the General Fund per legislation in IC 6-1.1-21-4. $9.8 million was transferred out to the Riverboat Admissions Tax Fund. $7.0 million was transferred out to the General Fund instead of being distributed to Marion County. This money was applied to Marion County's juvenile detention charges delinquent balance.

**Tobacco Settlement Fund** – The Tobacco Settlement Fund transferred in $7.1 million representing money previously transferred to the Children's Health Insurance Program (CHIP) Assistance. The money was not needed and therefore transferred back to the tobacco settlement fund.

The Tobacco Settlement Fund had the following major transfers out: $56.9 million was for health and welfare purposes in the General Fund. $34.9 million of the transfers out was for the 21st Century Research and Technology Fund. Another $28.6 million was for the Children's Health Insurance Program (CHIP Assistance).

*Proprietary Funds*

**Enterprise Funds**

**The Inns and Concessions Fund** – This fund had transfers in of $0.8 million, representing cash contributions from the Department of Natural Resources (DNR) in the General Fund for capital projects at the DNR Inns.

**Internal Service Funds**

$4.0 million was transferred from the General Fund to the Institutional Industries Fund, an internal Service Fund. These transfers represent a return of funds which were previously transferred to the General Fund per legislation at the end of the prior fiscal year. The amount returned was $2.2 million less than what was previously transferred to the General Fund at the end of the prior fiscal year. $2.4 million was a budget reversion that was in the budget bill and this amount is reduced by $0.2 million which should have been returned from 1999.

$3.8 million was transferred at year end to the General Fund from the Institutional Industries Fund. This is transferred at the end of the current fiscal year per legislation.

Administrative Services, an internal service fund, transferred $5.5 million to the General Fund pursuant to the provisions of Public Law 224 2003 which authorized the Auditor of State to make an appropriation transfer between the Indiana Office of Technology (IOT) and the Department of Administration.

A summary of interfund transfers for the year ended June 30, 2006 is as follows:

| | Operating transfers in | Operating transfers (out) | **Net transfers** |
|---|---|---|---|
| **Governmental Funds** | | | |
| General Fund | $ 2,935,594 | $ (3,225,935) | **$ (290,341)** |
| Motor Vehicle Highway Fund | 232,479 | (374,158) | **(141,679)** |
| Medicaid Assistance | 1,743,994 | (195,926) | **1,548,068** |
| State Highway Department | 491,391 | (6,927) | **484,464** |
| Property Tax Replacement Fund | 1,341,219 | (1,895,596) | **(554,377)** |
| Tobacco Settlement Fund | 7,567 | (129,563) | **(121,996)** |
| Nonmajor Governmental Fund | 1,784,313 | (2,703,939) | **(919,626)** |
| **Proprietary Funds** | | | |
| Inns and Concessions | 818 | - | **818** |
| Internal Service Funds | 4,010 | (9,341) | **(5,331)** |
| | $ 8,541,385 | $ (8,541,385) | **$ -** |

## 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** | | | |
|---|---|---|---|---|
| | **General Fund** | **Special Revenue Funds** | **Capital Projects Funds** | **Total Primary Government** |
| Income taxes | $ 1,063,101 | $ 11,783 | $ - | **$ 1,074,884** |
| Sales taxes | 362,519 | 381,213 | - | **743,732** |
| Fuel taxes | - | 114,884 | - | **114,884** |
| Gaming taxes | 184 | 1,924 | - | **2,108** |
| Inheritance taxes | 35,011 | - | - | **35,011** |
| Alcohol and tobacco taxes | 27,913 | 3,910 | 1,826 | **33,649** |
| Insurance taxes | 4,297 | - | - | **4,297** |
| Financial institutions taxes | - | 19,312 | - | **19,312** |
| Other taxes | 2,508 | 43,983 | - | **46,491** |
| Total taxes receivable | 1,495,533 | 577,009 | 1,826 | **2,074,368** |
| Less allowance for uncollectible accounts | (217,318) | (68,344) | (56) | **(285,718)** |
| Net taxes receivable | **$ 1,278,215** | **$ 508,665** | **$ 1,770** | **$ 1,788,650** |
| Tax refunds payable | **$ 30,610** | **$ 5,045** | **$ -** | **$ 35,655** |

## D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2006, 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 | $ 1,138,467 | $ 43,890 | $ (178) | $ 1,182,179 |
| Infrastructure | 7,516,372 | 70,603 | (2,763) | 7,584,212 |
| Construction in progress | 428,070 | 160,256 | (162,128) | 426,198 |
| Total capital assets, not being depreciated | 9,082,909 | 274,749 | (165,069) | 9,192,589 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,381,241 | 31,646 | (6,937) | 1,405,950 |
| Furniture, machinery, and equipment | 347,946 | 22,873 | (17,326) | 353,493 |
| Infrastructure | 14,235 | - | - | 14,235 |
| Total capital assets, being depreciated | 1,743,422 | 54,519 | (24,263) | 1,773,678 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (650,352) | (33,219) | 2,880 | (680,691) |
| Furniture, machinery, and equipment | (195,901) | (28,274) | 11,711 | (212,464) |
| Infrastructure | (12,404) | (280) | - | (12,684) |
| Total accumulated depreciation | (858,657) | (61,773) | 14,591 | (905,839) |
| Total capital assets being depreciated, net | 884,765 | (7,254) | (9,672) | 867,839 |
| Governmental activities capital assets, net | $ 9,967,674 | $ 267,495 | $ (174,741) | $ 10,060,428 |

### Primary Government – Business-Type Activities

| Business-Type Activities: | Balance July 1 | Increases | Decreases | Balance June 30 |
|---|---|---|---|---|
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | $ 22,268 | $ 93 | $ (895) | $ 21,466 |
| Furniture, machinery, and equipment | 752 | - | - | 752 |
| Total capital assets, being depreciated | 23,020 | 93 | (895) | 22,218 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (10,447) | (554) | 648 | (10,353) |
| Furniture, machinery, and equipment | (680) | (21) | - | (701) |
| Total accumulated depreciation | (11,127) | (575) | 648 | (11,054) |
| Total capital assets being depreciated, net | 11,893 | (482) | (247) | 11,164 |
| Business-type activities capital assets, net | $ 11,893 | $ (482) | $ (247) | $ 11,164 |

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

| | | |
|---|---|---|
| **Governmental activities:** | | |
| General government | $ | 3,519 |
| Public safety | | 24,780 |
| Health | | 2,099 |
| Welfare | | 5,573 |
| Conservation, culture and development | | 8,717 |
| Education | | 1,201 |
| Transportation | | 15,884 |
| Total depreciation expense - governmental activities | $ | 61,773 |
| **Business-type activities:** | | |
| Inns and Concessions | $ | 575 |
| Total depreciation expense - business-type activities | $ | 575 |

## E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2006 and the assets acquired through capital leases are as follows:

**Future minimum lease payments**

| Year ending June 30, | Operating leases | Capital leases Governmental Activities |
|---|---|---|
| 2007 | $ 38,224 | $ 102,942 |
| 2008 | 32,102 | 102,582 |
| 2009 | 26,252 | 101,934 |
| 2010 | 20,775 | 101,639 |
| 2011 | 16,944 | 105,367 |
| 2012-2016 | 31,676 | 517,608 |
| 2017-2021 | 759 | 493,891 |
| 2022-2026 | 650 | 488,253 |
| 2027-2031 | - | 294,656 |
| 2032-2036 | - | 1,986 |
| **Total minimum lease payments (excluding executory costs)** | **$ 167,382** | **2,310,858** |
| Less: | | |
| Remaining premium(discount) | | (32,234) |
| Amount representing interest | | (971,552) |
| Present value of future minimum lease payments | | **$ 1,307,072** |

**Assets acquired through capital lease**

| | |
|---|---|
| Land | $ 8,000 |
| Infrastructure | 1,286,228 |
| Building | 43,755 |
| Machinery and equipment | 3,663 |
| less accumulated depreciation | (6,229) |
| | **$ 1,335,417** |

*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 $45.6 million for the year ended June 30, 2006. A table of future minimum lease payments (excluding executory costs) is presented on the previous page.

*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.

## F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2006 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 | $ 130,392 | $ 70,798 | $ (70,433) | $ 130,757 | $ 75,534 | $ 55,223 |
| Due to component unit | 151,702 | 6,641 | - | 158,343 | 46,183 | 112,160 |
| Net pension obligation | 7,310 | 5,076 | (77) | 12,309 | - | 12,309 |
| Intergovernmental payable | 1,756,089 | 593,406 | (138,673) | 2,210,822 | 2,115,822 | 95,000 |
| Claims liability | - | 16,309 | - | 16,309 | - | 16,309 |
| Capital leases | 1,271,257 | 66,608 | (30,793) | 1,307,072 | 35,889 | 1,271,183 |
| | $ 3,316,750 | $ 758,838 | $ (239,976) | $ 3,835,612 | $ 2,273,428 | $ 1,562,184 |
| **Business-type activities:** | | | | | | |
| Compensated absences | $ 325 | $ 234 | $ (185) | $ 374 | $ 187 | $ 187 |
| Claims liability | 40,508 | 7,778 | (2,091) | 46,195 | 2,137 | 44,058 |
| | $ 40,833 | $ 8,012 | $ (2,276) | $ 46,569 | $ 2,324 | $ 44,245 |

Long-term obligations of the governmental activities consists of long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension obligations for the State Police Retirement Fund and the Prosecuting Attorney's Retirement Fund as presented in Note V(E), amounts fur to component units, amounts due the federal government and compensated absence obligations. 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 and compensated absences of the Inns and Concessions Fund.

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.

## G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net assets in the government-wide statement of activities.

Prior Period Adjustments
In the fund statements for the General Fund and the government-wide statements, there is a decrease of $37.5 million in fund balance/net assets for Homestead funds that were not transferred from the General Fund to the Local Option Income Tax Fund (an agency fund) in FY 2005.

For the government-wide statements, there was an increase of $43.8 million in net assets for capital assets. This was the result of several State agencies not capitalizing capital assets acquired prior to June 30, 2005, by that date.

For the government-wide statements, there is a decrease of $8.3 million in net assets for Department of Administration (DOA) work in process. This was the result of projects that had been completed prior to June 30, 2005 but were not indicated as finished projects in DOA work in process' system.

Reclassification of Funds
In the fund statements for special revenue funds and in the government-wide statements there was a decrease of $26.0 million in the fund balance/net assets. This money was moved to the State Revolving Fund, which is now part of the Indiana Finance Authority, a discretely presented component unit. This was due to legislation passed by the Indiana General Assembly.

The following reclassifications took place to more accurately reflect discrete presentation of component units under GAAP. The beginning net assets/fund balance reclassified follows the name of the fund in parentheses:

The Indiana General Assembly created the Indiana Finance Authority (IFA) to consolidate five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission (SOBC), Indiana Transportation Finance Authority (ITFA), Recreational Development Commission (RDC) and the State Revolving Fund (SRF). The IFA is classified as a major discretely presented component units in the FY 2006 CAFR. The SOBC ($111.3 million), the ITFA Highway Revenue Bonds ($18.9 million), and the RDC ($1.2 million) were reclassified from internal service funds to IFA. The SRF ($703.8 million) was reclassified from an enterprise funds to IFA.

One fund, the Indiana Comprehensive Health Insurance Association ($6.7 million decrease in net assets) reached the materiality level necessary to be included in the Comprehensive Annual Financial Report as a non-major discretely presented component unit.

The following schedule reconciles June 30, 2005 net assets as previously reported, to beginning net assets, as restated:

| | Governmental Activities | Business-Type Activities | All Discretely Presented Component Units (Non Fiduciary) |
|---|---|---|---|
| **June 30, 2005, fund balance/retained earnings/net assets as reported** | $ 12,091,766 | $ 1,164,168 | $ 8,762,964 |
| **Changes in accounting principle** | - | - | (59,750) |
| **Prior period adjustments** | (988) | (11) | 1,589 |
| **Reclassifications of funds** | (158,447) | (703,834) | 840,567 |
| **Balance July 1, 2005 as restated** | $ 11,932,331 | $ 460,323 | $ 9,545,370 |

## 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 commercial insurance related to certain employee health benefits. The State also purchases immaterial amounts of commercial insurance related to errors, omissions, and theft by employees. 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 Employee Disability Fund | Total |
|---|---|---|---|---|
| **2006** | | | | |
| Unpaid Claims, July 1 | $ 2,197 | $ 19,058 | $ 4,242 | **$ 25,497** |
| Incurred Claims and Changes in Estimate | 20,377 | 196,577 | 27,339 | **244,293** |
| Claims Paid | (21,057) | (199,868) | (27,426) | **(248,351)** |
| Unpaid Claims, June 30 | **$ 1,517** | **$ 15,767** | **$ 4,155** | **$ 21,439** |
| **2005** | | | | |
| Unpaid Claims, July 1 | $ 2,345 | $ 20,427 | $ 5,154 | **$ 27,926** |
| Incurred Claims and Changes in Estimate | 23,548 | 195,541 | 26,378 | **245,467** |
| Claims Paid | (23,696) | (196,910) | (27,290) | **(247,896)** |
| Unpaid Claims, June 30 | **$ 2,197** | **$ 19,058** | **$ 4,242** | **$ 25,497** |

## B. 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: (A) three hundred thousand dollars ($300,000) for a cause of action that accrues before January 1, 2006; (B) five hundred thousand dollars ($500,000) for a cause of action that accrues on or after January 1, 2006, and before January 1, 2008; or (C) seven hundred thousand dollars ($700,000) for a cause of action that accrues on or after January 1, 2008, 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 $12 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2006 the State paid $5.9 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 were set for a court trial in August 2004 and continued by agreement of the parties in order for the motion for summary judgment of EDS to be responded to by the plaintiffs and ruled on by the court. A date for the bench trial has not been re-set.

In 2000 a group of relatives, friends and attorneys of persons in the custody of the Department of Correction (DOC) who have received, accepted and paid for collect calls by persons in custody of DOC and anticipate continuing to do so, filed a class action against the Commissioner of the Indiana Department of Administration (IDOA). The amount of potential damages may be over $5 million. This case was originally dismissed for lack of subject-matter jurisdiction; however, Plaintiffs appealed and the Court of Appeals reversed the dismissal and remanded the action to the trial court in Alexander v. Cottey, 801 N.E.2d 651 (Ind. Ct. App 2004). The trial court is instructed to determine if the State has the authority to enter into telephone contracts that reap a margin under the arrangements specified in the contract. If it determines it is not permissible, then the trial court must fashion a remedy. If it determines that the rate practice is permissible, it can determine the reasonableness of the rates or to the extent the profit margin is permissible or refer the matter to the IURC. IDOA's Motion for Summary Judgment was filed in March 2006. Plaintiffs filed a Response to the motion and also a cross motion for summary judgment which raised new factual issues. IDOA and the Sheriff are in the process of taking depositions in order to prepare a Reply to the Plaintiffs' Response and to respond to the cross motion for summary judgment. Deadlines in the summary judgment process and the summary judgment hearing date have all been extended due to these developments. The summary judgment hearing date had been set for September 2006. If the Plaintiffs are successful the damages could be in excess of $12 million. Summary judgment briefs are complete and the Defendants filed a Motion to Strike concerning some of the statements of fact in the Plaintiffs' summary judgment brief. Plaintiffs have responded and Defendants' reply brief was due November 2006.

In 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 $18 million in damages. On a Motion for Summary Judgment the Plaintiff prevailed on the breach of contract issue. The case was set for closing arguments in January 2006. Findings of fact and conclusions of law were submitted. In July 2006 Plaintiff filed a motion requesting a hearing in September 2006 to present evidence regarding Plaintiff's past September 2003 damages.

In 2004 Hamilton County filed a lawsuit against the Department of Revenue (DOR) claiming miscalculation of the county option income tax that DOR collects and remits on the County's behalf. The complaint claims that DOR has under remitted the tax to Hamilton County since 1999. The State is currently involved in pre-litigation discovery and everything is stayed until discovery is complete. If DOR fails to prevail, damages owed by the State could be approximately $15 million.

In July 2005 Marion County challenged: 1) constitutionality of statute that requires the County to pay the State for expenses of juvenile incarceration (Marion County is approx. $62 million in arrears); and 2) the misapplication of Ind. Code 11-10-2-3 and Ind. Code 4-24-7-2 in that Marion County has been assessed by the State for costs incurred by DOC institutions other than the Boys School and the Girls School. The court granted Joseph and Clark Counties Motion to Intervene as Plaintiffs. In September 2005 the Court conducted a hearing on Plaintiff's motion for preliminary injunction and entered its Order denying Plaintiff's motion for preliminary injunction. Intervening plaintiff, Clark County voluntarily dismissed out of the cause. In October 2005 Plaintiff filed its Notice of Appeal and its Motion For Stay. Motion was denied and an appeal is pending. In November 2005 Defendants responded by filing their Motion to Deny Stay, Opposition and Objection to Plaintiff's Proposed Scheduling Order, Opposition and Objection to Plaintiff's Motion to Hold Briefing on Defendants' Motion for Summary Judgment in Abeyance, and Motion for Protective Order requesting that the Plaintiffs respond to the Defendants' Motion for Summary Judgment before any further discovery is conducted. The venue is Shelby Superior Court. All Defendants have filed their Answer and Motion for Summary Judgment. A hearing was held in September 2005 on the motions that have been filed. Discovery is complete and final hearing on Cross Motions for Summary Judgment is set for November 2006.

**C. 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.

**D. 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 2006 was $328.1 million. Total outstanding loans were $15.3 million, resulting in total assets of $343.4 million.

**E. 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).

<u>Summary of Significant Accounting Policies (Primary government and discretely presented component units)</u>

The accrual basis is used for financial statement reporting purposes. Receivables are not maintained on the accounting records, but are calculated or estimated for financial statement reporting purposes. Throughout the year, the investments are maintained on the accounting records at the net asset value per the custodian bank. The custodian maintains records of the detail holdings and accounts that comprise the net asset value. At fiscal year end, the accounting records and financial statements recognize the investment receivables and payables as described below in Investment Unit Trust Accounting. 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 State sponsors the following defined benefit single-employer plans:*

<u>State Police Retirement Fund (Presented as a pension fund)</u>

<u>Plan Description</u> The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement

with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

Funding Policy The pre-1987 plan required 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 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. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. 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.

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

Plan Description The Excise Police, Gaming Agent 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, Indiana Alcohol and Tobacco Commission and the Indiana Gaming Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police, Gaming Agent 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 20.5% of covered payroll.

The funding policy for employer contributions of the Excise Police, Gaming Agent 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 thirty 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 33-38-8 applies to judges beginning service after August 31, 1985. Indiana Code 33-38-6 and -7 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 and are deducted from the member's salary or paid by the employer, and remitted by the Auditor of State or County Auditor. 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's General Fund. Indiana Code 33-38-6-17 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. The statutes also 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, 2005, the number of participating political subdivisions was 1,132.

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 1997. The amortization period for employers joining thereafter will be reduced 1 year per year until 2007 when it will be leveled at 30 years. Effective July 1, 2002, the amortization period for all employers is thirty 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 4.7% 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 | $ 12,666.1 | $ 69,647.0 | $ 133,506.8 | $ 1,867.0 | $ 10,064.4 | $ 888.5 | $ 89.0 |
| Interest on net pension obligation | 440.1 | (6,102.0) | (9,538.9) | (18.3) | (834.3) | 74.2 | (4.3) |
| Adjustment to annual required contribution | (494.9) | 6,953.0 | 10,870.3 | 19.4 | 950.8 | (78.9) | 5.5 |
| Annual pension cost | 12,611.3 | 70,498.0 | 134,838.2 | 1,868.1 | 10,180.9 | 884.0 | 90.2 |
| Contributions made | (7,535.6) | (62,760.0) | (147,348.9) | (2,164.6) | (13,540.2) | (961.0) | (205.5) |
| Increase (decrease) in net pension obligation | 5,075.7 | 7,738.0 | (12,510.7) | (296.5) | (3,359.3) | (77.0) | (115.3) |
| Net pension obligation, beginning of year | 6,285.9 | (84,159.0) | (131,570.5) | (251.7) | (11,507.9) | 1,024.4 | (58.9) |
| Net pension obligation, end of year | $ 11,361.6 | $ (76,421.0) | $ (144,081.2) | $ (548.2) | $ (14,867.2) | $ 947.4 | $ (174.2) |
| **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 | 5.10% | Based on PERF experience 1995-2000 | Based on PERF experience 1995-2000 | 5.00% | 5.00% | 5.00% | 3.00% |
| Attributed to inflation | * | * | * | * | * | * | * |
| Cost of living adjustments | N/A | 1.00% | 1.00% | 1.00% | N/A | N/A | 1.00% |
| Contribution rates: | | | | | | | |
| State | 17.50% | 5.50% | 6.30% | 20.50% | 46.30% | 5.70% | 20.00% |
| Plan members | 6.00% | 3.00% | 3.00% | 3.00% | 6.00% | 6.00% | 5.00% |
| Actuarial valuation date | 7/1/2006 | 7/1/2005 | 7/1/2005 | 7/1/2005 | 7/1/2005 | 7/1/2005 | 7/1/2005 |
| Actuarial cost method | entry age normal cost | 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 | 30 years | 30 years | 30 years | 30 years | 30 years | 30 years |
| Amortization period (from date) | 7/1/1997 | 7/1/2002 | 7/1/2002 | 7/1/2002 | 7/1/2004 | N/A | 7/1/1992 |
| Amortization period (open or closed) | closed | closed | open | closed | closed | open | closed |
| Asset valuation method | smoothed basis | 75% of expected actuarial value plus 25% of market value | 75% of expected actuarial value plus 25% of market value | smoothed basis | smoothed market value | smoothed market value | smoothed market value |
| **Historical Trend Information** | | | | | | | |
| Year ended June 30, 2006 | | | | | | | |
| Annual pension cost (APC) | $ 12,611.3 | * | * | * | * | * | * |
| Percentage of APC contributed | 59.8% | * | * | * | * | * | * |
| Net pension obligation (asset) | $ 11,361.6 | * | * | * | * | * | * |
| Year ended June 30, 2005 | | | | | | | |
| Annual pension cost (APC) | $ 12,055.2 | 70,498.0 | 134,838.2 | 1,868.1 | 10,180.9 | 884.0 | 90.2 |
| Percentage of APC contributed | 69.6% | 89.0% | 109.3% | 115.9% | 133.0% | 108.7% | 227.8% |
| Net pension obligation (asset) | $ 6,286.0 | (76,421.0) | (144,081.2) | (548.2) | (14,867.2) | 947.4 | (174.2) |
| Year ended June 30, 2004 | | | | | | | |
| Annual pension cost (APC) | $ 10,382.8 | $ 55,063.0 | $ 115,475.6 | $ 2,191.8 | $ 10,580.4 | $ 136.0 | $ 94.4 |
| Percentage of APC contributed | 80.8% | 164.7% | 121.9% | 96.7% | 122.5% | 686.0% | 217.7% |
| Net pension obligation (asset) | $ 1,774.4 | $ (83,416.0) | $ (131,570.4) | $ (251.7) | $ (11,507.9) | $ 1,024.4 | $ (58.9) |
| Year ended June 30, 2003 | | | | | | | |
| Annual pension cost (APC) | $ 9,594.4 | $ 80,118.0 | $ 140,321.9 | $ 2,324.7 | $ 9,598.5 | $ 1,124.3 | $ 233.6 |
| Percentage of APC contributed | 87.4% | 100.8% | 93.3% | 83.9% | 138.3% | 39.7% | 79.9% |
| Net pension obligation (asset) | $ (1,064.8) | $ (48,513.0) | $ (106,305.2) | $ (323.5) | $ (9,123.2) | $ 1,821.5 | $ 52.2 |

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police, Gaming Agent 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, Suite 300, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2006, the number of participating employers was 387.

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 State Teachers' Retirement Fund has a total unfunded actuarial liability as of June 30, 2006, of $9.2 billion. Indiana law provides that the STRF is on a "pay-as-you-go" basis. The Indiana General Assembly appropriated sufficient funds to provide for the State's estimated liability for the current 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, 2006, the number of participating employer units totaled 160 (252 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first class officer 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, 2006 | | |
| Annual required contribution | $ 672,555.5 | $ 97,286.0 |
| Percentage contributed | 104% | 107% |
| Year ended June 30, 2005 | | |
| Annual required contribution | $ 619,186.0 | $ 92,833.7 |
| Percentage contributed | 78% | 127% |
| Year ended June 30, 2004 | | |
| Annual required contribution | $ 638,541.1 | $ 87,253.0 |
| Percentage contributed | 69% | 112% |

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 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 20% of the member's annual salary on behalf of the participant.

# 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, 2006** | | | | | | | |
| Actuarial value of assets | $ 339,122 | * | * | * | * | * | * |
| Actuarial accrued liability (AAL) | 392,810 | * | * | * | * | * | * |
| Excess of assets over (unfunded) AAL | (53,687) | * | * | * | * | * | * |
| Funded ratio | 86% | * | * | * | * | * | * |
| Covered payroll | 54,156 | * | * | * | * | * | * |
| Excess (unfunded) AAL as a percentage of covered payroll | -99% | * | * | * | * | * | * |
| **Valuation Date: July 1, 2005** | | | | | | | |
| Actuarial value of assets | $ 317,837 | 2,145,805 | 2,641,536 | 41,663 | 151,003 | 16,875 | 4,338 |
| Actuarial accrued liability (AAL) | 390,480 | 2,189,337 | 2,984,254 | 59,964 | 272,855 | 25,744 | 4,999 |
| Excess of assets over (unfunded) AAL | (72,643) | (43,532) | (342,718) | (18,301) | (121,852) | (8,869) | (661) |
| Funded ratio | 81% | 98% | 89% | 69% | 55% | 66% | 87% |
| Covered payroll | 53,897 | 1,645,248 | 2,672,619 | 13,223 | 32,231 | 16,659 | ** |
| Excess (unfunded) AAL as a percentage of covered payroll | -135% | -3% | -13% | -138% | -378% | -53% | ** |
| **Valuation Date: July 1, 2004** | | | | | | | |
| Actuarial value of assets | $ 311,707 | $ 2,138,655 | $ 2,507,186 | $ 38,772 | $ 135,798 | $ 14,654 | $ 4,206 |
| Actuarial accrued liability (AAL) | 378,770 | 2,019,492 | 2,624,061 | 50,009 | 209,992 | 22,588 | 4,856 |
| Excess of assets over (unfunded) AAL | (67,063) | 119,163 | (116,875) | (11,237) | (74,194) | (7,934) | (650) |
| Funded ratio | 82% | 106% | 96% | 78% | 65% | 65% | 87% |
| Covered payroll | 53,095 | 1,612,049 | 2,586,380 | 10,209 | 25,693 | 15,149 | ** |
| Excess (unfunded) AAL as a percentage of covered payroll | -126% | 7% | -5% | -110% | -289% | -52% | ** |
| **Valuation Date: July 1, 2003** | | | | | | | |
| Actuarial value of assets | $ 313,123 | $ 2,078,952 | $ 2,478,161 | $ 37,286 | $ 126,151 | $ 12,758 | $ 4,199 |
| Actuarial accrued liability (AAL) | 360,502 | 1,860,101 | 2,437,632 | 52,006 | 206,846 | 15,685 | 4,947 |
| Excess of assets over (unfunded) AAL | (47,379) | 218,851 | 40,529 | (14,720) | (80,695) | (2,927) | (748) |
| Funded ratio | 87% | 112% | 102% | 72% | 61% | 81% | 85% |
| Covered payroll | 51,204 | 1,491,661 | 2,460,569 | 11,944 | 25,400 | 13,158 | ** |
| Excess (unfunded) AAL as a percentage of covered payroll | -93% | 15% | 2% | -123% | -318% | -22% | ** |

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police, Gaming Agent 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 48 active participants. The unfunded liability per active participant is $13,764

## 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, 2006
**(amounts expressed in thousands)**

| | General Fund | | | |
|---|---|---|---|---|
| | Budget | | Actual | Variance to Final Budget |
| | Original | Final | | |
| **Revenues:** | | | | |
| Taxes: | | | | |
| Income | $ 4,516,877 | $ 4,516,877 | $ 5,203,269 | $ 686,392 |
| Sales | 2,572,523 | 2,572,523 | 2,548,707 | (23,816) |
| Fuels | - | - | - | - |
| Gaming | 4 | 4 | 85,498 | 85,494 |
| Inheritance | 120,000 | 120,000 | 145,307 | 25,307 |
| Alcohol and tobacco | 306,801 | 306,801 | 312,762 | 5,961 |
| Insurance | 175,700 | 175,700 | 177,663 | 1,963 |
| Other | 21 | 21 | 180,753 | 180,732 |
| Total taxes | 7,691,926 | 7,691,926 | 8,653,959 | 962,033 |
| Current service charges | 144,324 | 144,324 | 234,470 | 90,146 |
| Investment income | 49,323 | 49,323 | 82,366 | 33,043 |
| Sales/rents | 5,865 | 5,865 | 1,143 | (4,722) |
| Grants | - | - | 10,231 | 10,231 |
| Other | 13,251 | 13,251 | 54,705 | 41,454 |
| Total revenues | 7,904,689 | 7,904,689 | 9,036,874 | 1,132,185 |
| **Expenditures:** | | | | |
| Current: | | | | |
| General government | 705,662 | 1,199,811 | 1,058,037 | 141,774 |
| Public safety | 668,429 | 600,718 | 593,278 | 7,440 |
| Health | 105,748 | 97,930 | 97,244 | 686 |
| Welfare | 2,356,026 | 348,507 | 341,484 | 7,023 |
| Conservation, culture and development | 103,239 | 136,692 | 75,509 | 61,183 |
| Education | 6,117,792 | 6,104,805 | 6,089,068 | 15,737 |
| Transportation | 465 | 2,254 | 948 | 1,306 |
| Total expenditures | 10,057,361 | 8,490,717 | 8,255,568 | 235,149 |
| Excess of revenues over (under) expenditures | (2,152,672) | (586,028) | 781,306 | (1,367,334) |
| **Other financing sources (uses):** | | | | |
| Total other financing sources (uses) | (677,448) | (677,448) | (290,341) | 387,107 |
| **Net change in fund balances** | $ (2,830,120) | $ (1,263,476) | $ 490,965 | $ 1,754,441 |
| **Fund balances July 1, as restated** | | | 1,077,458 | |
| **Fund balances June 30** | | | **$ 1,568,423** | |

| Motor Vehicle Highway Fund | | | | Medicaid Assistance | | | |
|---|---|---|---|---|---|---|---|
| Budget | | Actual | Variance to Final Budget | Budget | | Actual | Variance to Final Budget |
| Original | Final | | | Original | Final | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - | - | - |
| 482,375 | 482,375 | 494,061 | 11,686 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 482,375 | 482,375 | 494,061 | 11,686 | - | - | - | - |
| 16,607 | 16,607 | 63,542 | 46,935 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 319 | 319 | 393 | 74 | - | - | - | - |
| 20,149 | 20,149 | 14,434 | (5,715) | 3,022,039 | 3,022,039 | 3,375,051 | 353,012 |
| 61,241 | 61,241 | 60,351 | (890) | 3,087 | 3,087 | 9,344 | 6,257 |
| 580,691 | 580,691 | 632,781 | 52,090 | 3,025,126 | 3,025,126 | 3,384,395 | 359,269 |
| | | | | | | | |
| 12,080 | 310,421 | 310,421 | - | - | - | - | - |
| 186,317 | 186,973 | 186,973 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 4,879,742 | 4,860,732 | 19,010 |
| - | - | - | - | - | - | - | - |
| 273 | 275 | 275 | - | - | - | - | - |
| - | 2,760 | 2,760 | - | - | - | - | - |
| 198,670 | 500,429 | 500,429 | - | - | 4,879,742 | 4,860,732 | 19,010 |
| 382,021 | 80,262 | 132,352 | (52,090) | 3,025,126 | (1,854,616) | (1,476,337) | (378,279) |
| (106,806) | (106,806) | (141,679) | (34,873) | 1,458,074 | 1,458,074 | 1,548,068 | 89,994 |
| $ 275,215 | $ (26,544) | $ (9,327) | $ 17,217 | $ 4,483,200 | $ (396,542) | $ 71,731 | $ 468,273 |
| | | 5,516 | | | | (37,095) | |
| | | **$ (3,811)** | | | | **$ 34,636** | |

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, 2006**
**(amounts expressed in thousands)**

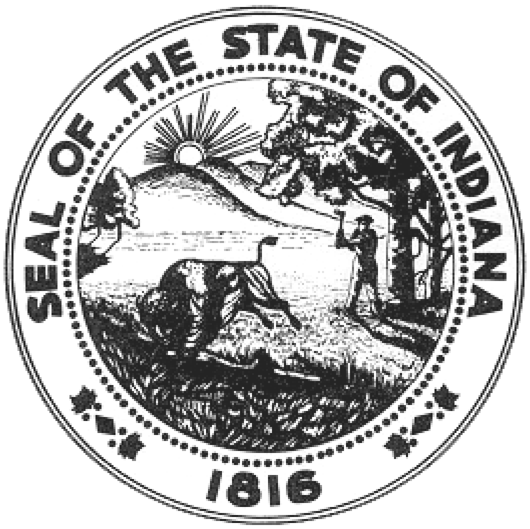
| | State Highway Department | | | |
|---|---|---|---|---|
| | Budget | | Actual | Variance to Final Budget |
| | Original | Final | | |
| **Revenues:** | | | | |
| Taxes: | | | | |
| Income | $ - | $ - | $ - | $ - |
| Sales | - | - | - | - |
| Fuels | 2 | 2 | - | (2) |
| Gaming | - | - | - | - |
| Inheritance | - | - | - | - |
| Alcohol and tobacco | - | - | - | - |
| Insurance | - | - | - | - |
| Other | - | - | - | - |
| Total taxes | 2 | 2 | - | (2) |
| Current service charges | 13,483 | 13,483 | 14,521 | 1,038 |
| Investment income | 88 | 88 | 209 | 121 |
| Sales/rents | 2,192 | 2,192 | 2,082 | (110) |
| Grants | 805,864 | 805,864 | 583,462 | (222,402) |
| Other | 70,234 | 70,234 | 76,597 | 6,363 |
| Total revenues | 891,863 | 891,863 | 676,871 | (214,992) |
| **Expenditures:** | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Health | - | - | - | - |
| Welfare | - | - | - | - |
| Conservation, culture and development | - | - | - | - |
| Education | - | - | - | - |
| Transportation | 1,122,347 | 1,126,908 | 1,174,191 | (47,283) |
| Total expenditures | 1,122,347 | 1,126,908 | 1,174,191 | (47,283) |
| Excess of revenues over (under) expenditures | (230,484) | (235,045) | (497,320) | 262,275 |
| **Other financing sources (uses):** | | | | |
| Total other financing sources (uses) | 483,396 | 483,396 | 550,945 | 67,549 |
| **Net change in fund balances** | $ 252,912 | $ 248,351 | $ 53,625 | $ (194,726) |
| **Fund balances July 1, as restated** | | | 325,760 | |
| **Fund balances June 30** | | | **$ 379,385** | |

| Property Tax Replacement Fund | | | | Tobacco Settlement Fund | | | |
|---|---|---|---|---|---|---|---|
| Budget | | Actual | Variance to Final Budget | Budget | | Actual | Variance to Final Budget |
| Original | Final | | | Original | Final | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2,438,794 | 2,438,794 | 2,568,184 | 129,390 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 2,438,794 | 2,438,794 | 2,568,184 | 129,390 | - | - | - | - |
| - | - | - | - | 130,001 | 130,001 | 119,346 | (10,655) |
| - | - | - | - | 366 | 366 | 294 | (72) |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 415 | 415 | 247 | (168) |
| - | - | - | - | 146 | 146 | 1,571 | 1,425 |
| 2,438,794 | 2,438,794 | 2,568,184 | 129,390 | 130,928 | 130,928 | 121,458 | (9,470) |
| - | 2,009,853 | 2,009,853 | - | - | 16,368 | 15,073 | 1,295 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 29,149 | 29,149 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 152 | 152 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | 2,009,853 | 2,009,853 | - | - | 45,669 | 44,374 | 1,295 |
| 2,438,794 | 428,941 | 558,331 | (129,390) | 130,928 | 85,259 | 77,084 | 8,175 |
| (589,374) | (589,374) | (554,377) | 34,997 | (129,486) | (129,486) | (121,996) | 7,490 |
| $ 1,849,420 | $ (160,433) | $ 3,954 | $ 164,387 | $ 1,442 | $ (44,227) | $ (44,912) | $ (685) |
| | | - | | | | 216,062 | |
| | | **$ 3,954** | | | | **$ 171,150** | |

# 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 | MOTOR VEHICLE HIGHWAY FUND | MEDICAID ASSISTANCE | MAJOR MOVES CONSTRUCTION FUND | STATE HIGHWAY DEPARTMENT | PROPERTY TAX RELIEF FUND | TOBACCO SETTLEMENT FUND | Total |
|---|---|---|---|---|---|---|---|---|
| Net change in fund balances (budgetary basis) | $ 490,965 | $ (9,327) | $ 71,731 | $ - | $ 53,625 | $ 3,954 | $ (44,912) | **$ 566,036** |
| 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) | 99,350 | 186 | (39,178) | 3,121,840 | 86,816 | 10,307 | (35) | **3,279,286** |
| Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary) | 49,688 | 12 | - | (354,999) | 6,372 | (147,369) | (2,785) | **(449,081)** |
| **Net change in fund balances (GAAP basis)** | **$ 640,003** | **$ (9,129)** | **$ 32,553** | **$ 2,766,841** | **$ 146,813** | **$ (133,108)** | **$ (47,732)** | **$ 3,396,241** |


SEAL OF THE STATE OF INDIANA
1816

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

| Roads | Average Pavement Quality Index (PQI) | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Interstate Roads (including Rest Areas and Weigh Stations) | 84 | 83 | 88 |
| NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations) | 81 | 81 | 81 |
| Non-NHS Roads | 76 | 77 | 77 |

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. The ratings provided are based on data gathered during the summer (July and August) of the corresponding fiscal year. The data are evaluated and compared to standard critera by the end of the fiscal year.

| Bridges | Average Sufficiency Rating | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Interstate Bridges | 90.6% | 91.0% | 91.5% |
| NHS Bridges - Non-Interstate | 90.3% | 90.8% | 91.2% |
| Non-NHS Bridges | 87.8% | 88.3% | 88.4% |

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.

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

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Roads** | | | | | |
| Interstate Roads (including Rest Areas and Weigh Stations): | | | | | |
| Needed | $ 105,267 | $ 151,999 | $ 194,098 | $ 113,469 | $ 101,574 |
| Actual | 126,361 | 140,667 | 253,555 | 167,472 | 198,144 |
| NHS and Non-NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations) | | | | | |
| Needed | 234,789 | 230,453 | 256,681 | 248,920 | 253,301 |
| Actual | 413,557 | 376,969 | 415,019 | 392,470 | 314,375 |
| Roads at State Institutions and Properties | | | | | |
| Needed | 1,173 | 2,903 | 2,689 | 4,000 | 5,000 |
| Actual | 4,496 | 5,595 | 4,381 | 6,044 | 1,603 |
| Total | | | | | |
| Needed | 341,229 | 385,355 | 453,468 | 366,389 | 359,875 |
| Actual | 544,414 | 523,231 | 672,955 | 565,986 | 514,122 |
| **Bridges** | | | | | |
| Interstate Bridges | | | | | |
| Needed | $ 5,749 | $ 39,166 | $ 19,946 | $ 11,220 | $ 42,634 |
| Actual | 29,520 | 23,863 | 28,723 | 36,736 | 27,838 |
| NHS Bridges - Non-Interstate | | | | | |
| Needed | 31,943 | 2,021 | 26,411 | 25,618 | 35,384 |
| Actual | 11,459 | 1,282 | 7,766 | 12,324 | 11,265 |
| Non-NHS Bridges | | | | | |
| Needed | 44,859 | 32,597 | 34,929 | 44,659 | 41,116 |
| Actual | 31,145 | 61,271 | 73,356 | 60,314 | 74,388 |
| Bridges at State Institutions and Properties | | | | | |
| Needed | - | 164 | 926 | - | - |
| Actual | - | 796 | 702 | - | - |
| Total | | | | | |
| Needed | 82,551 | 73,948 | 82,212 | 81,497 | 119,134 |
| Actual | 72,124 | 87,212 | 110,547 | 109,374 | 113,491 |

N/A - Information is not available

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

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON 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, 2006. 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, Ivy Tech State College, Indiana Housing and Community Development Authority, and Indiana Finance Authority which expended a total of $882,914,661 in federal awards that are not included in the schedule for the year ended June 30, 2006. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Indiana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Indiana's compliance with those requirements.

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

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:

| Finding Number | Federal Program Name | Requirements Not Complied With |
|---|---|---|
| 2002-FSSA-3 | Social Services Block Grant | Allowable cost/cost principles, Subrecipient monitoring |
| 2006-FSSA-7 | Medicaid | Reporting |

In our opinion, except for the noncompliance described in the finding 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, 2006. 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-16, 2005-FSSA-18, 2005-FSSA-22, 2005-FSSA-25, 2005-FSSA-28, 2005-FSSA-30 and 2006-SOS-1.

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 2006-FSSA-1, 2006-FSSA-2, 2006-FSSA-3, 2006-FSSA-4, 2006-FSSA-5, 2006-FSSA-6, 2006-FSSA-7, 2006-FSSA-8, 2006-FSSA-9, 2006-FSSA-10, 2006-FSSA-11, 2006-FSSA-12, 2006-FSSA-13, 2006-FSSA-14, and 2006-SOS-1. 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, 2002-FSSA-3, 2003-FSSA-1, 2003-FSSA-6, 2003-FSSA-9, 2003-FSSA-16, 2004-FSSA-2, 2004-FSSA-4, 2004-FSSA-5, 2004-FSSA-6, 2004-FSSA-8, 2005-FSSA-1, 2005-FSSA-2, 2005-FSSA-4, 2005-FSSA-5, 2005-FSSA-7, 2005-FSSA-8, 2005-FSSA-10, 2005-FSSA-11, 2005-FSSA-12, 2005-FSSA-13, 2005-FSSA-14, 2005-FSSA-15, 2005-FSSA-16, 2005-FSSA-17, 2005-FSSA-18, 2005-FSSA-19, 2005-FSSA-20, 2005-FSSA-21, 2005-FSSA-22, 2005-FSSA-23, 2005-FSSA-25, 2005-FSSA-26, 2005-FSSA-27, 2005-FSSA-28, 2005-FSSA-29, and 2005-FSSA-30.

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON 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, 2002-FSSA-3, 2005-FSSA-5, 2005-FSSA-22, 2005-FSSA-28, 2005-FSSA-30, 2006-FSSA-7, and 2006-FSSA-10 to be material weaknesses.

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

March 15, 2007

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2005 to June 30, 2006

| 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 | $ 641,396,646 | $ - |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | FSSA | | | - |
| | | | 2000 IS 2514 42 | 195,673 | - |
| | | | 2001 IS 2514 42 | (16,612) | - |
| | | | 2002 IS 2514 42 | (35,101) | - |
| | | | 2003 IS 2514 42 | 59,359 | - |
| | | | 2004 IS 2514 42 | 226,476 | - |
| | | | 2005 IS 2514 42 | 10,324,440 | - |
| | | | 2006 IS 2514 42 | 23,371,105 | - |
| | | | 2003 IE 2518 42 | (615) | - |
| | | | 2004 IE 2518 42 | (7,882) | - |
| | | | 2005 IE 2518 42 | 463,637 | - |
| | | | 2006 IE 2518 42 | 1,408,064 | - |
| | | | 2002 IS 2519 42 | 10 | - |
| | | | 2003 IS 2519 42 | 8,977 | - |
| | | | 2004 IS 2519 42 | 548,660 | - |
| | | | 2005 IS 2519 42 | 2,060,875 | - |
| | | | 2006 IS 2519 42 | 2,131,926 | - |
| | | | 2003 IS 2520 42 | 42,256 | - |
| | | | 2004 IS 2520 42 | (41,807) | - |
| | | | 2005 IS 2520 42 | 99,878 | - |
| | | | 2006 IS 2520 42 | 184,677 | - |
| | | | 2004 IS 2522 42 | 19 | - |
| | | | 2004 2E 2518 42 | (4,775) | - |
| | | | 2005 2E 2518 42 | (1,036,400) | - |
| | | | 2XE 251842 | 84 | - |
| | | | 2005 IS 8036 42 | 8,812 | - |
| | | | 2006 IS 8036 42 | 4,307 | - |
| *Total for Program* | | | | 39,996,043 | - |
| *Total for Cluster* | | | | 681,392,689 | - |
| Child Nutrition Cluster | | | | | |
| School Breakfast Program | 10.553 | IDOE | 2006IN109942 | 34,807,094 | 34,807,094 |
| National School Lunch Program | 10.555 | IDOE | | | |
| National School Lunch | | | 2006IN109942 | 146,061,843 | 146,061,843 |
| Food Commodities | | | N/A | 21,740,940 | - |
| *Total for Program* | | | | 167,802,783 | 146,061,843 |
| Special Milk Program for Children | 10.556 | IDOE | IN2006109942 | 309,518 | 309,518 |
| Summer Food Service Program for Children | 10.559 | IDOE | | | |
| Summer Food Service Program | | | 2006IN109942 | 4,402,717 | 4,402,717 |
| Summer Food Service State Administration | | | 2004IN109942 | 69,655 | - |
| *Total for Program* | | | | 4,472,372 | 4,402,717 |
| *Total for Cluster* | | | | 207,391,767 | 185,581,172 |
| Emergency Food Assistance Cluster | 10.568 | FSSA | | | |
| Emergency Food Assistance Program | | | 2005 IY 8105 42 | 303,710 | - |
| Emergency Food Assistance Program | | | 2006 IY 8105 42 | 448,334 | - |
| Emergency Food Assistance Program | | | 2005 IS 2202 42 | 11,356 | - |
| Emergency Food Assistance Program | | | 2006 IS 2202 42 | 135,259 | - |
| *Total for Program* | | | | 898,659 | - |
| Emergency Food Assistance Program | 10.569 | LGovt | H.R. 2113 Sec 7 | 54 | - |
| *Total for Cluster* | | | | 898,713 | - |

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) | | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | | | | |
| Computer Data and Storage 2005 | | BOAH | 05-9518-0004-CA | 3,142 | - |
| Computer Data and Storage 2006 | | BOAH | 06-9518-0004-CA | 13,531 | - |
| Scrapie Program 2005 | | BOAH | 05-9618-00039CA | 32,490 | - |
| Scrapie Program 2006 | | BOAH | 06-9618-00039CA | 171,231 | - |
| Johne's Program 2004 | | BOAH | 04-9618-0159-CA | 6,929 | - |
| Johne's Program 2005 | | BOAH | 05-9618-0159-CA | 173,089 | - |
| Johne's Program 2006 | | BOAH | 06-9618-0159-CA | 10,778 | - |
| Surveillance of BSE, FAD, and Animal Management 2004 | | BOAH | 04-9618-0197-CA | 1,290 | - |
| FAD Surveillance 2004 | | BOAH | 04-9618-0098-CA | 12,381 | - |
| FAD Surveillance 2005 | | BOAH | 05-9618-0098-CA | 31,318 | - |
| Animal Emergency Management 2004 | | BOAH | 04-9618-0339-CA | 12,927 | - |
| Animal Emergency Management 2005 | | BOAH | 05-9618-0339-CA | 3,513 | - |
| National Animal ID 2004 | | BOAH | 05-9118-0953-CA | 89,787 | - |
| National Animal ID 2005 | | BOAH | 05-9118-0723-CA | 97,075 | - |
| Classical Swine Fever | | BOAH | N/A | 1,311 | - |
| CWD Surveillance and Management | | DNR | 300FW9W3CWD4 | 12,280 | - |
| Cooperative Agricultural Pest | | DNR | 300EP9CAPS05001 | 121,476 | 121,476 |
| Emerald Ash Borer Education, Outreach, & Surveys | | DNR | 300EP1EABAP6001 | 10,677 | - |
| Emerald Ash Borer Survey & Con | | DNR | 300EP9EABAP4001 | 296,310 | - |
| Emerald Ash Borer Survey & Control Programs | | DNR | 300EP1EABAP5001 | 241,428 | - |
| Monitor & Census Populations o | | DNR | 300NP9RBC040001 | 2,406 | - |
| Noxious Weed Surveys | | DNR | 300NP1NW0600001 | 2,701 | - |
| Noxious Weed Surveys | | DNR | 300NP9NW0500001 | 5,256 | - |
| Noxious Weed Surveys | | DNR | 300NP9NW0500001 | 1,323 | - |
| Chronic Wasting Disease | | DNR | 300FW1W3CWD5 | 55,718 | - |
| *Total for Program* | | | | 1,410,367 | 121,476 |
| Wetlands Reserve Program | 10.072 | DNR | 300NP1W50024001 | 9,944 | - |
| Federal-State Cooperation in Warehouse Examination Agreement | 10.071 | | | | |
| Grain Storage Comprehensive Cooperative Agreement | | LtGov | N/A | 121,357 | - |
| Market Protection and Promotion | 10.163 | | | | |
| National Organic Certification Cost Sharing | | LtGov | 12-25-A-4150 | 8,688 | 8,687 |
| State Mediation Grants | 10.435 | | | | |
| Agriculture Mediation Program | | LtGov | 150010355000159 | 74,034 | - |
| Meat and Poultry Inspection | 10.475 | BOAH | | | |
| Meat and Poultry Program 2005 | | | 318-B-1-983 | 426,234 | - |
| Meat and Poultry Program 2006 | | | 318-B-1-983 | 1,313,107 | - |
| *Total for Program* | | | | 1,739,341 | - |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | ISDOH | | | |
| WIC Peer Counselor Grant FY 05 | | | MWSSHP2-3:WFM6 | 190,519 | 181,308 |
| WIC Peer Counselor Grant FY 06 | | | MWSSHP2-3:WFM6 | 96,271 | 96,271 |
| Food Emergency Response Network | | | FSIS-C-45-2005 | 11,560 | 96,271 |
| USDA WIC Program - 2004 | | | MWSSHP2-3:WFM2 | 2,530 | - |
| USDA WIC Program - 2005 | | | MWSSHP2-3:WFM2 | 32,085,082 | 29,993,498 |
| USDA WIC Program - 2006 | | | MWSSHP2-3:WFM2 | 75,930,434 | 74,684,702 |
| *Total for Program* | | | | 108,316,396 | 105,052,050 |
| Child and Adult Care Food Program | 10.558 | IDOE | | | |
| Child Care Food Service Program | | | 2006CN109942 | 31,465,294 | 31,465,294 |
| Child Care Audit Program | | | 2006CN109942 | 295,454 | 6,083 |
| *Total for Program* | | | | 31,760,748 | 31,471,377 |

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) | | | | | |
| State Administrative Expenses for Child Nutrition | 10.560 | IDOE | 2006IN253342 | 2,425,412 | 227,313 |
| Commodity Supplemental Food Program | 10.565 | FSSA | | | |
| | | | 2005 IY 8005 42 | 80,076 | - |
| | | | 2006 IY 8005 42 | 158,211 | - |
| *Total for Program* | | | | 238,287 | - |
| Team Nutrition Grants | 10.574 | IDOE | 2005IN350330 | 34,827 | 34,827 |
| Fresh Fruit and Vegetable Program | 10.582 | IDOE | 2005IL160330 | 544,846 | 544,846 |
| Cooperative Forestry Assistance | 10.664 | DNR | | | |
| Legacy - 2002 | | | 300FR102LEG2 | 60,000 | - |
| Volunteer Fire Assistance - 2002 | | | 300FR102VFA2 | 8,482 | - |
| Volunteer Fire Assistance - 2002 | | | 300FR102VFA4 | 28,799 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103CED3 | 7,091 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103CUF3 | 155,920 | - |
| Forest Land Enhancement Program - 2003 | | | 300FR103FLEP | 31,009 | - |
| Forest Legacy Program - 2003 | | | 300FR103LEG3 | 325,000 | - |
| Forest Legacy Administration - 2003 | | | 300FR103LEGA | 5,302 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103MAN3 | 28,891 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103MON3 | 17,401 | - |
| St. Paul Research - 2003 | | | 300FR103RES3 | 3,083 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103SFA3 | 13,636 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103STE3 | 65,001 | - |
| Volunteer Fire Assistance - 2003 | | | 300FR103VFA3 | 14,123 | - |
| Consolidated Payment Grant - 2003 | | | 300FR103WAT3 | 14,783 | - |
| Best Mgmt Practices - 2004 | | | 300FR104BMP4 | 12,478 | - |
| Consolidated Grant - 2004 | | | 300FR104BUG4 | 45,512 | - |
| Consolidated Grant - 2004 | | | 300FR104CED4 | 5,816 | - |
| Consolidated Grant - 2004 | | | 300FR104CUF4 | 84,276 | - |
| Consolidated Grant - 2004 | | | 300FR104EVA4 | 5,621 | - |
| Consolidated Grant - 2004 | | | 300FR104HOO4 | 371 | - |
| Invasive Species - 2004 | | | 300FR104INV4 | 5,053 | - |
| Forest Legacy Administration - 2004 | | | 300FR104LEGA | 7,012 | - |
| Consolidated Grant - 2004 | | | 300FR104MAN4 | 4,637 | - |
| Emerald Ash Borer Restoration - 2004 | | | 300FR104PAM4 | 14,529 | - |
| Persistent Forestry Issues - 2004 | | | 300FR104PFI4 | 2,895 | - |
| St. Paul Research - 2004 | | | 300FR104RES4 | 3,665 | - |
| Consolidated Grant - 2004 | | | 300FR104SAG4 | 4,460 | - |
| Consolidated Grant - 2004 | | | 300FR104SFA4 | 78,976 | - |
| Consolidated Grant - 2004 | | | 300FR104SIR4 | 300 | - |
| Volunteer Fire Assistance - 2004 | | | 300FR104VFA4 | 35,097 | - |
| Watershed - 2004 | | | 300FR104WAT4 | 9,833 | - |
| Consolidated Grant - 2005 | | | 300FR105CED5 | 15,000 | - |
| Consolidated Grant - 2005 | | | 300FR105CUF5 | 62,181 | - |
| Consolidated Grant - 2005 | | | 300FR105EAB5 | 16,841 | - |
| Consolidated Grant - 2005 | | | 300FR105HOO5 | 1,816 | - |
| Consolidated Grant - 2005 | | | 300FR105MAN5 | 30,681 | - |
| Consolidated Grant - 2005 | | | 300FR105MON5 | 17,638 | - |
| Consolidated Grant - 2005 | | | 300FR105NUR5 | 20,000 | - |
| St. Paul Research - 2005 | | | 300FR105RES5 | 11,032 | - |
| Consolidated Grant - 2005 | | | 300FR105SFA5 | 38,783 | - |
| Consolidated Grant - 2005 | | | 300FR105SIR5 | 692 | - |
| Consolidated Grant - 2005 | | | 300FR105STE5 | 187,700 | - |
| Slow the Spread - 2005 | | | 300FR105STS5 | 170,701 | - |
| Volunteer Fire Assistance - 2005 | | | 300FR105VFA5 | 190,692 | - |
| Consolidated Payment - 2006 #2 | | | 300FR106EAB6 | 601 | - |
| St. Paul Research - 2006 | | | 300FR106FIA6 | 44,159 | - |
| WUI Hazard Mitigation and Community Ed | | | 300FR106HMFR | 1,720 | - |
| 2006 Consolidated Grant | | | 300FR106MAN6 | 1,906 | - |
| 2006 Consolidated Grant | | | 300FR106MON6 | 7,640 | - |
| 2006 Consolidated Grant | | | 300FR106SFA6 | 2,437 | - |
| Consolidated Payment - 2006 #2 | | | 300FR106SIR6 | 529 | - |

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) | | | | | |
| Cooperative Forestry Assistance (continued) | | | | | |
| Sudden Oak Death Detection Survey | | | 300FR106SOD6 | 880 | - |
| 2006 Consolidated Grant | | | 300FR106STE6 | 332 | - |
| 2006 Slow the Spread | | | 300FR106STS6 | 126,421 | - |
| Volunteer Fire Asst - 2006 | | | 300FR106VFA6 | 518 | - |
| USDA | | | 300FR902CUF2 | 28,189 | - |
| 2002 State Fire Assistance | | | 300FR902SFA4 | 37,929 | - |
| USDA | | | 300FR904STS4 | 6,567 | - |
| Rural Development - 2003 | | | 300FR103RDE3 | 4,281 | - |
| Acquisition of Shawnee Hills | | | 300FR104LEG4 | 1,625,000 | - |
| Forest Legacy Administration - 2005 | | | 300FR105LEGA | 1,895 | - |
| Forest Land Enhancement Program | | | 300FR104FLEP | 870 | - |
| Forest Land Enhancement Program | | | 300FR105FLEP | 9,346 | - |
| Forest Land Enhancement 2006 | | | 300FR106FLEP | 135 | - |
| *Total for Program* | | | | 3,764,164 | - |
| Rural Business Enterprise Grants | 10.769 | | | | |
| State Rural Development Council | | LtGov | OCD-04-15-IN | 75,766 | - |
| Environmental Quality Incentives Program | 10.912 | DNR | 300FW9NRCS03 | 19,455 | - |
| Wildlife Habitat Incentive Program | 10.914 | DNR | | | |
| | | | 300NP1W3APOK001 | (639) | - |
| | | | 300NP1W3APOK002 | 1,419 | - |
| | | | 300NP1W4A003001 | 3,199 | - |
| | | | 300NP1W4A003002 | 98 | - |
| | | | 300NP1W4A101001 | (90) | - |
| | | | 300NP1W4A101002 | 438 | - |
| | | | 300NP1W4A149001 | 1,644 | - |
| | | | 300NP1W4A149002 | 1,456 | - |
| *Total for Program* | | | | 7,525 | - |
| Other Assistance | | | | | |
| Meat Source Safety | 10 | BOAH | FSIS-C-27-2002A | 5,954 | - |
| Homeland Security | 10 | BOAH | 03-9618-0057-CA | (33,124) | - |
| Mammography Inspection Program | 10 | ISDOH | | | |
| Mammography Inspection Program 2005 | | | 223-00-4413 | 673 | - |
| Mammography Inspection Program 2006 | | | 223-03-4413 | 124,128 | - |
| *Total for Program* | | | | 124,801 | - |
| Plant Surveys Hoosier National Forest | 10 | DNR | 300NP1PSHN05001 | 77 | - |
| *Total for Other Assistance* | | | | 97,708 | - |
| *Total U.S. Department of Agriculture* | | | | 1,040,332,034 | 323,041,748 |
| U.S. DEPARTMENT OF COMMERCE | | | | | |
| Coastal Zone Management Administration Awards | 11.419 | DNR | | | |
| Great Lakes Coastal Restoration Grants Program | | | 300NP1171381001 | 92,596 | - |
| Indiana Lake Michigan Coastal | | | 300NP9172334001 | 427,251 | - |
| Indiana Lake Michigan Coastal Program | | | 300NP1CZM039001 | 364,806 | - |
| Indiana Lake Michigan Coastal Program | | | 300NP1CZM061001 | 45,945 | - |
| Indiana Lake Michigan Coastal Program | | | 300NP1CZM083001 | 295,401 | - |
| *Total for Program* | | | | 1,225,999 | - |

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 COMMERCE (continued) | | | | | |
| Manufacturing Extension Partnership | 11.611 | IEDC | | | |
| Manufacturing Extension Partnership 2005 | | | 70NANB1H0002 | 47,821 | 47,821 |
| Manufacturing Extension Partnership 2006 | | | 70NANB5H1177 | 671,287 | 671,287 |
| *Total for Program* | | | | 719,108 | 719,108 |
| *Total U.S. Department of Commerce* | | | | 1,945,107 | 719,108 |
| U.S. DEPARTMENT OF DEFENSE | | | | | |
| State Memorandum of Agreement Program for the Reimbursement of Technical Services | 12.113 | IDEM | | | |
| Defense Environmental Restoration | | | IN-04-1 | 152,210 | - |
| Newport Army Chemical Demilitarization | | | N/A | 176,003 | - |
| *Total for Program* | | | | 328,213 | - |
| Military Construction, National Guard | 12.400 | MD | | | |
| ADRS Projects | | | DAHA12/W912L9-05-02-2002 | 4,468,511 | - |
| Battle Simulation Center - ARFTA | | | NGB12-04-C-0001 | 70,707 | - |
| Limited Army Aviation Support Facility - Gary | | | W912L9-05-2-2001 | 1,037,292 | - |
| MOUT Shoot House & Breach Facility - ARFTA | | | W912L9-05-2-2003 | 50,290 | - |
| MOUT Urban Assault Training Course | | | W912L9-06-2-2001 | 41,742 | - |
| *Total for Program* | | | | 5,668,542 | - |
| National Guard Military Operations and Maintenance Projects | 12.401 | MD | | | |
| Real Property Operation and Maintenance | | | W912L9-06-2-1001 | 8,786,412 | - |
| ARNG Environmental | | | W912L9-06-2-1002 | 713,121 | - |
| ARNG Security Personnel | | | W912L9-06-2-1003 | 1,227,805 | - |
| ARNG Electronic Security | | | W912L9-06-2-1004 | 174,703 | - |
| ARNG Telecommunications | | | W912L9-06-2-1005 | 1,549,232 | - |
| Ranges and Training Land Program | | | W912L9-06-2-1007 | 1,743,057 | - |
| ARNG Anti-Terrorism Program | | | W912L9-06-2-1010 | 7,439 | - |
| State Family Program Activities | | | W912L9-06-2-1041 | 91,245 | - |
| ANG Real Property Operation and Maintenance - Baer Field | | | W912L9-06-2-1021-1 | 576,965 | - |
| ANG Real Property Operation and Maintenance - Hulman Field | | | W912L9-06-2-1021-2 | 571,631 | - |
| ANG Security Guard Activities - Baer Field | | | W912L9-06-2-1023-1 | 443,648 | - |
| ANG Security Guard Activities - Hulman Field | | | W912L9-06-2-1023-2 | 445,450 | - |
| ANG Fire Protection Activities - Baer Field | | | W912L9-06-2-1024-1 | 470,311 | - |
| ANG Fire Protection Activities - Hulman Field | | | W912L9-06-2-1024-2 | 1,111,837 | - |
| *Total for Program* | | | | 17,912,856 | - |
| Other Assistance | | | | | |
| Inventory & Status Update Assessment-Endangered Species | 12 | DNR | 300NP1NSAC05001 | 8,696 | - |
| | | | 300NP9NSAC04001 | 86,990 | - |
| | | | 300NP9NSAG04001 | 7,303 | - |
| *Total for Program and for Other Assistance* | | | | 102,989 | - |
| *Total U.S. Department of Defense* | | | | 24,012,600 | - |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | | |
| Manufactured Home Construction and Safety Standards | 14.171 | | | | |
| MHCSS 2005 | | IDHS | N/A | 122,093 | - |

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 HOUSING AND URBAN DEVELOPMENT (continued) | | | | | |
| Community Development Block Grants/State's Program | 14.228 | LtGov | | | |
| | | | B-98-DC-180001 | 698 | - |
| | | | B-99-DC-180001 | 204,157 | 204,156 |
| | | | B-00-DC-180001 | 11,079 | 11,078 |
| | | | B-01-DC-180001 | 854,076 | 854,076 |
| | | | B-02-DC-180001 | 1,363,415 | 1,363,415 |
| | | | B-03-DC-180001 | 5,786,354 | 5,392,506 |
| | | | B-04-DC-180001 | 24,107,335 | 24,107,335 |
| | | | B-05-DC-180001 | 3,821,122 | 3,821,122 |
| *Total for Program* | | | | 36,148,236 | 35,753,688 |
| Emergency Shelter Grants Program | 14.231 | FSSA | S 04DC180001 | 139,333 | - |
| | | | | 1,307,054 | - |
| *Total for Program* | | | | 1,446,387 | - |
| Shelter Plus Care | 14.238 | FSSA | IN 36 C90 3002 | 107,777 | - |
| | | | IN 36 C20 3012 | 39,599 | - |
| | | | IN 36 C30 2001 | 66,831 | - |
| | | | IN 36 C30 2009 | 22,896 | - |
| | | | IN 36 C30 2021 | 33,018 | - |
| | | | IN 36 C30 2022 | 46,701 | - |
| | | | IN 36 C20 3008 | 50,243 | - |
| | | | IN 40 C20 2038 | 74,173 | - |
| *Total for Program* | | | | 441,238 | - |
| Fair Housing Assistance Program - State and Local | 14.401 | ICRC | FF205K055008 | 102,835 | - |
| | | IGPC | 0405-FHAP-SUB-002 | 40,344 | - |
| *Total for Program* | | | | 143,179 | - |
| Fair Housing Initiatives Program (FHIP) Education and Outreach Initiative | 14.409 | ICRC | FH400G04101 | 77,803 | - |
| Section 8 Housing Choice Vouchers | 14.871 | FSSA | IN 901 V00082107 | 17,388,542 | 1,021,962 |
| Other Assistance | | | | | |
| EEOC Mediation | 14 | ICRC | 5FPIND0016 | 45,636 | - |
| *Total for Other Assistance* | | | | 45,636 | - |
| *Total U.S. Department of Housing and Urban Development* | | | | 55,813,114 | 36,775,650 |
| U.S. DEPARTMENT OF INTERIOR | | | | | |
| Fish and Wildlife Cluster | | | | | |
| Sport Fish Restoration | 15.605 | DNR | | | |
| Statewide Public Access (Fishing and Boating) | | | 300FW1A21D39 | 220,000 | - |
| Replace Residence at Mixsawbah Fish Hatchery | | | 300FW1A28D04 | 33,201 | - |
| Mixsawbah SFH Water Supply Sys Renovation | | | 300FW1A28D06 | 600,000 | - |
| Statewide Fisheries Management | | | 300FW1F10D38 | 981,298 | - |
| Statewide Fisheries Management | | | 300FW1F10D39 | 100,000 | - |
| Statewide Fisheries Research | | | 300FW1F18R17 | 36,944 | 36,944 |
| Statewide Fisheries Research | | | 300FW1F18R17 | 234,132 | 362,972 |
| Statewide Hatchery Operations | | | 300FW1F21D16 | 672,003 | - |
| Indiana Aquatic Resources Education Program | | | 300FW1F24E11 | 111,092 | - |
| Fish Management Office & Service Building Acquisition | | | 300FW1F26L01 | 182,250 | - |

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, 2005 to June 30, 2006
(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) | | | | | |
| Fish and Wildlife Cluster (continued) | | | | | |
| Public Access Program | | | 300FW9A21D38 | 442,689 | - |
| Statewide Hatchery Operations | | | 300FW9F21D15 | 650,800 | - |
| Aquatic Ed Program | | | 300FW9F24E10 | 88,823 | - |
| USFS property patrol | | | 300LE1USFSPTL06 | 6,000 | - |
| USFS property patrol | | | 300LE1USFSPTL06 | 6,000 | - |
| *Total for Program* | | | | 4,365,232 | 399,916 |
| Wildlife Restoration | 15.611 | DNR | | | |
| Atterbury FWA Shooting Range Renovation | | | 300FW1A28D07 | 469,338 | - |
| Fall Creek Valley Conserv Club Shooting Range | | | 300FW1W32S14 | 11,278 | 11,278 |
| Renovate Shooting Range Huntin | | | 300FW9A28D03 | 105,038 | - |
| Wells County Conservation Club | | | 300FW9W32S12 | 4,569 | 4,569 |
| *Total for Program* | | | | 590,223 | 15,847 |
| *Total for Cluster* | | | | 4,955,455 | 415,763 |
| Study&Identification of Indiana's Jewish Heritage Sites | 15.001 | DNR | 300HP1JHS030001 | 11,668 | - |
| Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining | 15.250 | DNR | 300RC1186000001 | 3,408 | - |
| | | | 300RC1186000001 | 1,155,618 | - |
| | | | 300RC1186000001 | 36,937 | - |
| *Total for Program* | | | | 1,195,963 | - |
| Abandoned Mine Land Reclamation Program | 15.252 | DNR | | | |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1183030001 | 701,849 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1184030001 | 1,988,554 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1184130001 | 277,330 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1185010001 | 859,202 | 127,797 |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1185020001 | 25,170 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1185030001 | 904,738 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1185050001 | 40,470 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1185130001 | 177,973 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1186010001 | 212,499 | 19,444 |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1186020001 | 11,660 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1186030001 | 266,521 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1186050001 | 24,864 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1186060001 | 447,151 | - |
| Indiana Abandoned Mine Land (AML) Grant | | | 300RC1186130001 | 5,335 | - |
| Indiana Administration and Enforcement (A&E) Grant | | | 300RC9185000001 | 537,173 | - |
| *Total for Program* | | | | 6,480,489 | 147,241 |
| Fish and Wildlife Management Assistance | 15.608 | DNR | 300FW1AISM05 | 51,215 | - |
| Cooperative Endangered Species Conservation Fund | 15.615 | DNR | | | |
| Endangered Species Program | | | 300FW1E01S15 | 4,180 | - |
| Least Tern HCP Goose Pond Acquisition | | | 300FW1E02HL2 | 640,034 | - |
| *Total for Program* | | | | 644,214 | - |
| Clean Vessel Act | 15.616 | IDEM | | | |
| Clean Vessel Pumpout | | | CV-1-6 | 106 | - |
| Clean Vessel Pumpout | | | CV-1-7 | 31,030 | - |
| Clean Vessel Pumpout | | | CV-1-9 | 1,629 | - |
| Clean Vessel Pumpout | | | CV-1-10 | 18,766 | - |
| *Total for Program* | | | | 51,531 | - |

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 INTERIOR (continued) | | | | | |
| Landowner Incentive | 15.633 | DNR | 300FW9I01T01 | 116,864 | - |
| State Wildlife Grant | 15.634 | DNR | | | |
| Restoration & Management of Rare Habitats | | | 300FW1T01M03 | 36,883 | - |
| Acquisition of Baseline Habitat Information | | | 300FW1T02P01 | 369,977 | - |
| Statewide Comprehensive Wildlife Strategy Development | | | 300FW1T02P02 | 81,627 | - |
| Baseline Burrowing Crayfish Study | | | 300FW1T02P03 | 129,056 | - |
| Wildlife Diversity Survey & Monitoring | | | 300FW1T03S03 | 154,484 | - |
| Wildlife Diversity Management | | | 300FW1T05M02 | 74,282 | - |
| Wildlife Diversity Statewide Land Acquisition | | | 300FW1T06L01 | 1,618,000 | - |
| Effects of Western Mosquitofish on Aquatic Communities | | | 300FW1T07R01 | 19,393 | - |
| Population Genetics Allegheny Woodrat in IN | | | 300FW1T07R02 | 14,330 | - |
| Tern Bar Slough Habitat Development and Management | | | 300FW1T08D02 | 1,401 | - |
| Habitat Development and Management | | | 300FW1T08D03 | 6,618 | - |
| State Wildlife Grant Project Coordination | | | 300FW1T09C01 | 85,294 | - |
| SWG-Restor Mgt Rare Habitats | | | 300FW9T01M02 | 63,302 | - |
| Wildlife Diversity Surveys & M | | | 300FW9T03S02 | 121,921 | - |
| Goose Pond Start Up | | | 300FW9T08D01 | 4,223 | - |
| *Total for Program* | | | | 2,780,791 | - |
| Historic Preservation Fund Grants-In-Aid | 15.904 | DNR | | | |
| | | | 300HP1HPF200001 | 291,348 | 228,488 |
| | | | 300HP9HPF190001 | 325,171 | 312,774 |
| *Total for Program* | | | | 616,519 | 541,262 |
| Outdoor Recreation - Acquisition, Development and Planning | 15.916 | DNR | | | |
| 180546 Budd Road Woodlands Park | | | 300OR1180546 | 28,020 | 28,019 |
| Administrative 2005-1800558 | | | 300OR1180558 | 7,065 | - |
| Blue River-1800537 | | | 300OR1180537 | 21,362 | 21,362 |
| Buckner Farm Park-180526 | | | 300OR1180526 | (5,045) | 164,538 |
| D/Shipshewana North Park | | | 300OR1180529 | 67,500 | 132,500 |
| Lakewood Park Phase II-1800523 | | | 300OR1180523 | 9,610 | 134,940 |
| Lowell Sports Park | | | 300OR1180528 | 20,000 | 190,000 |
| McCulloughs Run Park | | | 300OR1180518 | 122,288 | 122,288 |
| Metea Park Nature Center | | | 300OR1180527 | 33,607 | 200,000 |
| Pavese Park Expansion and Redevelopment | | | 300OR1180522 | 200,000 | 200,000 |
| Prophetstown State Park | | | 300OR1180532 | 2,510,861 | - |
| Spicer Lake Nature Preserve-180550 | | | 300OR1180550 | 59,668 | 59,667 |
| Taylor Property Acquisition and Development | | | 300OR1180519 | 200,000 | 200,000 |
| *Total for Program* | | | | 3,274,936 | 1,453,314 |
| American Battlefield Protection | 15.926 | DNR | 300EG1ABPP04001 | 32,000 | - |
| Other Assistance | | | | | |
| Federal Aid Coordination | 15 | DNR | 300FW1A14C52 | 81,370 | - |
| Fish and Wildlife Area Development | 15 | DNR | 300FW1A22D39 | 853,066 | - |
| Technical Assistance | 15 | DNR | 300FW1A26T15 | 250,000 | - |
| FWA Development | 15 | DNR | 300FW9A22D38 | 1,930,259 | - |
| DEA/Indiana State Police - US Coast Guard | 15 | DNR | 300LE9DEACNBS06 | 51,423 | - |
| *Total for Other Assistance* | | | | 3,166,118 | - |
| *Total U.S. Department of Interior* | | | | 23,377,763 | 2,557,580 |

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, 2005 to June 30, 2006
(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 | | | | | |
| Juvenile Accountability Incentive Block Grants | 16.523 | ICJI | 02JBBX0021 | 260,566 | 197,366 |
| | | | 03JBBX0044 | 1,212,681 | 1,050,660 |
| | | | 04JBBX0057 | 304,363 | 222,065 |
| *Total for Program* | | | | 1,777,610 | 1,470,091 |
| Training Grant to Stop Abuse and Sexual Assault of Older Individuals or | 16.528 | | | | |
| Individuals with Disabilities | | IDSP | 2003-EW-BX-1 | 2,206 | - |
| Juvenile Justice and Delinquency Prevention-Allocation to States | 16.540 | | | | |
| JJDP Formula Grant | | ICJI | 01JFFX0018 | - | - |
| JJDP Formula Grant | | | 02JFFX0018 | - | - |
| JJDP Formula Grant | | | 03JFFX0019 | 94,145 | 48,530 |
| JJDP Formula Grant | | | 04JFFX0068 | 917,317 | 889,516 |
| JJDP Formula Grant | | | 05JFFX0020 | 192,477 | 192,477 |
| *Total for Program* | | | | 1,203,939 | 1,130,523 |
| Missing Children's Assistance | 16.543 | IDSP | 2003-MC-CX-K002 | 253,000 | - |
| Title V - Delinquency Prevention Program | 16.548 | | | | |
| Incentive Grants for Local Prevention Programs | | ICJI | 04-JP-FX-0018 | 153,115 | 153,115 |
| Part E - State Challenge Activities | 16.549 | ICJI | 03-JE-FX-0023 | 47,314 | 47,314 |
| State Justice Statistics Program | 16.550 | ICJI | 2005BJCXK045 | 12,499 | - |
| National Criminal History Improvement Program | 16.554 | | | | |
| Real Time Date Transfer Project | | ICJI | 00RGCXK006 | 27,000 | 27,000 |
| | | | 04RUBXK037 | 60,349 | 60,349 |
| *Total for Program* | | | | 87,349 | 87,349 |
| National Institute of Justice Research, Evaluation, and Development | 16.560 | | | | |
| Project Grants | | IDSP | | | |
| Project Hoosier Safe-T | | | 2001-LT-BX-K003 | 18,871 | - |
| NIJ Congressionally Directed Awards | | | 2004-LP-CK-K006 | 300,001 | - |
| NIJ Congressionally Directed Awards | | | 2004-LP-CK-K097 | 449,020 | - |
| DNA Capacity Enhancement FY 2004 | | | 2004-DN-BX-K123 | 178,672 | - |
| Forensic Casework DNA Backing Reduction | | | 2004-DN-BX-K052 | 505,213 | - |
| Solving Cold Cases with DNA | | | 2004-DN-BX-K028 | 24,720 | - |
| *Total for Program* | | | | 1,476,497 | - |
| Crime Victim Assistance | 16.575 | | | | |
| | | ICJI | 02-VA-GX-0018 | 110,099 | 44,972 |
| | | ICJI | 03-VA-GX-0029 | 312,702 | 62,805 |
| | | ICJI | 04-VA-GX-0038 | 338,287 | 335,955 |
| | | ICJI | 05-VA-GX-0038 | 5,471,632 | 5,432,280 |
| | | AG | 05-VA-146 | 46,656 | - |
| *Total for Program* | | | | 6,279,376 | 5,876,012 |
| Crime Victim Compensation | 16.576 | ICJI | | | |
| | | | 03-VC-GX-0019 | 1,133 | - |
| | | | 04-VC-GX-0019 | 110,752 | - |
| | | | 05-VC-GX-0020 | 1,004,911 | - |
| *Total for Program* | | | | 1,116,796 | - |

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) | | | | | |
| Byrne Formula Grant Program | 16.579 | ICJI | | | |
| Drug Control and System Improvement | | | 01-DB-BX-0018 | 125,245 | 123,202 |
| Drug Control and System Improvement | | | 02-DB-BX-0018 | 1,565,757 | 1,532,234 |
| Drug Control and System Improvement | | | 03-DB-BX-0018 | 1,672,709 | 1,415,034 |
| Drug Control and System Improvement | | | 04-DB-BX-0018 | 6,312,150 | 6,312,150 |
| Drug Control and System Improvement | | | 05-DJ-BX-0759 | 216,471 | 216,471 |
| *Total for Program* | | | | 9,892,332 | 9,599,091 |
| Violent Offender Incarceration and Truth in Sentencing Incentive Grants | 16.586 | IDOC | 96-CV-VX-0018 | 3,585,808 | - |
| Violence Against Women Formula Grant | 16.588 | ICJI | | | |
| | | | 03-WFBNX-0197 | 81,197 | 1,953 |
| | | | 04-WFAX-0031 | 341,993 | 339,601 |
| | | | 05-WFAX-0034 | 1,670,913 | 1,670,913 |
| *Total for Program* | | | | 2,094,103 | 2,012,467 |
| Rural Domestic Violence and Child Victimization Enforcement | 16.589 | ICJI | 03WRBX0034 | 37,041 | 34,758 |
| Local Law Enforcement Block Grants Program | 16.592 | ICJI | | | |
| | | | 03-LB-BX-1698 | 19,199 | 19,198 |
| | | | 04-LB-BX-0840 | 17,819 | 17,819 |
| *Total for Program* | | | | 37,018 | 37,017 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | ICJI | 03-RT-BX-0050 | 383,362 | 383,362 |
| Motor Vehicle Theft Protection | 16.597 | SC | 2003-DB-BX-0026 | 29,241 | - |
| State Criminal Alien Assistance Program | 16.606 | IDOC | N/A | 1,392,986 | - |
| Bureau of Justice Statistic-Bulletproof Vest Partnership | 16.607 | ICJI | N/A | 3,579 | 3,579 |
| Project Safe Neighborhood | 16.609 | ICJI | 03GPCX0528 | 205,786 | - |
| Public Safety Partnership and Community Policing Grants | 16.710 | IDSP | | | |
| 2003 Methamphetamine Initiative | | | 2003-CK-WX-0092 | 266,048 | - |
| 2004 Methamphetamine Initiative | | | 2004-CK-WX-0028 | 210,237 | - |
| *Total for Program* | | | | 476,285 | - |
| Police Corps | 16.712 | ICJI | 2002-PO-R-039 | 185,435 | - |
| Enforcing Underage Drinking Laws Program | 16.727 | ICJI | | | |
| Combating Underage Drinking | | | 03AHFX0051 | 71,206 | - |
| Combating Underage Drinking | | | 04AHFX0040 | 179,410 | 136,760 |
| *Total for Program* | | | | 250,616 | 136,760 |
| Other Assistance | 16 | IDSP | | | |
| Marijuana Eradication | | | ME 2006-64 | 635,143 | 51,423 |
| Marijuana Eradication | | | ME 2006-67 | 100,002 | - |
| *Total for Program* | | | | 735,145 | 51,423 |
| National Forensic Science Formula Grant | 16 | ICJI | 04DNBX0153 | 141,005 | 141,005 |
| Serious and Violent Offender Reentry Initiative | 16 | IDOC | 2002-RE-CX-2 | 108,121 | - |
| *Total Other Assistance* | | | | 984,271 | 192,428 |
| *Total U.S. Department of Justice* | | | | 31,967,564 | 21,163,866 |

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, 2005 to June 30, 2006
(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 | | | | | |
| Employment Services Cluster | | | | | |
| Employment Services | 17.207 | IDWD | | | |
| WOTC | | | ES-13053-03-55 | 331,244 | - |
| ES Reemployment | | | ES-13995-04-55 | 393 | - |
| ES Reemployment | | | ES-13995-05-55 | 712,951 | - |
| W/P 7A Employment Service | | | ES-12131-02-55 | 2,879 | - |
| W/P 7A Employment Service | | | ES-13995-04-55 | 6,625,036 | 952,560 |
| W/P 7A Employment Service | | | ES-13995-05-55 | 5,524,482 | 20,776 |
| W/P 7A Employment Service | | | ES-13995-06-55 | 367 | 20,776 |
| W/P 7B | | | ES-13995-04-55 | 1,226,515 | 204,204 |
| W/P 7B | | | ES-13995-05-55 | 228,299 | 15,000 |
| One Stop LMI | | | ES-13995-04-55 | 209,517 | - |
| One Stop LMI | | | ES-13995-05-55 | 365,705 | - |
| *Total for Program* | | | | 15,227,388 | 1,213,316 |
| Disabled Veterans' Outreach Program | 17.801 | IDWD | E-9-5-5-5064 | 409,838 | - |
| | | | E-9-5-6-5064 | 967,479 | - |
| *Total for Program* | | | | 1,377,317 | - |
| Local Veterans Employment Representative Program | 17.804 | IDWD | E-9-5-5-5064 | 498,975 | - |
| | | | E-9-5-6-5064 | 1,474,585 | - |
| *Total for Program* | | | | 1,973,560 | - |
| *Total for Cluster* | | | | 18,578,265 | 1,213,316 |
| WIA Cluster | | | | | |
| WIA Adult Program | 17.258 | IDWD | | | |
| WIA ADM STAT AC | | | AA-12924-03-50 | 4,874 | 4,874 |
| WIA Administration | | | AA-12924-03-50 | 38 | 38 |
| WIA Program Supplement | | | AA-12924-03-50 | 125,046 | 110,041 |
| WIA Administration | | | AA-13797-04-50 | 374,222 | 374,222 |
| Adult WIA | | | AA-13797-04-50 | 1,718,271 | 1,718,271 |
| WIA ADM STAT AC | | | AA-13797-04-50 | 3,397 | 3,397 |
| WIA Administration | | | AA-13797-04-50 | 436,348 | - |
| WIA Program Supplement | | | AA-13797-04-50 | 489,520 | 430,778 |
| WIA Administration | | | AA-14674-05-55 | 619,979 | 619,979 |
| Adult WIA | | | AA-14674-05-55 | 9,070,345 | 9,070,345 |
| WIA Administration | | | AA-14674-05-55 | 18,952 | - |
| WIA Program Supplement | | | AA-14674-05-55 | 132,326 | - |
| *Total for Program* | | | | 12,993,318 | 12,331,945 |
| WIA Youth Activities | 17.259 | IDWD | | | |
| WIA ADM STAT AC | | | AA-12924-03-50 | 6,374 | 6,374 |
| WIA Administration | | | AA-12924-03-50 | 49 | 49 |
| WIA Program Supplement | | | AA-12924-03-50 | 163,522 | 143,899 |
| WIA Administration | | | AA-13797-04-50 | 438,743 | 438,743 |
| WIA Youth | | | AA-13797-04-50 | 2,996,969 | 2,996,969 |
| WIA ADM STAT AC | | | AA-13797-04-50 | 3,982 | 3,982 |
| WIA Administration | | | AA-13797-04-50 | 511,580 | - |
| WIA Program Supplement | | | AA-13797-04-50 | 573,920 | 505,050 |
| WIA Administration | | | AA-14674-05-55 | 730,690 | 730,690 |
| WIA Youth | | | AA-14674-05-55 | 9,668,889 | 9,381,828 |
| WIA Administration | | | AA-14674-05-55 | 22,336 | - |
| WIA Program Supplement | | | AA-14674-05-55 | 155,955 | - |
| *Total for Program* | | | | 15,273,009 | 14,207,584 |
| WIA Dislocated Workers | 17.260 | IDWD | | | |
| Adult Dislocated Worker W | | | AA-12924-03-50 | 1,211 | 1,211 |
| Rapid Response W | | | AA-12924-03-50 | 153,593 | 153,593 |
| WIA ADM STAT AC | | | AA-12924-03-50 | 7,498 | 7,498 |

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) | | | | | |
| WIA Dislocated Workers (continued) | | | | | |
| WIA Administration | | | AA-12924-03-50 | 58 | 58 |
| WIA Program Supplement | | | AA-12924-03-50 | 192,379 | 169,293 |
| WIA Administration | | | AA-13797-04-50 | 477,455 | 477,455 |
| Adult Dislocated Worker W | | | AA-13797-04-50 | 1,633,672 | 1,633,672 |
| Rapid Response W | | | AA-13797-04-50 | 1,564,498 | 1,564,498 |
| WIA ADM STAT AC | | | AA-13797-04-50 | 4,334 | 4,334 |
| WIA Administration | | | AA-13797-04-50 | 556,720 | - |
| WIA Rapid Response | | | AA-13797-04-50 | 93,564 | - |
| WIA Program Supplement | | | AA-13797-04-50 | 624,560 | 549,613 |
| WIA NEG AWARD | | | EH-14175-04-55 | 987,864 | 987,864 |
| WIA NEG AWARD | | | EH-14175-04-55 | 1,444,219 | 1,444,219 |
| WIA Administration | | | AA-14674-05-55 | 863,543 | 863,543 |
| Adult Dislocated Worker W | | | AA-14674-05-55 | 8,043,930 | 7,774,835 |
| WIA Rapid Response | | | AA-14674-05-55 | 904,619 | 904,619 |
| WIA Administration | | | AA-14674-05-55 | 26,397 | - |
| WIA Rapid Response | | | AA-14674-05-55 | 35,725 | - |
| WIA Program Supplement | | | AA-14674-05-55 | 184,311 | - |
| WIA DW NR EMERG | | | AA-14940-05-60 | 32,163 | - |
| *Total for Program* | | | | 17,832,313 | 16,536,305 |
| *Total for Cluster* | | | | 46,098,640 | 43,075,834 |
| Labor Force Statistics | 17.002 | IDWD | | | |
| BLS-CES | | | W9J580185 | 145,584 | - |
| BLS-LAUS | | | W9J580185 | 41,334 | - |
| BLS-OES | | | W9J580185 | 88,447 | - |
| ES 202 | | | W9J580185 | 110,100 | - |
| BLS-MLS | | | W9J580185 | 16,229 | - |
| BLS-CES | | | W9J680186 | 290,926 | - |
| BLS-LAUS | | | W9J680186 | 87,302 | - |
| BLS-OES | | | W9J680186 | 310,513 | - |
| ES-202 | | | W9J680186 | 341,602 | - |
| BLS-MLS | | | W9J680186 | 41,184 | - |
| *Total for Program* | | | | 1,473,221 | - |
| Compensation and Working Conditions | 17.005 | IDOL | | | |
| OSHS Survey and CFOI Program | | | W9J4-8118 | 199 | - |
| OSHS Survey and CFOI Program | | | W9J5-8118 | 10,593 | - |
| OSHS Survey and CFOI Program | | | W9J6-8118 | 77,300 | - |
| *Total for Program* | | | | 88,092 | - |
| Labor Certification for Alien Workers | 17.203 | IDWD | | | |
| Alien Labor Certification | | | ES-12131-04-55 | 2,748 | - |
| Alien Labor Certification | | | ES-12131-02-55 | 39,723 | - |
| *Total for Program* | | | | 42,471 | - |
| Unemployment Insurance | 17.225 | IDWD | | | |
| State Unemployment Benefits | | | N/A | 630,764,433 | - |
| FECA-UCFE, UCPE, and UCS | | | N/A | 14,525,124 | - |
| UI Crossmatch | | | UI-12637-03-55 | 32,959 | - |
| Security Projects | | | UI-14433-05-55 | 47,222 | - |
| UI Grants | | | UI-14433-05-55 | 10,390,434 | 467,134 |
| UI REA Grants | | | UI-14433-05-55 | 575,847 | - |
| Internet Employment Reg. | | | UI-14433-05-55 | 460,353 | - |
| Tax and Wage Rep. | | | UI-14433-05-55 | 193,551 | - |
| SUTA Dumping | | | UI-14433-05-55 | 18,675 | - |
| Auto Coder | | | UI-14433-05-55 | 38,650 | - |
| UI Grants | | | UI-15120-06-55 | 23,120,008 | 257,710 |
| UI REA Grants | | | UI-15120-06-55 | 81,421 | - |
| *Total for Program* | | | | 680,248,677 | 724,844 |

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) | | | | | |
| Senior Community Service Employment Program | 17.235 | FSSA | AD 14084 QAO | 1,737,226 | - |
| | | | AD 14084 NBO | 324,688 | - |
| *Total for Program* | | | | 2,061,914 | - |
| Trade Adjustment Assistance - Workers | 17.245 | IDWD | | | |
| Trade Adjustment Assistance | | | TA-14378-05-55 | 4,592,674 | - |
| Trade Adjustment Assistance | | | TA-15301-06-55 | 3,661,601 | - |
| FUBA | | | UI-14433-05-55 | 6,965,268 | - |
| FUBA | | | UI-15120-06-55 | 22,483,319 | - |
| ALT Trade Wage | | | UI-14433-05-55 | 161,502 | - |
| ALT Trade Wage | | | UI-15120-06-55 | 704,475 | - |
| *Total for Program* | | | | 38,568,839 | - |
| Employment & Training Admin. Pilots, Demonstrations and Research | 17.261 | IDWD | WR-15406-06-60 | 192 | - |
| WIA Incentive Grants Sec. 503 | 17.267 | DWD | PI14918RD | 88,281 | - |
| Occupational Safety and Health - State | 17.503 | IDOL | 60F5-0051 | 510,000 | - |
| | | | 60F6-0051 | 1,434,162 | - |
| *Total for Program* | | | | 1,944,162 | - |
| Consultation Agreements | 17.504 | IDOL | | | |
| Occupational Safety and Health Program OSHA Consult | | | E9F5-0951 | 180,000 | - |
| Occupational Safety and Health Program OSHA Consult | | | E9F6-0951 | 584,419 | - |
| *Total for Program* | | | | 764,419 | - |
| OSHO Data Initiative | 17.505 | IDOL | | | |
| ODI | | | E9F5-3751 | 44,335 | - |
| ODI | | | E9F6-3751 | 59,064 | - |
| *Total for Program* | | | | 103,399 | - |
| Veterans' Employment Program | 17.802 | IDWD | E-9-5-2-0001 | 199,420 | 154,629 |
| *Total U.S. Department of Labor* | | | | 790,259,992 | 45,168,623 |
| U.S. DEPARTMENT OF TRANSPORTATION | | | | | |
| Highway Planning and Construction Cluster | | | | | |
| Highway Planning and Construction | 20.205 | | | | |
| Highway Planning and Construction | | INDOT | N/A | 565,311,053 | - |
| *Total for Program and Cluster* | | | | 565,311,053 | - |
| Highway Safety Cluster | | | | | |
| State and Community Highway Safety | 20.600 | | | | |
| Crash Outcome Data Evaluation | | IDHS | DTNH22-02-H17270 | 35,823 | - |
| Fatal Accident Reporting System | | IDSP | DTNH22-92-Y-07028 | 88,145 | - |
| NHTSA Section 402 | | ICJI | N/A | 3,627,138 | 3,627,137 |
| *Total for Program* | | | | 3,751,106 | 3,627,137 |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | ICJI | N/A | 1,468,332 | 1,468,331 |
| Occupant Protection | 20.602 | ICJI | N/A | 916,902 | 916,901 |
| Safety Incentive Grants for Use of Seatbelts | 20.604 | ICJI | N/A | 2,629,802 | 2,629,802 |
| *Total for Cluster* | | | | 8,766,142 | 8,642,171 |

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 TRANSPORTATION (continued) | | | | | |
| Airport Improvement Program | 20.106 | INDOT | 3-18-000-002 | 124,626 | 109,748 |
| National Motor Carrier Safety | 20.218 | | | | |
| Motor Carrier Assistance | | IDSP | MC-05-18-001 | 1,756,801 | - |
| Motor Carrier Assistance | | IDSP | MC-06-18-001 | 2,438,936 | - |
| New Entrant Program | | IDSP | HN-05-18-1 | 453,603 | - |
| New Entrant Program | | IDSP | MH-06-18-1 | 273,893 | - |
| Performance and Registration Information Systems Management | | IDOR | PZIN021 | 279,914 | - |
| Commercial Drivers License | | IDOR | MC-01-18-444 | 190,969 | - |
| National Motor Carrier Safety | | SC | CD05(181) | 516,567 | 181,252 |
| *Total for Program* | | | | 5,910,683 | 181,252 |
| Recreation Trails Program | 20.219 | DNR | | | |
| Glen River Greenway | | | 300OR1RT0101 | 26,430 | 71,199 |
| Peoples Pathway-RTP0304 | | | 300OR1RT0304 | 24,759 | 144,188 |
| Pumpkinvine Nature Trail | | | 300OR1RT0203 | 139,311 | 150,364 |
| Redbird OHV Area - 2002 | | | 300OR1RT0205 | 74,398 | - |
| RT0302 New Harmony Riverfornt Rec Trail (FHWA2003(009)) | | | 300OR1RT0302 | 126,188 | 126,187 |
| RTP Admin-RT0506 | | | 300OR1RT0506 | (923) | - |
| Switch Trail Phase II | | | 300OR1RT0103 | 2,346 | 150,000 |
| Whitewater Vally Gorge Trail | | | 300OR1RT9602 | 100,000 | 100,000 |
| *Total for Program* | | | | 492,509 | 741,938 |
| Metropolitan Planning Grants | 20.505 | INDOT | IN-80-2009 | (111) | - |
| | | | IN-80-2010 | (61,278) | - |
| | | | IN-80-2011 | 17,429 | 68,799 |
| | | | IN-80-2012 | 303,184 | 216,718 |
| | | | IN-80-2013 | 647,851 | 763,865 |
| *Total for Program* | | | | 907,075 | 1,049,382 |
| Formula Grants for Other Than Urbanized Areas | 20.509 | INDOT | IN-18-X021 | 71,769 | 186,287 |
| | | | IN-18-X022 | 1,092,375 | 1,622,810 |
| | | | IN-18-X023 | 4,727,695 | 5,478,962 |
| | | | IN-18-X024 | 1,698,873 | 14,620 |
| *Total for Program* | | | | 7,590,712 | 7,302,679 |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | INDOT | IN-16-0025 | (15,379) | - |
| | | | IN-16-0029 | 37,012 | 5,515 |
| | | | IN-16-0030 | 212,370 | 778,875 |
| | | | IN-16-0031 | 1,765,125 | 1,539,110 |
| | | | IN-03-0073 | 157,670 | 157,662 |
| | | | IN-03-0109 | 639,126 | 639,126 |
| *Total for Program* | | | | 2,795,924 | 3,120,288 |
| Pipeline Safety | 20.700 | IURC | PPHP05006OC0008 | 27,002 | 27,002 |
| Interagency Hazardous Material Public Sector Training and Planning Grants | 20.703 | IDHS | | | |
| Hazardous Material 2004 | | | HMEIN3050100 | 280,675 | 280,655 |
| Hazardous Material 2005 | | | HMEIN4050120 | 15,844 | 15,677 |
| *Total for Program* | | | | 296,519 | 296,332 |
| Other Assistance | | | | | |
| NHTSA Section 154 Transfer Open Container | 20 | ICJI | N/A | 5,283,736 | 5,283,735 |
| *Total Other Assistance* | | | | 5,283,736 | 5,283,735 |
| *Total U.S. Department of Transportation* | | | | 597,505,981 | 26,754,527 |

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 |
|---|---|---|---|---|---|
| GENERAL SERVICES ADMINISTRATION | | | | | |
| Donation of Federal Surplus Personal Property | 39.003 | IDOA | N/A | 2,476,364 | 376,954 |
| *Total General Services Administration* | | | | 2,476,364 | 376,954 |
| NATIONAL ENDOWMENT FOR THE ARTS AND HUMANITIES | | | | | |
| Promotion of the Arts - Grants to Organizations | 45.024 | IAC | 06-4557-7035 | 8,000 | - |
| Promotion of the Arts - Partnership Agreements | 45.025 | IAC | | | |
| Basic State Grant | | | 04-6100-2042 | 165,093 | 49,513 |
| Basic State Grant | | | 05-6000-2017 | 179,549 | 48,153 |
| Arts In Education | | | 06-6100-2017 | 37,400 | 37,400 |
| Underserved | | | 05-6100-2017 | 4,900 | 49,000 |
| Challenge America | | | 05-6100-2017 | 121,000 | 121,000 |
| *Total for Program* | | | | 507,942 | 305,066 |
| State Library Program | 45.310 | ISL | | | |
| LSTA Grant - 2004 | | | LS-00040015-04 | 799,225 | 792,367 |
| LSTA Grant - 2005 | | | LS-00050015-04 | 2,285,940 | 2,241,473 |
| LSTA Grant - 2006 | | | LS-00060015-04 | 86,031 | 49,469 |
| *Total for Program* | | | | 3,171,196 | 3,083,309 |
| *Total National Endowment for the Arts and the Humanities* | | | | 3,687,138 | 3,388,375 |
| U.S. SMALL BUSINESS ADMINISTRATION | | | | | |
| Small Business Development Center | 59.037 | IEDC | | | |
| 2005 | | | 5-603001-Z-0015-20 | 1,554,309 | - |
| 2005 | | | 4-603001-Z-0015-19-2 | 74,245 | - |
| 2006 | | | 6-603001-Z-0015-21 | 734,197 | - |
| *Total for Program* | | | | 2,362,751 | - |
| *Total U.S. Small Business Administration* | | | | 2,362,751 | - |
| U.S. DEPARTMENT OF VETERANS AFFAIRS | | | | | |
| All-Volunteer Force Educational Assistance | 64.124 | | | | |
| Veteran Education | | IDVA | V101 (223B) P4517 | 58,226 | - |
| Veteran Education | | IDVA | V101 (223B) P4617 | 167,653 | - |
| Veteran Education | | ICPE | V101 (223B) P4573 | 105,860 | - |
| Veteran Education | | ICPE | V101 (223B) P4673 | 125,416 | - |
| *Total for Program* | | | | 457,155 | - |
| *Total U.S. Department of Veterans Affairs* | | | | 457,155 | - |
| ENVIRONMENTAL PROTECTION AGENCY | | | | | |
| State Indoor Radon Grant | 66.032 | IDEM | K1965129-01 | 11,454 | - |
| Survey, Studies and Investigations Relating to the Clean Air Act | 66.034 | | | | |
| IPS #21 Risk/Assessment | | IDEM | X975889-01 | 17,243 | - |
| State Underground Water Source Protection | 66.433 | DNR | 300OG9UIC050001 | 29,300 | - |
| Water Quality Management Planning | 66.454 | IDEM | | | |
| Water Quality Management 205(j)(1) | | | C6975219-00 | 6,593 | - |
| Water Quality Management 205(j)(1) | | | C6975496-01 | 14,407 | - |
| Water Quality Management 205(j)(1) | | | C6975750-01 | 4,770 | - |

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 |
|---|---|---|---|---|---|
| ENVIRONMENTAL PROTECTION AGENCY (continued) | | | | | |
| Water Quality Management Planning (continued) | | | | | |
| Water Quality Management 205(j)(1) | | | C6975750-02 | 54,639 | - |
| Water Quality Management 205(j)(1) | | | C6975750-03 | 342,423 | - |
| Water Quality Management 205(j)(1) | | | C6975750-04 | 168,527 | - |
| Water Quality Management 205(j)(1) | | | C6975750-05 | 13,350 | - |
| *Total for Program* | | | | 604,709 | - |
| Nonpoint Source Implementation Grants | 66.460 | IDEM | | | |
| 319 NPS Surface Water | | | C9995008-99 | 31,926 | - |
| 319 NPS Surface Water | | | C9995008-00 | 3,000 | - |
| 319 NPS Surface Water | | | C9975482-01 | 98,929 | - |
| 319 NPS Surface Water | | | C9975482-02 | 637,491 | - |
| 319 NPS Surface Water | | | C9975482-03 | 1,040,883 | - |
| 319 NPS Surface Water | | | C9975482-04 | 876,942 | - |
| 319 NPS Surface Water | | | C9975482-05 | 995,210 | - |
| 319 NPS Groundwater | | | C9975482-05 | 74,103 | - |
| 319 NPS Groundwater | | | C9975482-04 | 298 | - |
| 319 NPS Groundwater | | | C9975482-06 | 3,088 | - |
| *Total for Program* | | | | 3,761,870 | - |
| Wetlands Grants | 66.461 | IDEM | | | |
| Wetlands | | | CD005518-01 | 28,130 | - |
| Wetlands | | | CD975308-01 | 51,649 | - |
| Wetlands Pro Dev. | | | CD965165-01 | 6,976 | - |
| Wetlands Floristic | | | CD975586-01 | 3,255 | - |
| *Total for Program* | | | | 90,010 | - |
| Water Quality Cooperative Agreements | 66.463 | IDEM | | | |
| Watershed | | | CP975649-01 | 65,310 | - |
| Watershed | | | CP975773-01 | 2,545 | - |
| Watershed | | | CP965041-01 | 102,764 | - |
| Watershed | | | CP965466-01 | 7,601 | - |
| Watershed | | | X7965099-01 | 8,484 | - |
| *Total for Program* | | | | 186,704 | - |
| Capitalization Grants for Drinking Water State Revolving Fund | 66.468 | IDEM | | | |
| Drinking Water SRF - Administration | | | FS985655-98 | 122,923 | - |
| Drinking Water SRF - Administration | | | FS975486-01 | 74,693 | - |
| Drinking Water Revolving - Loans | | | FS975486-02 | 175,000 | - |
| Drinking Water SRF - Administration | | | FS975486-02 | 84,324 | - |
| Drinking Water SRF - PWSS | | | FS975486-02 | 947 | - |
| Drinking Water Revolving - Loans | | | FS975486-03 | 142,000 | - |
| Drinking Water SRF - PWSS | | | FS975486-03 | 191,551 | - |
| *Total for Program* | | | | 791,438 | - |
| State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs | 66.471 | IDEM | CT965138-01 | 140,098 | - |
| Beach Monitoring & Notification Program Implementation Grants | 66.472 | IDEM | | | |
| Beach Protection | | | CU975678-01 | 26,077 | - |
| Beach Protection | | | CU965109-01 | 55,628 | - |
| Beach Protection Lake Michigan | | | CU965643-01 | 122,434 | - |
| *Total for Program* | | | | 204,139 | - |
| Water Protection Grants | 66.474 | IDEM | WP975634-01 | 67,475 | - |

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 |
|---|---|---|---|---|---|
| ENVIRONMENTAL PROTECTION AGENCY (continued) | | | | | |
| Environmental Protection - Consolidated Research | 66.500 | IDEM | CT965138-01 | 248,757 | - |
| PPG | | | BG985432-05 | 481,838 | - |
| PPG | | | BG985432-06 | 1,369,013 | - |
| Delisting Targets Grand Calumet | | | GL965660-01 | 214 | - |
| PPG Underground Storage Tank | | | BG985432-05 | 61,916 | - |
| PPG Underground Storage Tank | | | BG985432-06 | 210,976 | - |
| *Total for Program* | | | | 2,372,714 | - |
| Performance Partnership Grants | 66.605 | IDEM | | | |
| | | | BG985432-06 | 48,801 | - |
| PPG | | | BG985432-05 | 41,202 | - |
| PPG | | | BG985432-06 | 151,633 | - |
| PPG | | | BG985432-05 | 702,304 | - |
| PPG | | | BG985432-06 | 2,008,713 | - |
| PPG | | | BG985432-05 | 869,292 | - |
| PPG | | | BG985432-06 | 2,068,536 | - |
| PPG | | | BG985432-05 | 1,061,208 | - |
| PPG | | | BG985432-06 | 2,076,133 | - |
| PPG | | | BG985432-05 | 21,737 | - |
| PPG | | | BG985432-06 | 19,635 | - |
| PPG | | | BG985432-05 | 16,140 | - |
| *Total for Program* | | | | 9,085,334 | - |
| Surveys, Studies, Investigations and Special Purpose Grants | 66.606 | IDEM | | | |
| Lakewide Management Plan | | | GL965217-01 | 15,832 | - |
| Lamp Lake Michigan | | | GL965509-01 | 28,124 | - |
| Diesel School Bus Retro | | | X975736-01 | 21,000 | - |
| Local Scale Air Toxics | | | XA965784-01 | 3,713 | - |
| Spills of National Sig | | | X965837-01 | 1,942 | - |
| Air Toxics Monitoring | | | X975735-01 | 40,401 | - |
| Ambient Air Monitoring | | | PM985773-02 | 805,434 | - |
| Ambient Air Monitoring | | | PM985773-04 | 2,614 | - |
| Auto Salvage | | | X975270-01 | 25,629 | - |
| Rural Hardship | | | HG995442-01 | 594,677 | - |
| *Total for Program* | | | | 1,539,366 | - |
| | 66.607 | IDEM | | | |
| Outreach Operator Training | | | T985627-01 | 794 | - |
| Outreach Operator Training | | | T985627-04 | 2,802 | - |
| Outreach Operator Training | | | T985627-05 | 12,859 | - |
| *Total for Program* | | | | 16,455 | - |
| Environmental Information Exchange Network | 66.608 | IDEM | | | |
| National Environmental Information Exchange | | | OS830266-01 | 76,330 | - |
| NEIEN RCRA Data FI | | | OS832586-01 | 36,484 | - |
| *Total for Program* | | | | 112,814 | - |
| Environmental Policy and Innovation Grants | 66.611 | IDEM | PI965680-01 | 38,759 | - |
| TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals | 66.707 | IDEM | | | |
| Lead-Based Paints | | | PB985526-04 | 11,078 | - |
| Lead-Based Paints | | | PB985526-05 | 91,032 | - |
| Lead-Based Paints | | | PB965823-01 | 38,386 | - |
| *Total for Program* | | | | 140,496 | - |

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 |
|---|---|---|---|---|---|
| ENVIRONMENTAL PROTECTION AGENCY (continued) | | | | | |
| Pollution Prevention Grants Program | 66.708 | IDEM | | | |
| Mercury Reduction | | | NP965037-01 | 44,053 | - |
| Regulatory Integration of Pollution | | | NP965891-01 | 29,895 | - |
| *Total for Program* | | | | 73,948 | - |
| Capacity Building Grants and Cooperative Agreements | 66.709 | IDEM | | | |
| Aerial Flyover | | | EA965310-01 | 10,671 | - |
| Combined Sewer Overflow | | | EA965374-01 | 2,857 | - |
| *Total for Program* | | | | 13,528 | - |
| Source Reduction Assistance | 66.717 | IDEM | X9965472-01 | 9,500 | - |
| Superfund State Site - Specific Cooperative Agreements | 66.802 | IDEM | | | |
| RCRA 3012 Program | | | V005849-01 | 941,501 | - |
| RCRA 3012 Program | | | V005849-02 | 383,028 | - |
| Ninth Avenue Dump | | | V005995-01 | 408 | - |
| Ninth Avenue Dump | | | V005995-02 | 2,327 | - |
| Ninth Avenue Dump | | | V965003-01 | 3,153 | - |
| Elkhart Main Street Well Field - East 447 | | | V965003-01 | 672 | - |
| Elkhart Main Street Well Field - West 448 | | | V965003-01 | 4,800 | - |
| Waste holding | | | V965003-01 | 2,904 | - |
| Conrail Yard Site - Holding | | | V965003-01 | 4,454 | - |
| Third Site | | | V965003-01 | 10,814 | - |
| Prestolite Battery | | | V965003-01 | 8,374 | - |
| Himco Dump | | | V965003-01 | 8,588 | - |
| International Minerals & Chem | | | V965003-01 | 5,195 | - |
| American Chemical Services | | | V965003-01 | 11,031 | - |
| Douglas Road Landfill | | | V965003-01 | 1,018 | - |
| Lemon Lane | | | V965003-01 | 15,035 | - |
| Lakeland Disposal | | | V965003-01 | 12,096 | - |
| Neal's Landfill | | | V965003-01 | 9,699 | - |
| Bennet Stone | | | V965003-01 | 7,346 | - |
| Cam-Or | | | V965003-01 | 15,950 | - |
| Little Mississinewa | | | V965003-01 | 5,902 | - |
| Jacobsville | | | V965003-01 | 7,670 | - |
| Town of Pines | | | V965003-01 | 611 | - |
| Elkhart Main Street Well Field - East 447 | | | V965003-02 | 1,300 | - |
| Elkhart Main Street Well Field - West 448 | | | V965003-02 | 2,040 | - |
| Waste holding | | | V965003-02 | 197 | - |
| Conrail Yard Site - Holding | | | V965003-02 | 1,522 | - |
| Third Site | | | V965003-02 | 3,050 | - |
| Prestolite Battery | | | V965003-02 | 1,831 | - |
| Himco Dump | | | V965003-02 | 5,217 | - |
| International Minerals & Chem | | | V965003-02 | 1,168 | - |
| American Chemical Services | | | V965003-02 | 2,030 | - |
| Lemon Lane | | | V965003-02 | 8,735 | - |
| Lakeland Disposal | | | V965003-02 | 4,083 | - |
| Neal's Landfill | | | V965003-02 | 1,704 | - |
| Bennet Stone | | | V965003-02 | 3,810 | - |
| Cam-Or | | | V965003-02 | 9,425 | - |
| Little Mississinewa | | | V965003-02 | 569 | - |
| Jacobsville | | | V965003-02 | 1,465 | - |
| Town of Pines | | | V965003-02 | 1,386 | - |
| Illinois Central Springs | | | V965478-01 | 43,093 | - |
| Galen Myers Remedial Action | | | V965884-01 | 26,539 | - |
| Continental Steel - Remedial design | | | V985768-01 | 34,825 | - |
| Core Superfund | | | VC005990-02 | 411,170 | - |
| *Total for Program* | | | | 2,027,735 | - |

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 |
|---|---|---|---|---|---|
| ENVIRONMENTAL PROTECTION AGENCY (continued) | | | | | |
| Leaking Underground Storage Tank Trust Fund Program | 66.805 | IDEM | | | |
| UST Pilot - Indianapolis | | | LP975969-01 | 82,878 | - |
| Leaking Underground Storage Tank | | | LS005981-14 | 926,201 | - |
| Leaking Underground Storage Tank | | | LS005981-15 | 286,452 | - |
| *Total for Program* | | | | 1,295,531 | - |
| State and Tribal Response | 66.817 | IDEM | | | |
| 128a Core VRP-308 | | | RP965078-01 | 113,590 | - |
| 128a Core Brownsfield - 307 | | | RP965078-01 | 483,183 | - |
| 128a Core Brownsfield - 307 | | | RP965078-02 | 186,081 | - |
| 128a Core VRP-307 | | | RP965078-02 | 103,818 | - |
| *Total for Program* | | | | 886,672 | - |
| Brownsfields Assessment and Cleanup Cooperative Agreements | 66.818 | IDEM | BL985740-01 | 1,071 | - |
| Environmental Education Grants | 66.951 | | | | |
| Educational lending | | IDEM | NE995053-01 | 949 | - |
| *Total Environmental Protection Agency* | | | | 23,519,312 | - |
| U.S. DEPARTMENT OF ENERGY | | | | | |
| State Energy Program | 81.041 | LtGov | DE-FG45-02R530542 | 3,622,813 | 3,091,220 |
| Weatherization Assistance for Low-Income Persons | 81.042 | FSSA | R530350 | 67,144 | - |
| | | | R530679 | 6,355,167 | - |
| *Total for Program* | | | | 6,422,311 | - |
| Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis | 81.117 | | | | |
| Energy Efficiency and Renewable Energy Act | | LtGov | DE-FG45-04R530702 | 25,000 | 25,000 |
| Indiana Wind Working Group | | | DE-FG02-05R530761 | 3,159 | 2,374 |
| *Total for Program* | | | | 28,159 | 27,374 |
| State Energy Program Special Projects | 81.119 | LtGov | | | |
| Indiana Information Administration (SHOPP) | | | DE-FG45-03R530650 | 34,435 | 34,435 |
| Central Indiana Clean Cities Coalition | | | DE-FG45-05R530784 | 8,434 | 8,434 |
| Central Indiana Clean Cities Coalition | | | DE-FG45-05R530785 | 8,299 | 8,298 |
| Indiana Industries of the Future | | | DE-FG45-05R530787 | 10,001 | 10,000 |
| Indianapolis Airport | | | DE-FG45-02R530553 | 139,056 | 139,056 |
| Supplemental Clean Cities | | | DE-FG45-02R530552 | 20,000 | 20,000 |
| Central Indiana Clean Cities | | | DE-FG45-04R530720 | 20,000 | 20,000 |
| South Shore Clean Cities | | | DE-FG45-04R530721 | 20,000 | 20,000 |
| Codes and Standards | | | DE-FG45-01R530490 | 26,368 | - |
| *Total for Program* | | | | 286,593 | 260,223 |
| Other Assistance | | | | | |
| Petroleum Violation Escrow Funds | 81 | LtGov | | | |
| Stripper Well | | | N/A | 103,093 | - |
| Exxon - Business AG/Loan | | | N/A | 629,450 | - |
| Exxon - New Energy | | | N/A | 149,214 | - |
| *Total for Program and for Other Assistance* | | | | 881,757 | - |
| *Total U.S. Department of Energy* | | | | 11,241,633 | 3,378,817 |

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 EDUCATION | | | | | |
| Special Education Cluster | | | | | |
| Special Education - Grants to States | 84.027 | IDOE | H027A010084 | 88,881 | 88,881 |
| | | | H027A020084 | 2,231,715 | 2,231,715 |
| | | | H027A030084 | (56,236) | (56,236) |
| | | | H027A040084 | 44,220,413 | 43,859,290 |
| | | | H027A050084 | 181,105,226 | 179,412,319 |
| *Total for Program* | | | | 227,589,999 | 225,535,969 |
| Special Education - Preschool Grants | 84.173 | IDOE | H0173A030104 | 30,012 | 30,012 |
| | | | H0173A040104 | 979,127 | 979,127 |
| | | | H0173A050104 | 7,593,022 | 7,593,022 |
| *Total for Program* | | | | 8,602,161 | 8,602,161 |
| *Total for Cluster* | | | | 236,192,160 | 234,138,130 |
| Adult Education - State Grant Program | 84.002 | IDOE | V002A030014 | 37,892 | 37,892 |
| | | | V002A040014 | 878,481 | 878,481 |
| | | | V002A050014 | 9,342,384 | 8,920,833 |
| *Total for Program* | | | | 10,258,757 | 9,837,206 |
| Title 1 Grants to Local Educational Agencies | 84.010 | IDOE | S010A030014 | 2,471,572 | 2,471,572 |
| | | | S010A040014 | 22,141,997 | 21,198,876 |
| | | | S010A050014 | 146,095,923 | 145,641,601 |
| *Total for Program* | | | | 170,709,492 | 169,312,049 |
| Migrant Education - Basic State Grant Program | 84.011 | IDOE | S011A030014 | 2,201,941 | 1,718,576 |
| | | | S011A040014 | 1,508,618 | 744,429 |
| *Total for Program* | | | | 3,710,559 | 2,463,005 |
| Title 1 Program for Neglected and Delinquent Children | 84.013 | IDOE | S013A040014 | 56,372 | 56,372 |
| | | | S013A050014 | 896,865 | 896,865 |
| *Total for Program* | | | | 953,237 | 953,237 |
| Vocational Education - Basic Grants to States | 84.048 | IDWD | | | |
| Comm Tech Ed | | | VO48A030014A | 18,492 | - |
| State Leadership | | | VO48A030014A | 1,300,860 | 1,280,671 |
| CP Secondary B/ | | | VO48A030014A | 24,605 | 24,605 |
| Post 2nd Voc E | | | VO48A030014A | 55,112 | 55,111 |
| Comm Tech Ed | | | VO48A040014A | (18,492) | - |
| State Leadership | | | VO48A040014A | 12,359 | - |
| CP Secondary B/ | | | VO48A040014A | 3,673,351 | 3,673,351 |
| Post 2nd Voc E | | | VO48A040014A | 1,450,408 | 1,450,408 |
| Comm Tech Ed | | | VO48A050014A | 331,009 | - |
| State Leadership | | | VO48A050014A | 517,284 | 56,572 |
| CP Secondary B/ | | | VO48A050014A | 11,111,760 | 12,887,242 |
| Post 2nd Voc E | | | VO48A050014A | 6,694,467 | 5,553,651 |
| *Total for Program* | | | | 25,171,215 | 24,981,611 |
| Leveraging Education Assistance Partnership | 84.069 | | | | |
| Special Leveraging Education Assistance Partnership SLEAP | | SSACI | N069B050008 | 997,963 | - |
| Leveraging Education Assistance Partnership LEAP | | | N069A050015 | 601,293 | - |
| *Total for Program* | | | | 1,599,256 | - |

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 EDUCATION (continued) | | | | | |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | 84.126 | FSSA | H 126A 05 0019 | 24,216,861 | - |
| | | | H 126A 06 0019 | 30,727,091 | - |
| *Total for Program* | | | | 54,943,952 | 38,300,285 |
| Rehabilitation Services - Client Assistance Program | 84.161 | IPASC | H161A060015B | 251,012 | - |
| Independent Living - State Grants | 84.169 | | | | |
| | | FSSA | H 169A 050020 | 280,306 | - |
| | | | H 169A 060020 | 117,058 | - |
| *Total for Program* | | | | 397,364 | 397,363 |
| Douglas Teacher Scholarships | 84.176 | SSACI | P176A40014 | 286 | - |
| Rehabilitation Services - Independent Living Services | 84.177 | FSSA | H 177B 04 0014 | 204,594 | - |
| | | | H 177B 05 0014 | 242,106 | - |
| *Total for Program* | | | | 446,700 | 421,065 |
| Special Education - Grants for Infants and Families With Disabilities | 84.181 | FSSA | H 181A 03 0030 | 549,373 | - |
| | | | H 181A 04 0030 | 6,687,305 | - |
| *Total for Program* | | | | 7,236,678 | - |
| Safe and Drug-Free Schools and Communities - National Programs | 84.184 | IDOE | S184C030015 | 268,348 | 266,798 |
| Byrd Honors Scholarships | 84.185 | IDOE | P185A040015 | 532,500 | 532,500 |
| | | | P185A050015 | 345,000 | 345,000 |
| *Total for Program* | | | | 877,500 | 877,500 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | FSSA | S 186 03 0015 | 67,108 | - |
| | | FSSA | S 186 04 0015 | 382,530 | - |
| | | IDOE | S186A010015 | 47,575 | 47,575 |
| | | IDOE | S186A020015 | 64,600 | 64,600 |
| | | IDOE | S186A030015 | (265,802) | (265,802) |
| | | IDOE | S186A040015 | 4,392,215 | 4,339,837 |
| | | IDOE | S186A050015 | 1,416,402 | 1,405,610 |
| *Total for Program* | | | | 6,104,628 | 5,591,820 |
| Supported Employment Services for Individuals With Severe Disabilities | 84.187 | FSSA | H 187A 05 0020 | 6,178 | 6,178 |
| Education for Homeless Children | 84.196 | IDOE | S196A030015 | 49,487 | - |
| | | | S196A040015 | 235,095 | 170,292 |
| | | | S196A050015 | 491,084 | 491,084 |
| *Total for Program* | | | | 775,666 | 661,376 |
| Javits Gifted and Talented Students Education | 84.206 | IDOE | S206A020001 | 245,455 | 241,454 |
| Even Start - State Educational Agencies | 84.213 | IDOE | S213A030015 | 60,813 | 60,813 |
| | | | S213C040015 | 134,248 | 49,872 |
| | | | S213C050015 | 2,219,668 | 2,219,668 |
| *Total for Program* | | | | 2,414,729 | 2,330,353 |
| Assistive Technology | 84.224 | FSSA | H 224A 90 0027 | 492,214 | 491,417 |

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, 2005 to June 30, 2006
(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) | | | | | |
| Program of Protection and Advocacy of Individual Rights | 84.240 | IPASC | H240A060015B | 400,668 | - |
| Tech-Prep Education | 84.243 | IDWD | | | |
| COM TECH ED-PRE 2003 | | | V243A030014 | 983,251 | - |
| | | | V243A040014 | 1,192,628 | - |
| | | | V243A050014 | 592,947 | - |
| *Total for Program* | | | | 2,768,826 | - |
| Rehabilitation Services - American Indians with Disabilities | 84.250 | IDOE | S250B010069 | 107,139 | 107,104 |
| Rehabilitation Training - State Vocational Rehabilitation | | | | | |
| Unit In-Service Training | 84.265 | FSSA | H 265A 00 0040 | 9,067 | - |
| | | | H 265A 05 0040 | 50,016 | - |
| *Total for Program* | | | | 59,083 | - |
| Charter Schools | 84.282 | IDOE | S282A010058 | 279,653 | 273,137 |
| | | | U282A040016 | 2,178,770 | 2,161,342 |
| *Total for Program* | | | | 2,458,423 | 2,434,479 |
| Twenty-First Century Community Learning Centers | 84.287 | IDOE | S287C040014 | 7,180,808 | 6,749,270 |
| | | | S287C050014 | 5,082,299 | 5,082,299 |
| *Total for Program* | | | | 12,263,107 | 11,831,569 |
| State Grants for Innovative Programs | 84.298 | IDOE | S298A020014 | 73,429 | 73,429 |
| | | | S298A030014 | (141,381) | (141,381) |
| | | | S298A040014 | 4,855,511 | 4,380,375 |
| | | | S298A050014 | 223,427 | 223,427 |
| *Total for Program* | | | | 5,010,986 | 4,535,850 |
| Education Technology State Grants | 84.318 | IDOE | S318X020014 | 25,742 | 25,742 |
| | | | S318X030014 | 493,587 | 438,633 |
| | | | S318X040014 | 6,086,077 | 5,981,775 |
| *Total for Program* | | | | 6,605,406 | 6,446,150 |
| Special Education-State Program Improvement Grants | 84.323 | IDOE | H323A030003 | 497,683 | 497,683 |
| Advanced Placement Incentive Program | 84.330 | IDOE | U330B050011 | 18,200 | - |
| Grants to States for Incarcerated Youth Offenders | 84.331 | IDOC | V331A050015 | 182,570 | - |
| Comprehensive School Reform Demonstration | 84.332 | IDOE | S332A030015 | (897) | (897) |
| | | | S332A040015 | 3,912,568 | 3,890,621 |
| | | | S332A020014 | 253,323 | 253,323 |
| *Total for Program* | | | | 4,164,994 | 4,143,047 |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | SSACI | | | |
| Gear-Up | | | P334A990352 | 1,632,387 | - |
| Gear-Up Tuition | | | P334A990352 | 2,349,410 | - |
| Gear-Up | | | P334S050010 | 544,996 | - |
| Gear-Up Tuition | | | P334S050010 | 90,636 | - |
| *Total for Program* | | | | 4,617,429 | - |
| Reading Excellence | 84.338 | IDOE | S338A010016 | (24,862) | (24,862) |

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 EDUCATION (continued) | | | | | |
| Class Size Reduction | 84.340 | IDOE | S340A000015 | 931 | 931 |
| | | | S340A010015 | (931) | (931) |
| *Total for Program* | | | | - | - |
| Assistive Technology - State Grants for Protection and Advocacy | 84.343 | IPASC | H343AO60015B | 97,066 | - |
| Occupational and Employment Information State Grants | 84.346 | IDWD | V346A000018 | 144,337 | - |
| School Renovation Grants | 84.352 | IDOE | S352A010015 | 45,431 | - |
| Reading First | 84.357 | IDOE | S357A020015 | 40,073 | 40,073 |
| | | | S357A030015 | 1,896,230 | 1,699,256 |
| | | | S357A040015 | 13,159,547 | 11,946,081 |
| *Total for Program* | | | | 15,095,850 | 13,685,410 |
| Rural Education | 84.358 | IDOE | S358B030014 | 1,950 | 1,950 |
| | | | S358B040014 | 98,499 | 97,070 |
| | | | S358B050014 | 53,306 | 53,306 |
| *Total for Program* | | | | 153,755 | 152,326 |
| Literacy through School Libraries | 84.364 | IDOE | T365A030014 | 88,495 | 88,495 |
| | | | T365A040014 | 233,076 | 207,618 |
| | | | T365A050014 | 6,940,163 | 6,867,780 |
| *Total for Program* | | | | 7,261,734 | 7,163,893 |
| Math/Science Partnerships | 84.366 | IDOE | S366B030015 | 139,627 | 139,627 |
| | | | S366B030015 | 1,519,803 | 1,496,855 |
| *Total for Program* | | | | 1,659,430 | 1,636,482 |
| Improving Teacher Quality | 84.367 | IDOE | S367A020013 | 189,756 | 189,756 |
| | | IDOE | S367A030013 | (5,855) | (5,855) |
| | | IDOE | S367A040013 | 30,771,650 | 29,933,238 |
| | | IDOE | S367A050013 | 14,543,439 | 14,543,439 |
| | | CHE | S367B030014A | 216,261 | 216,261 |
| | | CHE | S367B040014A | 606,127 | 606,127 |
| | | CHE | S281B050014A | 27,143 | 20,700 |
| *Total for Program* | | | | 46,348,521 | 45,503,666 |
| State Assessments & Related Activities | 84.369 | IDOE | S369A040015 | 541,986 | 173,608 |
| | | | S369A050015 | 8,160,131 | 16,485 |
| *Total for Program* | | | | 8,702,117 | 190,093 |
| Math/Science Partnerships | 84.938 | IDOE | S938C060049 | 1,278,500 | 1,278,500 |
| *Total U.S. Department of Education* | | | | 642,971,779 | 590,852,237 |
| ELECTION ASSISTANCE COMMISSION | | | | | |
| Election Reform Payments | 90.401 | SOS | | | |
| HAVA Early Payments, Section 101 Funds | | | 369940/371752 | (25,361) | - |
| HAVA Early Payments, Section 102 Funds | | | 371752 | 2,145,682 | 2,145,682 |
| HAVA Requirements Payments, Title III Funds | | | 412089 | 25,559,941 | 17,309,170 |
| *Total for Program* | | | | 27,680,262 | 19,454,852 |
| *Total Election Assistance Commission* | | | | 27,680,262 | 19,454,852 |

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 | 05 AA IN T3 SP | 103,486 | - |
| | | | 05 AA IN T3 SP | 152,601 | - |
| | | | 05 AA IN T3 SP | 3,569,456 | 3,569,456 |
| | | | 05 AA IN T3 SP | 4,377,383 | 4,377,383 |
| | | | 05 AA IN T3 SP | 29,925 | - |
| | | | 05 AA IN T3 SP | 96,513 | - |
| *Total for Program* | | | | 8,329,364 | 7,946,839 |
| Special Programs for the Aging -Title III, Part C - Nutrition Services | 93.045 | FSSA | 04 AA IN T3 SP | 1,449,874 | 1,379,319 |
| | | | 05 AA IN T3 SP | 5,845,326 | 5,581,207 |
| | | | 06 AA IN T3 SP | 2,607,919 | 2,510,072 |
| *Total for Program* | | | | 9,903,119 | 9,470,598 |
| Nutrition Services Incentive Program | 93.053 | FSSA | 2 05 AA IN NSIP | 277,091 | - |
| | | | 2 06 AA IN NSIP | 1,041,099 | - |
| *Total for Program* | | | | 1,318,190 | - |
| *Total for Cluster* | | | | 19,550,673 | 17,417,437 |
| Child Care Cluster | | | | | |
| Child Care and Development Block Grant | 93.575 | FSSA | | | |
| | | | G 04 01 IN CCDF | 2,892,370 | - |
| | | | G 05 01 IN CCDF | 32,439,723 | - |
| | | | G 06 01 IN CCDF | 10,849,261 | - |
| *Total for Program* | | | | 46,181,354 | 30,945,176 |
| Child Care Mandatory and Matching Funds of the Child Care Development Fund (CCDF) | 93.596 | FSSA | | | |
| | | | G 05 01 IN CCDF | 21,529,172 | - |
| | | | G 06 01 IN CCDF | 47,864,976 | - |
| *Total for Program* | | | | 69,394,148 | 50,896,392 |
| *Total for Cluster* | | | | 115,575,502 | 81,841,568 |
| Medicaid Cluster | | | | | |
| State Medicaid Fraud Control Units | 93.775 | AG | 01-0601-IN-5050 | 1,866,742 | - |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 | | | | |
| State Survey and Certification of Health Care Providers | | FSSA | 5 05 05 IN 5001 | 1,182,673 | - |
| State Survey and Certification of Health Care Providers | | FSSA | 5 06 05 IN 5001 | 2,123,367 | - |
| Medicare Title XVIII - 2005 | | ISDOH | 05-0505-IN-5004 | 1,324,438 | - |
| Medicare Title XVIII - 2006 | | ISDOH | 05-0505-IN-5005 | 3,724,910 | 3,594 |
| Clinical Lab Improvement Act - 2004 | | ISDOH | 05-0105-IN-5003 | 106,298 | - |
| Clinical Lab Improvement Act - 2005 | | ISDOH | 05-405-IN-5004 | 52,327 | - |
| Clinical Lab Improvement Act - 2006 | | ISDOH | 05-405-IN-5005 | 159,196 | - |
| *Total for Program* | | | | 8,673,209 | 3,594 |
| Medical Assistance Program | 93.778 | FSSA | 5 05 05 IN 5028 | 863,397,830 | - |
| | | | 5 06 05 IN 5028 | 2,377,267,231 | - |
| | | | 5 05 05 IN 5048 | 26,874,723 | - |
| | | | 5 06 05 IN 5048 | 86,112,541 | - |
| *Total for Program* | | | | 3,353,652,325 | - |
| *Total for Cluster* | | | | 3,364,192,276 | 3,594 |

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) | | | | | |
| Public Health and Social Services Emergency Fund | 93.003 | ISDOH | | | |
| Bioterrorism Hospital Planning 2004 | | | 4U3RMC00015-02 | 437,316 | 437,249 |
| Bioterrorism Hospital Planning 2005 | | | 8 U3RHS03847-01-02 | 1,442,541 | 1,346,801 |
| Bioterrorism Hospital Planning 2006 | | | 4URHS05709-01-02 | 6,704,995 | 6,329,950 |
| *Total for Program* | | | | 8,584,852 | 8,114,000 |
| Minority HIV/AIDS Demonstration Program | 93.006 | ISDOH | | | |
| Minority HIV/AIDS Demonstration Program-2004 | | | D92MP02001-02-2 | 4,819 | - |
| Minority HIV/AIDS Demonstration Program-2005 | | | STTMP020015-03-0 | 143,227 | 129,704 |
| OMH State Partnership Program FY06 | | | 1STTMP051005-01-0 | 42,244 | 26,364 |
| *Total for Program* | | | | 190,290 | 156,068 |
| Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation | 93.041 | FSSA | 05 AA IN T7 SP | 1,102 | - |
| | | | 06 AA IN T7 SP | 2,688 | - |
| | | | 05 AA IN T7 SP | 15,846 | 15,846 |
| *Total for Program* | | | | 19,636 | 15,846 |
| Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals | 93.042 | FSSA | 05 AA IN T7 SP | 2,878 | - |
| | | | 06 AA IN T7 SP | 7,786 | - |
| | | | 05 AA IN T7 SP | 70,392 | 70,391 |
| | | | 06 AA IN T7 SP | 194,351 | 194,351 |
| *Total for Program* | | | | 275,407 | 264,742 |
| Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services | 93.043 | FSSA | 04 AA IN T3 SP | 1,992 | - |
| | | | 05 AA IN T3 SP | 13,950 | - |
| | | | 04 AA IN T3 SP | 61,138 | 61,137 |
| | | | 05 AA IN T3 SP | 329,586 | 329,585 |
| *Total for Program* | | | | 406,666 | 390,722 |
| Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs | 93.048 | FSSA | | | |
| Alzheimer's Disease Grant | | | 90 AZ 2459 02 | 19,379 | - |
| Alzheimer's Disease Grant | | | 90 AZ 2789 01 | 46,507 | - |
| Alzheimer's Disease Grant | | | 90 AZ 2789 02 | 232,219 | - |
| ADRC AOA | | | 90 AM 2828 01 | 210,808 | - |
| ADRC AOA | | | 90 AM 3026 01 | 103 | - |
| *Total for Program* | | | | 509,016 | - |
| National Family Caregiver Support (NFCSP) | 93.052 | FSSA | 03 AA IN 1719 | 101,229 | 86,838 |
| | | | 04 AA IN 1719 | 2,840,751 | 2,739,494 |
| *Total for Program* | | | | 2,941,980 | 2,826,332 |
| State Food Safety & Security Task Force Meeting | 93.103 | ISDOH | 1R13FD003184-01 | 2,467 | - |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances | 93.104 | | | | |
| Child MH Initiative | | FSSA | C H5 SM 52893 A | 1,540,107 | - |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | ISDOH | | | |
| Data Integration 2005 | | | 2 H18 MC 00017-09 | 57,125 | - |
| Data Integration 2006 | | | 5H18MC00017-10 | 58,209 | - |
| Early Childhood Comprehensive System Planning 2005 | | | 6H25MC00263-02 | 26,695 | 26,695 |

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) | | | | | |
| Maternal and Child Health Federal Consolidated Programs (continued) | | | | | |
| Early Childhood Comprehensive System Planning 2006 | | | 6H25MC00263-03 | 24,551 | 23,510 |
| Genetics Implementation Grant 2005 | | | 6H91MC00222-03 | 83,687 | 301,959 |
| Genetics Implementation Grant 2006 | | | 4H91MC00222-04 | 154,324 | 360 |
| *Total for Program* | | | | 404,591 | 352,524 |
| Children's Oral Healthcare Access Program | 93.111 | ISDOH | | | |
| Children's Oral Healthcare Access Program 2005 | | | 6H47MC02007-02-01 | 3,263 | 3,263 |
| Children's Oral Healthcare Access Program 2006 | | | 5H47MC02007-03-01 | 65,000 | 65,000 |
| *Total for Program* | | | | 68,263 | 68,263 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | ISDOH | | | |
| Tuberculosis Control Program - 2005 | | | U52/CCU500520-23 | 423,259 | 357,310 |
| Tuberculosis Control Program - 2006 | | | U52/CCU500520-24 | 269,621 | 236,433 |
| *Total for Program* | | | | 692,880 | 593,743 |
| Crisis Counseling Assistance & Training | 93.119 | FSSA | H07SM00215-01 | 108,161 | - |
| Primary Care Services - Resource Coordination and Development - Primary Care Offices | 93.130 | ISDOH | | | |
| Primary Care Offices - 2006 | | | 5 U68 CS 00182-16 | 117,793 | 59,049 |
| Primary Care Offices - 2007 | | | 6 U68 CS 00182-15 | 17,928 | 5,788 |
| *Total for Program* | | | | 135,721 | 64,837 |
| Injury Prevention and Control Research | 93.136 | | | | |
| Core Injury Surveillance 2005 | | ISDOH | U17/CCU5222371-02 | 18,977 | 15,662 |
| Protection and Advocacy for Individuals With Mental Illness | 93.138 | IPASC | SMX198700-06-1 | 648,172 | - |
| Projects for Assistance in Transition From Homelessness | 93.150 | FSSA | S MX 060015 N | 370,911 | - |
| | | | S MX 060015 O | 328,414 | - |
| *Total for Program* | | | | 699,325 | - |
| State Loan Repayment Program | 93.165 | ISDOH | 4H56HP00122-03-01 | 27,300 | 27,300 |
| Community Prevention Coalitions (Partnership) Demonstration Grant | | | | | |
| Indiana Grassroots Prevention Coalition | 93.194 | FSSA | U9SP11212A | 6,115 | - |
| Childhood Lead Poisoning Prevention Program | 93.197 | ISDOH | US7/CCU522878-03-1 | 341,949 | 280,128 |
| | | | US7/CCU522878-03-1 | 613,015 | 269,469 |
| *Total for Program* | | | | 954,964 | 549,597 |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | ISDOH | | | |
| Cooperative Health Statistics - 2005 | | | 200-2000-07214 | 787,350 | 3,988 |
| Cooperative Health Statistics - 2006 | | | 200-2000-07214 | 463,351 | 20,200 |
| *Total for Program* | | | | 1,250,701 | 24,188 |
| Consolidated Knowledge Development and Application Program | 93.230 | FSSA | | | |
| MI DIG | | | HR1 SM54201-01 | 42,022 | - |
| MI DIG | | | H1SM56660A | 75,049 | - |
| *Total for Program* | | | | 117,071 | - |

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) | | | | | |
| Abstinence Education | 93.235 | ISDOH | | | |
| Abstinence Education Block Grant - 2004 | | | G-0401INAEGP | 246,673 | 246,673 |
| Abstinence Education Block Grant - 2005 | | | G-0501INAEGP | 739,363 | 429,652 |
| Abstinence Education Block Grant - 2006 | | | G-0601INAEGP | 37,421 | 37,421 |
| *Total for Program* | | | | 1,023,457 | 713,746 |
| Cooperative Agreements for State Treatment Outcomes | 93.238 | FSSA | U1TI 14631A | 134,647 | - |
| State Rural Hospital Flexibility Program | 93.241 | ISDOH | | | |
| RHFP-Critical Access Hospitals 2005 | | | 5 H54 RH 0042-06-00 | 334,776 | 331,949 |
| RHFP-Critical Access Hospitals 2006 | | | 5 H54 RH 0042-07-00 | 35,937 | 35,590 |
| *Total for Program* | | | | 370,713 | 367,539 |
| Substance Abuse and Mental Health Services | 93.243 | FSSA | H9 SM 55157A | 73,347 | - |
| | | | HP SM 56140A | 466,600 | - |
| *Total for Program* | | | | 539,947 | - |
| Universal Newborn Hearing Screening | 93.251 | ISDOH | | | |
| Universal Newborn Hearing Screening - 2005-06 | | | 4 H61 MC 00059-04 | 131,344 | 101,090 |
| Universal Newborn Hearing Screening - 2007 | | | 4 H61 MC 00059-05 | 4,710 | 4,710 |
| Rape Prevention and Education - 2005 | | | VF1/CCV519921-04 | 594,652 | - |
| Rape Prevention and Education - 2006 | | | VF1/CCV519921-05 | 351,101 | - |
| *Total for Program* | | | | 1,081,807 | 105,800 |
| Health Care Access Planning | 93.256 | FSSA | P09 OA 00050A01 | 55,673 | - |
| | | | P09 OA 00050A02 | 92,949 | - |
| | | | 04051 01 | 97,036 | - |
| *Total for Program* | | | | 245,658 | - |
| Protection and Advocacy for Individuals with Traumatic Brain Injuries | 93.267 | IPASC | X82CM07232 | 469 | - |
| Immunization Grants | 93.268 | ISDOH | | | |
| Immunization Program - 2005 | | | H23/CCH522522-03-2 | 2,531,541 | 1,481,580 |
| Immunization Program - 2006 | | | H23/CCH522522-04 | 1,074,967 | 132,286 |
| Immunization Program Noncash assistance | | | H23/CCH522522-03-2 | 358,000 | - |
| Immunization Program Noncash assistance | | | H23/CCH522522-04 | 247,700 | - |
| *Total for Program* | | | | 4,212,208 | 1,613,866 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | ISDOH | | | |
| Behavior Risk Factor Surveillance - 2005 | | | U58/CCU522814-02-5 | 25,844 | 25,844 |
| Behavior Risk Factor Surveillance - 2006 | | | U58/CCU522814-03-5 | 128,885 | 124,365 |
| State Epidemiology and Laboratory Surveillance and Response-05 | | | U50/CCU523777-01 | 578,906 | 246,203 |
| State Epidemiology and Laboratory Surveillance and Response-06 | | | U50/CCU523777-02 | 112,778 | 50,618 |
| Tobacco Use Prevention and Control - 2005 | | | U58/CCU522814-01-3 | 455,507 | 451,762 |
| Tobacco Use Prevention and Control - 2006 | | | U58/CCU522814-02 | 479,484 | 409,417 |
| Bioterrorism Preparedness & Response Supplemental - 2004 | | | U90/CCU517024-04 | 349,453 | 349,453 |
| Bioterrorism Preparedness & Response Supplemental - 2005 | | | U90/CCU517024-05 | 6,581,530 | 3,224,556 |
| Bioterrorism Preparedness & Response Supplemental - 2006 | | | U90/CCU517024-06 | 8,298,204 | 4,493,846 |
| Bioterrorism Preparedness & Response Non Cash Assistance | | | U90/CCU517024-05 | 308,371 | - |
| Bioterrorism Preparedness & Response Non Cash Assistance | | | U90/CCU517024-06 | 1,518,557 | - |
| Addressing Asthma - 2005 | | | U59/CCU520860-03 | 31,062 | 33,939 |
| Addressing Asthma - 2006 | | | U59/CCU525032-01 | 100,888 | 25,131 |
| Comprehensive Cancer Control 2005 | | | U55/CCU521884-03 | 23,047 | 15,592 |
| Comprehensive Cancer Control 2006 | | | U55/CCU521884-04 | 185,572 | 150,087 |
| Early Hearing Detection and Intervention 2005 | | | UR3/CU523187-02 | 98,412 | 1,569 |
| Early Hearing Detection and Intervention 2006 | | | UR3/CU524776-01 | 123,217 | 56,912 |

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) | | | | | |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance (continued) | | | | | |
| Reducing the Impact of Arthritis 2005 | | | U58/CCU522814-02-5 | 62,033 | - |
| Reducing the Impact of Arthritis 2006 | | | U58/CCU522814-03 | 85,116 | 72,541 |
| National Program of Cancer Registries - 2004 | | | U55/CCU521884-02 | 5,701 | - |
| National Program of Cancer Registries - 2005 | | | U55/CCU521884-03 | 22,892 | - |
| National Program of Cancer Registries - 2006 | | | U55/CCU521884-04 | 459,352 | 147,089 |
| *Total for Program* | | | | 20,034,811 | 9,878,924 |
| Small Rural Hospital Improvement Grant | 93.301 | ISDOH | | | |
| Small Rural Hospital Improvement Grant -2005 | | | 5H3HRH00003-03-00 | 128,478 | 128,478 |
| Small Rural Hospital Improvement Grant -2006 | | | 6H3HRH00003-04-01 | 77,746 | 77,746 |
| *Total for Program* | | | | 206,224 | 206,224 |
| Promoting Safe and Stable Families | 93.556 | DCS | G 04 01 IN OOFP | 1,852,971 | - |
| | | | G 05 01 IN OOFP | 5,690,190 | - |
| *Total for Program* | | | | 7,543,161 | - |
| Temporary Assistance for Needy Families (TANF) | 93.558 | FSSA | G 05 01 IN TANF | 117,988,740 | - |
| | | | G 06 01 IN TANF | 82,471,648 | - |
| *Total for Program* | | | | 200,460,388 | - |
| Child Support Enforcement | 93.563 | DCS | G 05 05 IN 4004 | 11,111,655 | - |
| | | | G 06 04 IN 4004 | 40,834,767 | - |
| | | | 90 FD 007601 | 11,789 | - |
| *Total for Program* | | | | 51,958,211 | 7,080,909 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | FSSA | G 05 AA IN 5100 | 325,572 | - |
| | | | G 06 AA IN 5100 | 510,467 | - |
| *Total for Program* | | | | 836,039 | - |
| Low Income Home Energy Assistance | 93.568 | FSSA | G 05 IN LIEA | 4,890,067 | 1,584,895 |
| | | | G 06 IN LIEA | 52,331,723 | 43,072,968 |
| *Total for Program* | | | | 57,221,790 | 44,657,863 |
| Community Services Block Grant | 93.569 | FSSA | G 04 IN COSR | 66,363 | - |
| | | | G 05 IN COSR | 8,419,609 | - |
| *Total for Program* | | | | 8,485,972 | - |
| Refugee and Entrant Assistance - Discretionary Grants | 93.576 | | | | |
| Health Programs for Refugees - 2005 | | ISDOH | 90RX0132/02 | 5,103 | 5,103 |
| Health Programs for Refugees - 2006 | | ISDOH | 90RX0132/03 | 38,896 | 38,896 |
| Refugee Children School Impact 2005 | | IDOE | 90ZE041/03 | 41,993 | - |
| *Total for Program* | | | | 85,992 | 43,999 |
| Indiana Court Improvement Program | 93.586 | | | | |
| CIP Grant FY 03 | | SC | JTAC-CIP-FY03 | 50,000 | - |
| CIP Grant FY 04 | | | 1U57G | 247,387 | 239,203 |
| CIP Grant FY 05 | | | 1U57G | 88,396 | 88,396 |
| *Total for Program* | | | | 385,783 | 327,599 |

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) | | | | | |
| Community-Based Family Resource and Support Grants | 93.590 | DCS | G 00 02 IN FRPG | 112,053 | - |
| | | | G 00 03 IN FRPG | 529,959 | - |
| *Total for Program* | | | | 642,012 | - |
| Grants to States for Access and Visitation Programs | 93.597 | DCS | | | |
| Access and Visitation | | | G 03 01 IN SAVP | 83,579 | - |
| Access and Visitation | | | G 04 01 IN SAVP | 70,084 | - |
| *Total for Program* | | | | 153,663 | 170,736 |
| Head Start | 93.600 | FSSA | G 05 CD 0012 03 | 12,356 | - |
| | | | G 05 CD 0012 04 | 151,632 | - |
| | | | G 05 CD 0012 05 | 93,854 | - |
| *Total for Program* | | | | 257,842 | - |
| New Assets for Independence Demonstration Program | 93.602 | LtGov | E9010325/01 | 1,035,949 | - |
| Adoption Incentive Payments | 93.603 | DCS | 05 01 IN AIPP | 30,987 | - |
| Voting Access for Individuals with Disabilities | 93.617 | SOS | | | |
| Election Assistance for People with Disabilities | | | G-0303INVOTE | 219,174 | - |
| Election Assistance for People with Disabilities | | | G-0403INVOTE | 175,350 | - |
| Election Assistance for People with Disabilities | | | G-0503INVOTE | 83,023 | - |
| *Total for Program* | | | | 477,547 | - |
| Voting Access for Individuals with Disabilities | 93.618 | IPASC | G-0603INVOTP | 75,095 | - |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | IGPC | G-0301INBS15 | 11,494 | 9,944 |
| | | IGPC | G-0401INBS15 | 381,958 | 356,508 |
| | | IGPC | G-0501INBS15 | 594,469 | 209,723 |
| | | IGPC | G-0601INBS15 | 314,184 | 8,851 |
| | | IPASC | G0601INPA15 | 600,261 | - |
| *Total for Program* | | | | 1,902,366 | 585,026 |
| Developmental Disabilities of National Significance | 93.631 | FSSA | 90 DF 007001 | 87,730 | - |
| Child Welfare Services - State Grants | 93.645 | DCS | G 04 01 IN 1400 | 1,393,491 | - |
| | | | G 05 01 IN 1400 | 3,805,991 | - |
| *Total for Program* | | | | 5,199,482 | - |
| Foster Care - Title IV-E | 93.658 | DCS | G 05 01 IN 1401 | 45,298,210 | - |
| | | | G 06 01 IN 1401 | 54,270,341 | - |
| *Total for Program* | | | | 99,568,551 | - |
| Adoption Assistance | 93.659 | DCS | G 05 01 IN 1407 | 8,076,339 | - |
| | | | G 06 01 IN 1407 | 26,716,465 | - |
| *Total for Program* | | | | 34,792,804 | - |
| Social Services Block Grant | 93.667 | DCS | G 05 01 IN SOSR | 16,989,675 | - |
| | | | G 06 01 IN SOSR | 20,723,637 | - |
| *Total for Program* | | | | 37,713,312 | 35,692,309 |

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, 2005 to June 30, 2006
(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) | | | | | |
| Family Violence Protection and Services/Grants for Battered Womens' Shelters - Grants to States and Indian Tribes | 93.671 | DCS | G 04 01 IN FVPS | 616,804 | - |
| | | | G 05 01 IN FVPS | 1,236,874 | - |
| *Total for Program* | | | | 1,853,678 | - |
| Independent Living | 93.674 | DCS | G 04 01 IN 1420 | 753,091 | - |
| | | | G 05 01 IN 1420 | 1,431,892 | - |
| | | | G 05 01 IN CETV | 751,597 | - |
| | | | G 06 01 IN CETV | 31,845 | - |
| *Total for Program* | | | | 2,968,425 | - |
| State Children's Insurance Program | 93.767 | FSSA | 5 03 05IN 5021 | 9,060,880 | - |
| | | | 5 04 05IN 5021 | 54,026,680 | - |
| | | | 5 05 05IN 5021 | 13,800,705 | - |
| *Total for Program* | | | | 76,888,265 | - |
| Medicaid Infrastructure Grant To Support Competitive Employment | 93.768 | FSSA | 05 00000 91781 | 353,372 | - |
| Health Care Financing Research, Demonstration and Evaluations | 93.779 | | | | |
| Nursing Facility Transition | | FSSA | 05 00000 91655 | 237,609 | - |
| DDARS OLMSTEAD | | FSSA | 05 00000 92095 | 6,515 | - |
| Comm Integrated Personal Assist Service | | FSSA | 05 00000 91654 | 136,170 | - |
| Real Choice Systems Change | | FSSA | 05 00000 91653 | 35,890 | - |
| Payment Accuracy Measure | | FSSA | 04 05 IN PERM | 81,190 | - |
| DMHA OLMSTEAD | | FSSA | Direct | 21,902 | - |
| | | IDOI | 11-P-20202/5-13 | 590,445 | - |
| | | IDOI | 11-P-20202/5-14 | 112,646 | - |
| *Total for Program* | | | | 1,222,367 | - |
| State Pharmaceutical Assistance Program Training | 93.786 | FSSA | 5 0505 IN SPAP | 748,734 | - |
| | | | 5 0605 IN SPAP | 146,349 | - |
| *Total for Program* | | | | 895,083 | - |
| Grants to States for Operation of Offices of Rural Health | 93.913 | ISDOH | | | |
| State Office of Rural Health - 2005 | | | 01 | 40,375 | 38,891 |
| State Office of Rural Health - 2006 | | | 01 | 18,301 | - |
| *Total for Program* | | | | 58,676 | 38,891 |
| Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs | 93.919 | ISDOH | | | |
| Breast and Cervical Cancer Early Detection - 2005 | | | U55/CCU521884-03 | 301,404 | 52,560 |
| Breast and Cervical Cancer Early Detection - 2006 | | | U55/CCU521884-04 | 1,208,477 | 429,105 |
| *Total for Program* | | | | 1,509,881 | 481,665 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA) | 93.938 | IDOE | | | |
| CHIP and HIV-AIDS Education | | | CCU522603-02 | 255,633 | 58,786 |
| CHIP and HIV-AIDS Education | | | CCU522603-03 | 318,622 | - |
| *Total for Program* | | | | 574,255 | 58,786 |
| HIV Prevention Activities - Health Department Based | 93.940 | ISDOH | | | |
| HIV Prevention Project - 2005 | | | U62/CCU523488-02 | 1,683,194 | 1,230,319 |
| HIV Prevention Project - 2006 | | | U62/CCU523488-03 | 882,683 | 548,731 |
| *Total for Program* | | | | 2,565,877 | 1,779,050 |

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) | | | | | |
| HIV/AIDS Surveillance | 93.944 | ISDOH | | | |
| Morbidity and Risk Behavior- 2006 | | | U62/CCU5244446-02 | 95,251 | - |
| Morbidity and Risk Behavior- 2007 | | | U62/CCU5235393-03 | 24,962 | - |
| HIV/AIDS Surveillance and Seroprevalence - 2005 | | | U62/CCU5235393-02 | 367,953 | 174,379 |
| HIV/AIDS Surveillance and Seroprevalence - 2006 | | | U62/CCU5235393-03 | 205,159 | 20,418 |
| HIV/AIDS Surveillance and Seroprevalence - 2004 | | | 1U01PS000116-01 | 16,327 | - |
| *Total for Program* | | | | 709,652 | 194,797 |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945 | | | | |
| Great Lakes Stroke Prevention | | ISDOH | N/A | 5,007 | 4,000 |
| Trauma Care Systems Planning and Development | 93.952 | ISDOH | | | |
| 2005 | | | 6H81HS02802-01-02 | 8,407 | - |
| 2006 | | | 4H81HS05401-01-01 | 1,398 | - |
| *Total for Program* | | | | 9,805 | - |
| Block Grants for Community Mental Health Services | 93.958 | FSSA | 05 B1 IN CMHS | 5,384,377 | - |
| | | | 06 B1 IN CMHS | 3,228,123 | - |
| *Total for Program* | | | | 8,612,500 | - |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | FSSA | 03 B1 IN SAPT | 62,572 | - |
| | | | 04 B1 IN SAPT | 601,404 | - |
| | | | 05 B1 IN SAPT | 31,770,908 | - |
| | | | 06 B1 IN SAPT | 331,592 | - |
| *Total for Program* | | | | 32,766,476 | - |
| Preventive Health Services - Sexually Transmitted Disease Control Grants | 93.977 | ISDOH | | | |
| Sexually Transmitted Disease Accel Prevention Campaign - 2005 | | | H25/CCH504340-14 | 1,590,694 | 1,479,338 |
| Sexually Transmitted Disease Accel Prevention Campaign - 2006 | | | H25/CCH504340-15 | 568,043 | 476,131 |
| Sexually Transmitted Disease - Noncash Assistance | | | H25/CCH504340-14 | 411,822 | - |
| *Total for Program* | | | | 2,570,559 | 1,955,469 |
| Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | 93.988 | ISDOH | | | |
| Diabetes Grant - 2006 | | | U32/CCU522713-03 | 241,511 | 98,360 |
| Diabetes Grant - 2007 | | | U32/CCU522713-04 | 35,512 | 4,170 |
| *Total for Program* | | | | 277,023 | 102,530 |
| Preventative Health and Health Services Block Grant | 93.991 | | | | |
| Preventative Health and Health Services Block Grant - 2005 | | ISDOH | 2004-BI-IN-PRVS-03 | 857,450 | 593,984 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | ISDOH | | | |
| Maternal and Child Health Block Grant - 2005 | | | 6 B04 MC 04272-01-01 | 5,385,170 | 3,913,092 |
| Maternal and Child Health Block Grant - 2006 | | | 1B04MC04272-01 | 7,877,327 | 3,961,094 |
| *Total for Program* | | | | 13,262,497 | 7,874,186 |
| Other Assistance | | | | | |
| Drug and Alcohol Services Information System (DASIS) | 93 | FSSA | 283 95 0016 | 187,302 | 129,373 |
| *Total Other Assistance* | | | | 187,302 | 129,373 |
| *Total U.S. Department of Health and Human Services* | | | | 4,203,833,880 | 272,041,557 |

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, 2005 to June 30, 2006
(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 | | | | | |
| State Commissions | 94.003 | CCSV | | | |
| Administrative | | | 04CAHIN001 | 133,710 | - |
| | | | 04CAHIN001 | 96,221 | - |
| *Total for Program* | | | | 229,931 | - |
| Learn and Serve America - School and Community Based Programs | 94.004 | IDOE | | | |
| K-12 Formula Grant 2004 | | | 03KSNIN001 | 323,184 | 91,006 |
| Learn and Serve Homeland Security Initiatives Grant 2003 | | | 04KSHIN001 | 301,183 | 396,750 |
| *Total for Program* | | | | 624,367 | 487,756 |
| AmeriCorps | 94.006 | CCSV | | | |
| AmeriCorps Competitive | | | 03ACHIN001 | 212,029 | 194,593 |
| AmeriCorps Competitive | | | 03ACHIN001 | 441,722 | 441,822 |
| AmeriCorps Competitive | | | 03ACHIN001 | 1,253 | 1,253 |
| AmeriCorps Formula | | | 03AFHIN001 | 774,985 | 774,985 |
| AmeriCorps Formula | | | 03AFHIN001 | 1,032,826 | 1,005,709 |
| AmeriCorps Formula | | | 03AFHIN001 | (68) | 1,061 |
| *Total for Program* | | | | 2,462,747 | 2,419,423 |
| Planning and Program Development Grants | 94.007 | | | | |
| Disability and Placement Funds | | CCSV | 04CDHIN001 | 535 | - |
| Training and Technical Assistance | 94.009 | CCSV | | | |
| Program Development and Technical Assistance | | | 06PTHIN001 | 12,877 | - |
| Program Development and Technical Assistance | | | 05PTHIN001 | 96,410 | - |
| *Total for Program* | | | | 109,287 | - |
| *Total Corporation for National and Community Service* | | | | 3,426,867 | 2,907,179 |
| SOCIAL SECURITY ADMINISTRATION | | | | | |
| Disability Insurance/SSI Cluster | | | | | |
| Social Security - Disability Insurance | 96.001 | FSSA | 04 04 IND I00 | 14,491 | - |
| | | | 05 04 IND I00 | 12,238,997 | - |
| | | | 06 04 IND I00 | 23,489,260 | - |
| | | | 05 04 IND I02 | 1,250 | - |
| *Total for Program and Cluster* | | | | 35,743,998 | - |
| Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries | 96.009 | IPAS | SSA-OESP-0401 | 65,212 | - |
| Other Assistance | | | | | |
| Reimbursement of Vocational Rehabilitation Funds | 96 | FSSA | N/A | 308,813 | - |
| *Total Other Assistance* | | | | 308,813 | - |
| *Total Social Security Administration* | | | | 36,118,023 | - |
| U.S. DEPARTMENT OF HOMELAND SECURITY | | | | | |
| Homeland Security Cluster | | | | | |
| Homeland Security Grants | 97.067 | IDHS | | | |
| 2000-2001 | | | 2003-TE-TX-0029 | 864,400 | 570,444 |
| 2002 | | | 2002-TE-CX-0145 | 1,009,679 | 9,692 |
| 2003, Part 1 | | | 2003-TE-TX-0198 | 2,988,372 | 1,159,080 |

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 HOMELAND SECURITY (continued) | | | | | |
| Homeland Security Cluster (continued) | | | | | |
| 2003, Part 2 | | | 2003-MU-T3-0027 | 3,276,074 | 449,825 |
| 2004 HSGP | | | 2004-GE-T4-0029 | 11,218,648 | 1,493,001 |
| 2004 USAI | | | 2004-TU-T4-0019 | 2,470,047 | 2,470,047 |
| 2004 HSGP | | | 2005-GE-T5-0049 | 2,129,812 | 2,129,812 |
| *Total for Program and Cluster* | | | | 23,957,032 | 8,281,901 |
| Boating Safety Financial Assistance | 97.012 | DNR | LE3001LEB00x-06 | 478,900 | - |
| | | | LE3001LEB00x-05 | 651,977 | - |
| *Total for Program* | | | | 1,130,877 | - |
| Community Assistance Program State Support Services Element | 97.023 | IDHS | EMC-2005-GR-7002 | 58,760 | - |
| | | DNR | 300WT1SSSE06001 | 16,512 | - |
| | | DNR | 300WT1SSSE06002 | 8,295 | - |
| | | DNR | 300WT1SSSE06003 | 2,180 | - |
| | | DNR | 300WT1SSSE06004 | 2,708 | - |
| | | DNR | 300WT1SSSE06005 | 1,968 | - |
| | | DNR | 300WT1SSSE06006 | 6,136 | - |
| | | DNR | 300WT1SSSE06007 | 28,734 | - |
| | | DNR | 300WT1SSSE06008 | 4,879 | - |
| | | DNR | 300WT1SSSE06010 | 2,099 | - |
| | | DNR | 300WT1SSSE06011 | 7,689 | - |
| | | DNR | 300WT9SSSE05001 | 20,107 | - |
| *Total for Program* | | | | 160,067 | - |
| Flood Mitigation Assistance | 97.029 | IDHS | | | |
| FMA 2003 | | | EMC-2003-GR-7040 | 14,606 | 14,600 |
| FMA 2005 | | | EMC-2005-FM-E002 | 656,790 | 656,786 |
| *Total for Program* | | | | 671,396 | 671,386 |
| Disaster Unemployment Assistance | 97.034 | DWD | UI-14433-05-55 | 34,238 | - |
| Disaster Grants - Public Assistance | 97.036 | | | | |
| 300DR9FLOODS | | DNR | January 2005 Floods | 1,927,530 | - |
| 300DR9HURR06 | | DNR | Hurricane Katrina | 995,206 | - |
| Disaster Related Expenses | | CCSV | EM3238 | 9,947 | - |
| Katrina Administration | | FSSA | 0605INKBEN | 208,321 | - |
| Disaster 1418 | | IDHS | N/A | 123,633 | 113,361 |
| Disaster 1433 | | IDHS | N/A | 15,320 | 3,500 |
| Disaster 1476 | | IDHS | N/A | 1,068,160 | 1,048,768 |
| Disaster 1520 | | IDHS | N/A | 492,974 | 488,161 |
| Disaster 1542 | | IDHS | N/A | 26,568 | 3,367 |
| Disaster 1573 | | IDHS | N/A | 4,818,746 | 4,798,738 |
| Disaster 3197 | | IDHS | N/A | 383,260 | 377,746 |
| Disaster 3238 | | IDHS | N/A | 94,369 | 36,250 |
| Disaster 1612 | | IDHS | N/A | 1,991,861 | 1,938,731 |
| *Total for Program* | | | | 12,155,895 | 8,808,622 |
| Hazard Mitigation Grant | 97.039 | IDHS | | | |
| Disaster 1418 | | | N/A | 66,403 | 28,042 |
| Disaster 1433 | | | N/A | 11,420 | 10,000 |
| Disaster 1476 | | | N/A | 151,488 | 149,983 |
| Disaster 1487 | | | N/A | 161,789 | 161,735 |
| Disaster 1520 | | | N/A | 190,060 | 189,217 |
| Disaster 1542 | | | N/A | 60,716 | 59,088 |
| Disaster 1573 | | | N/A | 1,834,013 | 1,829,320 |
| *Total for Program* | | | | 2,475,889 | 2,427,385 |

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 HOMELAND SECURITY (continued) | | | | | |
| Chemical Stockpile Emergency Preparedness Program | 97.040 | IDHS | | | |
| CAC | | | N/A | 200 | - |
| Chemical Stockpile - 2003 | | | EMC-2003-GR-7032 | 254,239 | 139,588 |
| Chemical Stockpile - 2004 | | | EMC-2004-GR-7002 | 435,169 | 242,058 |
| Chemical Stockpile - 2005 | | | EMC-2005-GR-7008 | 1,403,359 | 1,179,093 |
| Chemical Stockpile - 2006 | | | EMC-2006-GR-7002 | 1,038,788 | 821,828 |
| *Total for Program* | | | | 3,131,755 | 2,382,567 |
| Emergency Management Performance Grants | 97.042 | IDHS | | | |
| 2004 EMPG | | | EMC-2004-GR-7004 | 466 | - |
| 2005 EMPG | | | 2005-GE-T5-0049 | 1,187,677 | 604,750 |
| *Total for Program* | | | | 1,188,143 | 604,750 |
| Cooperating Technical Partners | 97.045 | DNR | 300WT1DM2003001 | 29,328 | - |
| | | | 300WT1CTP040001 | 885 | - |
| | | | 300WT1CTP040002 | 289 | - |
| | | | 300WT1CTP050001 | 3,883 | - |
| | | | 300WT1CTP050002 | 160,896 | - |
| | | | 300WT1CTP050003 | 113,447 | - |
| | | | 300WT1CTP050004 | 105,979 | - |
| | | | 300WT1CTP050005 | 206,479 | - |
| | | | 300WT1CTP050006 | 76,892 | - |
| | | | 300WT1CTP050007 | 146,049 | - |
| | | | 300WT1CTP050008 | 31,836 | - |
| | | | 300WT1CTP050009 | 113,963 | - |
| | | | 300WT1CTP050010 | 44,386 | - |
| | | | 300WT1CTP050011 | 109,428 | - |
| | | | 300WT1CTP050012 | 27,724 | - |
| | | | 300WT1CTP050013 | 109,991 | - |
| | | | 300WT1CTP050014 | 79,613 | - |
| *Total for Program* | | | | 1,361,068 | - |
| Pre-Disaster Mitigation | 97.047 | IDHS | | | |
| 2002 | | | EMC-2002-GR-7034 | 38,500 | 38,500 |
| PDM-C | | | EMC-2004-PC-0004 | 470,712 | 470,411 |
| *Total for Program* | | | | 509,212 | 508,911 |
| Citizen Corps | 97.053 | CCSV | EMC-2003-GR-7018 | 95,668 | 92,508 |
| Community Emergency Response Teams | 97.054 | IDHS | EMC-2006-GR-7063 | 124,537 | 11,193 |
| Map Modernization Management Support Program | 97.070 | | | | |
| | | IDHS | EMC-2004-GR-7022 | 51,986 | - |
| | | DNR | 300WT9MMMS04001 | 20,230 | - |
| | | DNR | 300WT1MMMS05001 | 193 | - |
| | | DNR | 300WT1MMMS05002 | 10,003 | - |
| | | DNR | 300WT1MMMS05003 | 2,851 | - |
| | | DNR | 300WT1MMMS05004 | 6,241 | - |
| | | DNR | 300WT1MMMS05005 | 6,341 | - |
| | | DNR | 300WT1MMMS05006 | 4,846 | - |
| | | DNR | 300WT1MMMS05007 | 1,096 | - |
| | | DNR | 300WT1MMMS05008 | 268 | - |
| | | DNR | 300WT1MMMS05009 | 55,580 | - |
| *Total for Program* | | | | 159,635 | - |
| Law Enforcement Terrorism Prevention Program (LETPP) | 97.074 | IDHS | 2005-GE-T5-0049 | 636,510 | 575,347 |
| *Total U.S. Department of Homeland Security* | | | | 47,791,922 | 24,364,570 |
| *Total Federal Awards Expended* | | | | $ 7,570,781,241 | $ 1,372,945,643 |

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 its own independent audits in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations with a fiscal year end date of June 30, except for the Indiana Housing and Community Development Authority which has a fiscal year end date of December 31.

| Component Unit | Federal Funds Expended |
|---|---|
| Purdue University | $ 241,415,417 |
| Indiana University | 320,866,728 |
| Indiana State University | 15,702,057 |
| Ball State University | 20,216,813 |
| Vincennes University | 14,813,775 |
| University of Southern Indiana | 6,314,894 |
| Ivy Tech State College | 72,975,731 |
| Indiana Finance Authority | 33,757,483 |
| Indiana Housing and Community Development Authority | 156,851,763 |
| Total | $ 882,914,661 |

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. See also note 8.

| Agency | Agency Name |
|---|---|
| AG | Attorney General, Office of the |
| BOAH | Board of Animal Health |
| CCSV | Governor's Commission on Community Service and Volunteerism |
| CHE | Commission for Higher Education |
| DCS | Indiana Department of Child Services |
| DNR | Indiana Department of Natural Resources |
| IDOC | Indiana Department of Correction |
| IDOL | Indiana Department of Labor |
| IDWD | 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 |
| IDHS | Indiana Department of Homeland Security |
| 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 |
| IEDC | Indiana Economic Development Commission |
| IGPC | Indiana Governor's Planning Council for People With Disabilities |
| INDOT | Indiana Department of Transportation |
| IPASC | Indiana Protection and Advocacy Services Commission |
| IPSB | Indiana Professional Standards Board |
| ISDOH | Indiana State Department of Health |
| ISL | Indiana State Library |
| IURC | Indiana Utility Regulatory Commission |
| IVH | Indiana Veterans' Home |
| LtGov | Lieutenant Governor – Office of Commissioner of Agriculture |
| MD | Military Department of State of Indiana |
| SC | Supreme Court |
| SOS | Secretary of State |
| 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 | $ 21,740,940 |
| Donation of Federal Surplus Personal Property | 39.003 | 2,476,364 |
| Immunization Grants | 93.268 | 605,700 |
| Bioterrorism Preparedness and Response | 93.283 | 1,826,928 |
| Preventive Health Services - Sexually Transmitted Disease Control Grants | 93.977 | 411,822 |

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) does 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.

Note 8. Subsequent Events

Formation of New Department

Effective January 11, 2005, the Department of Child Services (DCS) was created. Several federal programs formerly under Family and Social Services Administration (FSSA) are now under the authority of DCS. However, many key processes, such as financial management and internal audit, are still under the authority of FSSA.

Transfer of Grants

Effective July 1, 2006, grants were transferred from FSSA, a state agency, to the Indiana Housing and Community Development Authority, a public body corporate and politic and a component unit for financial statement purposes. The federal transactions of the Authority are not reflected in this schedule, however the Authority has its own independent audit in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The grants transferred are as follows:

| Program Title | Federal CFDA Number |
|---|---|
| Section 8 Housing Choice Vouchers | 14.871 |
| Low Income Energy Assistance Program | 93.568 |
| Weatherization Assistance for Low-Income Persons | 93.268 |

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 Social Services Block Grant (93.667) and Medicaid (93.778). 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: $22,712,344

| | |
|---|---|
| Auditee qualified as low-risk auditee? | No |

Identification of major programs:

| CFDA No. | Program Title |
|---|---|
| FSC | Food Stamps Cluster (10.551,10.561) |
| 17.225 | Unemployment Insurance |
| 84.126 | Rehabilitation Services – Vocational Rehabilitation |
| MC | Medicaid Cluster (93.778, 93.775, 93.777) |
| CCC | Child Care Cluster (93.575, 93.596) |
| 93.558 | Temporary Assistance for Needy Families (TANF) |
| 93.563 | Child Support Enforcement |
| 93.568 | Low-Income Home Energy Assistance |
| 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 |
| 90.401 | Election Reform Payments |

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 240.

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 2005 - CAFR-1, CAPITAL ASSETS

The Indiana Department of Administration is required by statute to provide for the periodic inspection, appraisal, and inventory of all of the State's real and personal property. The Auditor of State needs financial information relating to the State's real and personal property for financial reporting purposes and had agreed to assume the responsibility for maintaining those records. Procedures have been established which require all state agencies to send timely updates of capital asset purchases and retirements of $20,000 or more to the Auditor of State. Additionally, agencies are required to physically tag assets and conduct an annual physical inventory of assets, comparing the results of such inventory to the Auditor of State and agency maintained capital asset records. Through our testing we found that state agencies do not consistently comply with the above requirements. This results in a lack of internal control over the State's capital assets as well as a misstatement of capital assets in the State's financial statements. Assets are frequently reported as additions in subsequent fiscal periods after the acquisition of the assets. This lack of timely reporting results in prior period adjustments in the State's financial statements.

The Governmental Accounting Standards Board requires the capitalization of a government's capital assets in the period in which they are acquired.

Indiana Code 4-13-1-20(b) and 4-20.5-6-3 state that the Department of Administration shall provide for the periodic inspection, appraisal, and inventory of all of the state's property, and shall require reports from agencies concerning the property in the custody of each state agency.

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. Certain Family and Social Services findings (denoted as FSSA) have (DCS) after the sequential number. This is due to the relationship between FSSA and the Department of Child Services (DCS). See Note 8. Unless otherwise noted, prior report references are to the State of Indiana Single Audit Report for the period of July 1, 2004 to June 30, 2005, Report Number B27072.

## 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 |
| 2002-FSSA-3 | Title XX and Validation of Day Services Claims |
| 2003-FSSA-1 | Foster Care Payments |
| 2003-FSSA-6 | Child Care and Development Fund (CCDF) - Monitoring of Registered Ministries |
| 2003-FSSA-9 | Child Care and Development Fund (CCDF) Local Offices of Family and Children |
| 2003-FSSA-16 | Ongoing Verification of Provider Medical Licenses |
| 2004-FSSA-2 | Vocational Rehabilitation Services Fund (VR) – IRIS System |
| 2004-FSSA-4 | Family and Social Services Advisory Committee |
| 2004-FSSA-5 | Supervision of Local Offices of Family and Children (OFCs) |
| 2004-FSSA-6 | Death Verifications |
| 2004-FSSA-8 | Provider Enrollment (HCBS Wavers, First Steps) |
| 2005-FSSA-1 | Cash Management Documentation of Procedures |
| 2005-FSSA-2 | Cash Management SCHIP Template |
| 2005-FSSA-4 | PSC 272 Quarterly Reports |
| 2005-FSSA-5 | Schedule of Federal Financial Assistance Reporting Errors |
| 2005-FSSA-7 | SAPT-Maintenance of Effort |
| 2005-FSSA-8 | Minimum Primary Prevention Requirement not Monitored, Division of Mental Health and Addiction |
| 2005-FSSA-10 | Overpaid and Undocumented Manual Payments Issued |
| 2005-FSSA-11 | Dental Corporation Claims |
| 2005-FSSA-12 | Duplicate Claims Identified by Contractor |
| 2005-FSSA-13 | Inpatient Hospital Duplicates not Detected |
| 2005-FSSA-14 | Contractor Monitoring-Desk Reviews |
| 2005-FSSA-15 | C&T Process-Monitoring of Contractor |
| 2005-FSSA-16 | Tracking of Certification & Transmittal (C&T) |
| 2005-FSSA-17 | Contractor Monthly Status Report Statistics |
| 2005-FSSA-18 | Inactive Provider Records |
| 2005-FSSA-19 | Ongoing Out-of-State License Verification |

2005-FSSA-20 Timely Follow-Up of License Termination
2005-FSSA-21 Provider Enrollment-Contractor Monitoring
2005-FSSA-22 ADP Review Not Performed
2005-FSSA-23 AIMS Contractor Access Assignments and Controls Not Monitored
2005-FSSA-25 Detail Accounting Not Produced
2005-FSSA-26 Reporting System with Out of Balance Condition
2005-FSSA-27 Incorrect Rate Applied for Managed Care
2005-FSSA-28 Managed Care Payments Not Supported
2005-FSSA-29 Managed Care Deliveries
2005-FSSA-30 Medicaid Bank Reconciliations

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 2006 - FSSA-1 through 2006 - FSSA-14 relate to programs administered by the Indiana Family and Social Services Administration (FSSA). Their response to the findings starts on page 241.

## FINDING 2006 – FSSA-1, CONTRACTOR STAFF CREDENTIAL VERIFICATIONS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program; State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions 1 – Utilization Control and Program Integrity |
| Internal Control: | Reportable Condition |

The FSSA Office of Medicaid Policy and Planning (OMPP) has contracted with Health Care Excel, Inc. (HCE) to provide services of developing and maintaining medical policy requirements that provide the basis for operating the Medicaid program; reviewing medical services to evaluate appropriateness and to determine and apply service limitations; and conducting utilization analyses to identify aberrant behavior as well as potential fraud and abuse.

A control system for the Medicaid program is the required utilization control and program integrity function. In our tests of the control environment attribute of HCE staff competence and specialties we obtain their staff listing for the Surveillance and Utilization Review function. In comparing to state license information, we found that an employee was listed as a certified pharmacy technician who had never held that license. Upon further review and inspection, we found that HCE had listed the credentials based upon the employee's application for hire. The application and resume also included apparent contradictions concerning education attainment, such as seeking a Masters degree when the undergraduate degree was not listed. In 2002, the applicant was hired for a pharmaceutical benefits position for prior authorizations. At that time, HCE did not verify application representations prior to hire. The employee transferred to the Surveillance and Utilization Review unit of HCE in 2003 and currently performs surveillance reviews on providers.

The state receives a greater federal funding participation rate for skilled professional medical personnel and direct supporting staff. HCE submits summary totals to FSSA finance for inclusion in this reimbursement. HCE provided us with the detail reports supporting the summary totals and verified that this employee was not included in the additional reimbursement for fiscal 2006.

Concerns with the misrepresentation of medical qualifications include the effects of reliance placed on those qualifications as to obtaining the position, performance judgments as to approval or denial of claims, program utilization, and levels of supervision required. High ethical standards should also be expected of staff assigned to detect fraud and abuse.

Section 27 of the contract between FSSA and HCE states: "The parties agree that Contractor and its employees and subcontractors shall comply with all applicable licensing standards, certification standards, accrediting standards and any other laws, rules or regulations governing services to be provided by the Contractor pursuant to this Contract. The State shall not be required to reimburse Contractor for services performed when Contractor or its employees or subcontractors are not in compliance with such applicable standards, laws, rules or regulations. If licensure, certification or accreditation expires or is revoked, Contractor shall notify State immediately and the State, at its option, may immediately terminate this Contract."

42 CFR §456.4(a) states that: "The agency must (1) Monitor the statewide utilization control program; (2) Take all necessary corrective action to ensure the effectiveness of the program; (3) Establish methods and procedures to implement this section; (4) Keep copies of these methods and procedures on file; and (5) Give copies of these methods and procedures to all staff involved in carrying out the utilization control program."

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that the FSSA require contractors to maintain controls over personnel practices especially with respect to skilled professional medical personnel positions. This may include obtaining copies of licenses, and periodically verifying licensure status. We also recommended that FSSA monitor contractor practices, including personnel verifications and waivers of minimum requirements to ensure compliance with prudent business practices. We also recommended that FSSA work with contractors to determine the minimum qualifications acceptable for applicants to possess while providing for the effective administration of the Medicaid program. FSSA Finance should obtain further detail reports to support quarterly claims for higher federal financial participation rates.

## FINDING 2006 - FSSA-2, C&Ts OF ACUTE CARE AND LONG TERM CARE FACILITIES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Health and Safety Standards |
| Internal Control: | Reportable Condition |

In order to be eligible to receive Medicaid payments, acute care and long term care facilities must meet prescribed health and safety standards. Compliance with the standards is determined by the Indiana State Department of Health (ISDH) based on a survey and documented by the issuance of a Certification & Transmittal (C&T) document. C&Ts, among other uses, inform EDS, the Medicaid fiscal agent contractor, whether or not facilities have met prescribed health and safety standards. EDS is responsible for making payments to providers, enrolling new providers, and maintaining provider data on behalf of the Office of Medicaid Policy and Planning (OMPP).

We examined seven active facility provider files at EDS as follows: one hospital, two intermediate care facilities for the mentally retarded (ICF/MRs), one rural health clinic, one home health agency, and two nursing homes. The provider files for the hospital, rural health clinic, and home health agency lacked any C&Ts. The files for the two nursing homes lacked current recertification C&Ts. Of the seven facility files tested, only the two ICF/MRs had current C&Ts in their respective provider files. There also was no indication of accreditation or state licensure located in any of the provider files.

Upon determining that current information was not available in the EDS provider files as needed, we reviewed the facility files at the ISDH to ensure that these facilities have met the health and safety standards with a survey performed in the acceptable time frame for the facility type. We found that these facilities had met the requirements.

The EDS *Provider Enrollment Provider Type and Specialty Matrix* document publicly available on the Indiana Health Coverage Programs website and the manual used by provider enrollment analysts requires an ISDH survey for the initial Medicaid enrollment of all of the facility types which we tested. C&Ts provide proof that facilities were surveyed and found in substantial compliance. Without a C&T on file, EDS cannot evidence that the facility has met the Health and Safety Standards which are necessary for payment. The matrix also states that EDS requires recertification for the hospitals, nursing homes, ICF/MR, and residential care facilities.

A letter was obtained from ISDH that was written by a former EDS Provider Enrollment Supervisor which provides an explanation as to why we did not locate current C&Ts in most acute care files. The letter is dated June 15, 2000, and involves acute care (non-long term care) facility documents which EDS would like to continue or discontinue receiving from ISDH. Concerning items which EDS would like to discontinue receipt of, the letter states, in part, ". . . Currently, EDS receives letters that do not require a provider file change or disenrollment of a provider in the Indiana*AIM* system. Effective upon receipt of this letter, EDS would like to discontinue receiving the following documents: . . . C&T's for recertification of providers other than Group Home and IC[F]/MRs, C&Ts noting a survey took place, . . . EDS hopes that by reducing the number of documents which are needed, this will help save time, resources, copying and filing for both parties. . . ." This letter continues to be used by the clerk at ISDH who sends documents to EDS.

Another area of concern is that, according to the ISDH Acute Care Director, ISDH does not always receive notification from EDS when EDS changes acute care provider numbers. This has resulted in the surveyors relying upon Medicaid provider numbers obtained from the facility while on-site for a survey. If a facility number given to the ISDH is incorrect or outdated, then the C&T will have an incorrect file reference.

"Certification and recertification. Except as provided in paragraph (b) of this section, a Medicaid agency may not execute a provider agreement with a facility for nursing facility services [includes ICF/MR] nor make Medicaid payments to a facility for those services unless the Secretary or the State survey agency has certified the facility under this part to provide those services." (42 CFR 442.12(a))

Inpatient hospitals providing Medicaid services are required to be licensed by 42 CFR 440.10. Rural health clinics providing Medicaid services are required to be licensed by 42 CFR 440.20(b). Home health agencies providing Medicaid services are required to be licensed by 42 CFR 441.302. Medicaid provider agreements do not become effective until the requirements are met for entities which, as a basis for participation in Medicaid, are subject to survey and certification by CMS or the State survey agency, or meet federal requirements on the basis of an approved accreditation. (42 CFR 431.108(a)(b))

An Interagency Agreement between FSSA's OMPP and ISDH exists. The agreement exists to assist with "defining interrelationships and responsibilities as well as providing for coordination between the parties in the certification of nursing facilities and ICF/MR . . . home health and hospice service providers for participation in the Indiana Medical Assistance Program (Medicaid)." Further, section III(E) provides, "2. OMPP shall issue, renew, cancel, or terminate provider agreements in accordance with certification findings issued by Health (or in the case of a Medicare participating facility, the Department of Health and Human Services, hereinafter referred to as DHHS). 3. OMPP [or EDS as the fiscal agent] shall notify Health on a timely basis of all provider agreement issuances, assignments, amendments, expirations and denials."

We recommended that FSSA ensure that a process is implemented to make certain that the requirements for initial and continuing provider enrollment in the Medicaid program are met and that this documentation is retained as required by the respective regulations. The information and communication controls should be reviewed and modified in order to reflect these requirements and also to improve the notifications to ISDH for acute care facility provider number and/or name changes.

FINDING 2006 – FSSA-3, PROVIDER ENROLLMENT ERRORS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program; State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility; Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

Several errors were noted during our testing of provider enrollments at EDS, the Medicaid fiscal agent contractor. Of twenty-six (26) provider enrollment files tested, eight (8) contained one or more errors. The errors included an enrollment of a federally excluded provider, provider name and license number errors, and an active provider number without a provider name. The errors were caused by inadequate procedures and oversight. The errors found are further described in the sections that follow:

Federal Exclusion Verifications

- We found one provider was enrolled as a rendering provider in a group despite his status as federally excluded from participation in the Medicaid program by the U.S. Office of the Inspector General. After the error was found by the Analyst, the provider's enrollment documents were sent back to the provider with no copy maintained by EDS. As federally excluded providers are strictly prohibited from enrollment, the attempt to enroll should be evidenced. The provider was physically enrolled from July 3, 2006 to July 10, 2006. However, the provider's eligibility was effective April 1, 2005. During the week that the provider was physically enrolled, his group could submit claims with dates of service dating back as far as April 1, 2005. We attempted to determine if any services had been billed by the group with this provider listed as rendering provider. We performed a query of claims detail for the group number for dates of service between April 1, 2005 and July 10, 2006. A total of $97,292.65 was paid for services recorded using only the group's provider number. The individual provider number who rendered the medical services was not included. The EDS Resolutions Manual states that system edit 1008 should have denied the claims. As we cannot determine that none of the services billed were performed by the excluded provider, we are questioning these costs. The federal share may be required to be repaid to the federal government with state funds.

- For another provider, the analyst performed an inadequate query for federal exclusion prior to enrollment. The last name of the provider was misspelled on the query and all possible combinations of initials for the applicant's first name were not attempted when performing the query.

If names are queried improperly, a federal exclusion may be missed and may result in improper enrollment. The current method of identifying excluded provider applicants is inherently limited. EDS only queries the U.S. Office of the Inspector General's exclusions database for the name(s) furnished on the application. The application does not require that applicants provide his or her birth name, previous legal names, or aliases.

License Information

- In two files, provider license numbers were input into EDS's claim processing system, AIM incorrectly. For one of the files no signed provider agreement was located. As no provider agreement was found, EDS does not have support that all disclosure requirements were met for proper initial enrollment. We examined the claims history for both this provider's group and individual provider numbers for the period of his initial effective date of January 1, 2006 through June 30, 2006, and found no claims paid. However, the provider number remained active in AIM.

- In one group file, two providers with Indiana licenses are enrolled with the same license number. Both providers are individually licensed and otherwise eligible.

- The names of providers in two files were misspelled when input into AIM. For one provider, the last name and middle initial associated with the provider's license issued by the Indiana Professional Licensing Agency does not match the last name and middle initial in AIM. Documentation of a legal name change was not located on file at EDS to support that the licensee is the same as the provider. The first name of the other provider was misspelled in AIM when compared with the provider's license.

Improper Enrollment Creation Not Corrected

- A provider number effective on June 23, 2006, was created with no name entered. We were told that this was caused by the system timing out during the enrollment and that the enrollment was completed using a different provider number. The bad provider number was not end-dated upon determining the need for the creation of a different provider number. While no claims were submitted for the bad provider number, the number remained active with an end date specified of June 23, 2007. In March 2007, we found that while the end date reason was changed from recertification to duplicate enrollment, the end date was not changed.

The above errors were caused by inadequate procedures and a lack of oversight for the processing of enrollments. Quality Control is only performed on a random sample basis. EDS does not use checklists and staff cross checking to identify basic errors, such as incorrect license number or misspelled provider name.

The quantity and severity of errors found indicate EDS is at risk of performing inadequate automated license verifications, inefficient on-going license verifications, inadequate queries for federal exclusion, making improper claim payments, payments to ineligible providers, and/or creating duplicate enrollments which may result in inaccurate utilization analysis of providers.

42 CFR §1001.1901(b) states: "(1) Unless and until an individual or entity is reinstated into the Medicare, Medicaid and other Federal health care programs in accordance with subpart F of this part, no payment will be made by Medicare, Medicaid or any of the other Federal health care programs for any item or service furnished, on or after the effective date specified in the notice period, by an excluded individual or entity, or at the medical direction or on the prescription of a physician or other authorized individual who is excluded when the person furnishing such item or service knew or had reason to know of the exclusion. This section applies regardless of whether an individual or entity has obtained a program provider number or equivalent, either as an individual or as a member of a group, prior to being reinstated. (2) . . . (3) An excluded individual or entity that submits, or causes to be submitted, claims for items or services furnished during the exclusion period is subject to civil money penalty liability under section 1128A(a)(1)(D) of the Act, and criminal liability under section 1128B(a)(3) of the Act and other provisions. In addition, submitting claims, or causing claims to be submitted or payments to be made for items or services furnished, ordered or prescribed, including administrative and management services or salary, may serve as the basis for denying reinstatement to the programs."

42 CFR § 455.105(a) states: "A Medicaid agency must enter into an agreement with each provider under which the provider agrees to furnish to it or to the Secretary on request, information related to business transactions in accordance with paragraph (b) of this section."

42 CFR § 455.104(c) states: "A Medicaid agency shall not approve a provider agreement or a contract with a fiscal agent, and must terminate an existing agreement or contract, if the provider or fiscal agent fails to disclose ownership or control information as required by this section."

405 IAC 5-4-1(a) states that: "In order to receive reimbursement under the Indiana Medicaid program, a provider must be enrolled to participate as a Medicaid provider. A provider is enrolled to participate in Medicaid when all of the following conditions have been met: (1) The provider is duly licensed, registered, or certified by the appropriate professional regulatory agency pursuant to state or federal law, or otherwise authorized by the office. (2) The provider has submitted an application to participate in the Indiana Medicaid program and completed such forms as may be required by the department. (3) The provider has signed and returned a Medicaid provider agreement. (4) The provider has received a provider number from the Medicaid contractor."

45 CFR § 92.22 states that: "Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type Contractors. . . ."

We recommended that the provider be contacted to provide the rendering provider number for the claims in question. We recommended that immediate action be taken to correct the errors identified and to ensure system edit 1008 is functioning. We recommended that the provider application require that applicants provide the birth name, previous legal names or aliases with which to perform complete searches of the federally excluded list. An audit trail of all verifications performed, all legal name change requests and supporting documents, and a narrative explaining anything unusual related to the provider's enrollment be retained with the provider's file. Attempts by federally excluded providers to enroll should be evidenced and communicated to the Indiana Medicaid Fraud Control Unit. We further recommended that the FSSA and EDS improve the control procedures and monitoring of the provider enrollment function. This could include use of staff checklists and cross checking by staff to identify basic errors, such as incorrect license number or misspelled provider name.

## FINDING 2006 – FSSA–4, UNTIMELY CAPITATION PAYMENTS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program/ State's Children Insurance Program |
| CFDA Number: | 93.778 and 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Activities Allowed or Unallowed |
| Internal Control: | Reportable Condition |

Our test of managed care payments issued during fiscal 2006 identified numerous adjustments that paid the managed care contractors for monthly fees dating back to January 2001 to provide coverage for identified recipients. For the payment reports we reviewed, the total amounts paid for capitation payment adjustments for January 2001 through June 2003 totaled $15,282. The OMPP Managed Care staff could not explain these charges. These payments are considered unnecessary and unreasonable as those periods were closed to any submission of claims to the managed care provider. The state contract with the managed care providers requires all claims to be submitted within fifteen months of the date of service.

The federal share of the questioned cost totals $9,594. The questioned cost may be required to be repaid to the federal government.

"To be allowable under Federal awards, costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . (j) be adequately documented." (US OMB Circular A-87 (C) (1))

We recommended that the cause or basis for the untimely capitation payments be identified. Repayment from the managed care contractors should be sought. Time limits for adjusting enrollments should be formally established. Capitation payment reports should be reviewed for accuracy.

## FINDING 2006 – FSSA-5, STATE OWNED INTERMEDIATE CARE FACILITY

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

In April 2006, AIMS issued two checks for claim adjustments totaling $26,002,704.33 payable to the FSSA State Institutional Finance Division. This was for a retroactive rate increase granted to the Muscatatuck State Developmental Center to adjust Medicaid claims for state fiscal year 2005. The payments were for a rate increase of 257%, with daily rates increased from $839.36 to $2,994.31. The new daily rate was effective for the period of July 1, 2004, until the center closed in April 2005. Our tests found that the new daily rate was excessive.

We calculated that the grand total of original Muscatatuck Medicaid claims and the retroactive adjustments paid for the state fiscal year ended June 30, 2005, totaled $36,124,618. The annual financial report submitted for Muscatatuck for the fiscal year ended June 30, 2005, listed total expenses of $23,213,493. The claims paid in excess of expenses for the year then totaled $12,911,125.

"The Medicaid reimbursement system is based on recognition of the provider's allowable costs. All state-owned intermediate care facilities for the mentally retarded (ICFs/MR) will be reimbursed with a retrospective payment system. The annual financial reports filed by the state-owned ICFs/MR will be used to determine the actual cost per day for services. A retroactive settlement will be determined for the time period covered by the annual financial report. The total allowable costs will be divided by the actual client days to determine the actual per diem rate. The variance between the actual per diem rate and the interim per diem rates based on the projected budget and paid during the report period will be multiplied by the paid client days to arrive at the annual settlement." (405 Indiana Administrative Code 1-17-9)

We determined that the excessive daily rate approved and paid was largely caused by an under-reported number of actual client days. The reported amount of 7,615 total occupant days was used in the rate calculation without applying any verification procedure. We calculated that the actual total occupant days paid by Medicaid for the period were 12,072. We further inquired of the rate setting contractor and identified a reportable condition as there is no process for verification of the reported number of client days for any of the state owned Intermediate Care Facilities.

The excessive reimbursement was also not detected in the course of business as there were no controls applied to identify or question large increases or payments issued, or to otherwise compare the retroactive payments issued to the total costs claimed.

As the calculated rate is in error, we consider the total retroactive adjustment payments issued in 2006 for Muscatatuck State Developmental Center to be questioned costs. The total payments were $26,002,704.33 and the federal share was $16,376,503.

We recommended that OMPP require the cost reports and rate calculations to be corrected and to seek reimbursement of excess payments issued. The rate increases for other state owned centers should also be reviewed for similar errors. Controls over rate setting and retroactive payments should be improved by verifying reported occupant days, performing risk assessment and monitoring.

## FINDING 2006 – FSSA-6, MANAGED CARE PAYMENT VARIANCES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program/ State Children's Health Insurance Program |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

Payments issued to managed care contractors are to be supported by capitation reports which list each eligible program participant, their assigned care provider, and the state contract rate paid. The grand total paid is listed on the summary page of the capitation report. We compared managed care contract payments to the capitation reports. We found that four payments were issued for amounts under that of the monthly capitation report. In October of 2005, check number 901732788 was issued for $14,402,041 and check number 901732784 was issued for $1,272,042. The total paid per the capitation reports was $14,840,668 and $1,380,901. This resulted in variances of $438,627 and $108,859, respectively. The two other variances were found for payments in April and May of 2006 and were each under $500. The cause of the variances have not been identified. As such, the accuracy of the payment process is in question for those payments that vary from the capitation report.

"To be allowable under federal awards, costs must meet the following general criteria . . . (j). Be adequately documented." (US OMB Circular A-87 (C) (1)).

In accordance with 45 CFR 92.20 (a): "A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to— (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

We recommended that OMPP require payments to be compared to the capitation payment listing summary on a monthly basis, with any variances investigated. The cause of the variances in October 2005 payments should be identified in order to ascertain that the capitation report and managed care payment process were accurate.

FINDING 2006 – FSSA-7, MEDICAID GRANT OVERSTATED EXPENDITURES REPORTED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition, Material Weakness |

Quarterly reports of Medicaid program expenditures were overstated during the state fiscal year ended June 30, 2006, by total costs of $280,979,354, with the federal share overstated by $176,567,559. Of this, total costs were overstated by $276,926,058 with the federal share overstated by $174,014,793 for unnecessary quality assessment adjustments applied in reporting expenditures effective for the quarters ended September 30 and December 31, 2005, which were included in the quarterly reports for September 2005 through March 2006. The error was caused by a misunderstanding of how the quality assessment fees for nursing and intermediate care facilities were included on reports prepared by the fiscal agent EDS. The EDS uses a Management and Administration Reporting Subsystem (MARS) to produce the CMS 64 report for the transactions it processed. Our prior finding 2005-FSSA-25, DETAIL ACCOUNTING NOT PRODUCED reports that the MARS reports only summary totals without detail. The assessment fees were approved by the federal government as a source of state funding to provide for increased rates for recognized quality measures. The assessment fees were newly implemented in July 2005, and were recorded as an account receivable through the EDS Advanced Information Management

System (AIMS). FSSA Finance thought that the MARS reports were reduced by the quality assessment fees and that an adjustment was necessary to increase the costs to the gross amount paid. In fact, the MARS reports were already including the costs at the gross amount paid.

We identified the overstated expenditure reports through analytical procedures which then were further identified and confirmed by FSSA Finance and OMPP staff. We were told they had previously inquired into the matter when questions were raised by the Medicaid actuary. We also obtained a partial data set of underlying MARS report detail which showed that the costs were included at the gross claim payment amount without the reduction for the collection of the quality assessment fees.

The total report overstatement listed above also includes a finding of an error that duplicated a state cost as it was included inadvertently in both lines two and five of the CMS 64 report for the quarter ended June 30, 2006. This resulted in overstated total costs of $4,053,296, with the federal share of $2,552,766. This error could have been detected by FSSA verifying the compilation in the review process.

We were informed that the CMS report compilation has supervisory review. These reviews, however, were not documented. The report compilation is also inefficient in that the entire MARS reports must be hand entered into compilation spreadsheets as they are not provided in a useable electronic format.

As the reports were overstated by a total amount that is material to the Medicaid program, the associated internal control weaknesses are considered material weaknesses. The weaknesses include a lack of risk assessment and information and communication concerning the reporting structure for a new transaction type. There also was a lack of analytical review procedures by FSSA finance to compare the total costs and federal share reported to that of the state grant accounting records. The report compilation process also lacks documented supervisory reviews.

45 CFR 92.20 (a) states: "A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to— (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

We recommended that the federal CMS reports be revised to correct the identified errors. The internal controls over federal reporting should be improved to provide formal risk assessment and information and communication to FSSA finance for new transaction types or other reporting modifications. FSSA finance should perform documented supervisory reviews of the report compilation process with analytical comparison of costs reported to the state grant accounting records. Consideration should be given to requiring EDS to provide their reports in a useable electronic format.

## FINDING 2006 – FSSA - 8, MEDICAID ADMINISTRATION GRANT – EXPENDITURES OVER AWARD

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles, Reporting |
| Internal Control: | Reportable Condition |

The federal share of disbursements for the Medicaid Administration grant 5 05 05 IN 5048 exceeded the grant award by $29,213,333. The federal grant authorization report for grant 5 05 05 IN 5048 shows the award amount to be $105,945,961. The federal disbursements reported for this grant on the Schedules of Federal Financial Assistance for the fiscal years ended June 30, 2005 and 2006, totaled $135,159,294. The grant expired September 30, 2005, yet the overspent condition had not been identified by the time of our audit in February 2007. This indicates that awards are not monitored in order to recognize that the federal expenditures incurred and reported have exceeded the award authority. This may also be caused by insufficient communication or verification of changes in grant awards. The schedule of federal financial assistance report prepared by FSSA Finance also listed an incorrect award amount for this grant of $112,320,862.

The grant shortage appears to be an ongoing condition for this administration grant. The federal grant authorization report listed a decrease in the award of $28,650,708 in April, 2006. We found this was actually transferred to award 5 04 05 IN 5048 to cover the prior year's grant shortage. Had the $28 million not been transferred out, disbursements would only have exceeded the award amount by $562,624.61.

We consider the federal expenditures reported in excess of the grant award of $29,213,333 to be questioned costs which may be required to be repaid to the federal government.

"A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub grantees and cost-type contractors, must be sufficient to: 1) permit preparation of reports required by this part and the statutes authorizing the grant, and 2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." (45 CFR 92.20)

"Each agency, department, institution or office has the following accounting responsibilities: 1. Operate within the confines of the established budget, 2. Maintain a control environment, 3. Maintain control procedures . . ." "The accounting system provides the basis for budgetary control. The operating budget should be viewed as a comprehensive planning and control device. Each agency must function within the budget limits." (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

We recommended that a grant award increase for Medicaid administration costs be sought in order to correct the condition which has occurred over time. We further recommended that FSSA Finance monitor the federal grant award amounts for each grant and the related disbursements closely to ensure they are not exceeding the award amount. This would include establishing procedures to ensure the accuracy of the award amounts listed in the fiscal records and requiring federal budget to actual information.

FINDING 2006 - FSSA–9, MEDICAID ADMINISTRATION GRANT – CMS 64 QUARTERLY REPORTS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA - OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

The CMS 64 Quarterly Reports for the Medicaid Administration grants reported $2,019,805.07 more total federal expenditures than the grant accounting records and the total reported in the Schedule of Federal Financial Assistance for state fiscal year 2006. No reconciliations were prepared to identify variances. The supporting work papers used to prepare the CMS 64 reports contained errors in summary totals and did not always agree with the CMS 64 reports. There were no documented reviews of the reports or supporting work papers.

"The State must submit Form CMS-64 to the central office not later than 30 days after the end of each quarter. This report is the State's accounting of actual recorded expenditures. The disposition of Federal funds may not be reported on the basis of estimates." (42 CFR 430.30)

"Each agency, department, institution or office has the following accounting responsibilities: . . . 5. Maintain an effective and accurate accounting system for supplementary records, 6. Maintain and make available for audit, documentation supporting the validity and accountability of monies received or disbursed . . ." (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

We recommended that the overstated reported expenditures be corrected or otherwise identified in reconciliations to the grant accounting records. FSSA Finance should develop internal controls for federal reporting that include regular reconciliations and documented reviews.

## FINDING 2006 – FSSA-10, CHILD CARE AND DEVELOPMENT FUND (CCDF) – PASS-THROUGH ENTITY RESPONSIBILITIES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Child Care Cluster |
| CFDA Numbers | 93.575, 93.596 |
| Auditee Contact Person: | Roger Booth |
| Title of Contact Person: | Director of Audit Services |
| Phone Number: | 317-232-1217 |
| Compliance Requirement: | Subrecipient Monitoring |
| Internal Control: | Reportable Condition, Material Weakness |

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 ( $500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year."

During our audit, we found that FSSA did not have sufficient procedures in place to determine whether CCDF subrecipients had met the $500,000 threshold.

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."

We recommended that FSSA implement procedures to track subrecipient expenditures to ensure that subrecipients expending $500,000 or more in a fiscal year have met the A-133 audit requirements for that fiscal year.

FINDING 2006 – FSSA-11, TANF ELIGIBILITY INCOME DETERMINATIONS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility, Allowable Cost |
| Internal Control: | Reportable Condition |

During our audit of FSSA, we tested 240 TANF cases that received payment in August 2005. We found that in six of the cases the recipient had income in excess above the Federal Poverty Level or had income in excess of initial eligibility limits as stated in the State plan. This was due to the caseworker not verifying the proper income limits.

The Indiana's State Plan for the Temporary Assistance for Needy Families Block Grant states: "The resource standard for initial eligibility is $1000. Once determined eligible, the case is subject to a resource standard of $1500."

We recommended that FSSA implement procedures to ensure that caseworkers follow the policies and procedures established as part of the State Plan for the Temporary Assistance for Needy Families Block Grant.

FINDING 2006 – FSSA-12, TANF ELIGIBILITY - DOCUMENTATION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility |
| Internal Control: | Reportable Condition |

During our audit of FSSA, we tested 240 TANF case files that received TANF payment in August 2005. We found twenty-eight individual case files lacking evidence to support the relationship of the child to the head of household, fourteen cases in which there was no documentation indicating if the child was less than age 19 and a full time student in secondary school, and five cases lacked verification if the head of household had received TANF benefits outside of the State of Indiana for 60 months since December 1996 when the head of household was identified as receiving TANF benefits from another state.

42 USC 608(a)(1) states: "No assistance for families without a minor child."

The State of Indiana uses the definition of minor child as described in 46 USC 619 as:

"The term 'minor child' means an individual who—

(A) has not attained 18 years of age; or

(B) has not attained 19 years of age and is a full-time student in a secondary school (or in the equivalent level of vocational or technical training)."

42 USC 608(a)(7) reads in part: "A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance to a family that includes an adult who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government, for 60 months (whether or not consecutive) after the date the State program funded under this part commences."

We recommended that FSSA ensure the inclusion of documentation supporting the age of the individuals, proof of relationship in the case files, and overall TANF payment history.

## FINDING 2006 – FSSA-13, TANF ELIGIBILITY - VERIFICATION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility |
| Internal Control: | Reportable Condition |

During our audit of FSSA, we tested 240 TANF cases that received payment in August 2005. We found that FSSA had no procedures in place to verify that an individual of a TANF recipient household had not been convicted of fraudulently misrepresenting their residence in order to receive assistance from more than one state. This lack of verification resulted in a 100% error rate for the sample. It was also noted that FSSA did not have any procedures in place to ensure that no member of the household is fleeing to avoid prosecution, custody or confinement after conviction, to attempt to commit a felony, or violating a condition of probation.

42 USC 608(a)(8) states: "A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to the place of residence of the individual in order to receive assistance simultaneously from 2 or more States under programs that are funded under this subchapter, subchapter XIX of this chapter, or the Food Stamp Act of 1977 [7 U.S.C. 2011 et seq.], or benefits in 2 or more States under the supplemental security income program under subchapter XVI of this chapter. The preceding sentence shall not apply with respect to a conviction of an individual, for any month beginning after the President of the United States grants a pardon with respect to the conduct which was the subject of the conviction."

42 USC 608(a)(9)(A) states:

"A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance to any individual who is--

(i) fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of the place from which the individual flees, or which, in the case of the State of New Jersey, is a high misdemeanor under the laws of such State; or

(ii) violating a condition of probation or parole imposed under Federal or State law."

We recommended that FSSA implement procedures to verify that an individual of a TANF recipient household has not been convicted of fraudulently misrepresenting their residence in order to receive assistance from more than one state. We further recommended that FSSA implement procedures to ensure that no member of the household is fleeing to avoid prosecution, custody or confinement after conviction, to attempt to commit a felony, or violating a condition of probation.

## FINDING 2006 – FSSA-14, TANF ALLOWABLE COST

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility, Allowable Cost |
| Internal Control: | Reportable Condition |

During our audit of FSSA, we tested 240 TANF cases that received payment in August 2005. We found that in 22 of the cases the payments were incorrect. This was due in part to recipients not being placed on sanctions for not participating in IMPACT. Also, income (that had not been disclosed by the recipient) discovered during the Income Eligibility and Verification System (IEVS) data exchanges was not always used by the caseworker to recalculate benefits. In one case the data exchange indicated a full year of income, but no reduction in benefits were made by the caseworker. This lack of follow-up and verification of recipient data resulted in an overpayment of $2,749 or 5.15% of the actual amount disbursed to the recipients for the sample tested. This amount projected to the population for the month of August would be $463,647. This amount is a questioned cost.

Per the ICES Program Policy Manual 2215.15.00: "Prompt action must be taken on all changes to determine if they affect eligibility. The case record must include the date the reported change was received, whether the change was reported by mail, telephone, or personal visit, the nature of change and any other appropriate information. The caseworker must take appropriate action on all reports of changed information promptly but no later than 10 days from the date of the receipt of the change."

We recommended that the caseworkers follow the policies and procedures established in the Family Social Services Administrative ICES Program Manual.

Finding 2006-SOS-1 relates to a program administered by the Indiana Secretary of State's Office (SOS). Their response to the finding starts on page 271.

## FINDING 2006 – SOS–1, REPORTING

| | |
|---|---|
| Federal Agency: | Election Assistance Commission |
| Federal Program: | Help America Vote Act Requirements Payments |
| CFDA Number: | 90.401 |
| Auditee Contact Person: | Joseph McLain |
| Title of Contact Person: | HAVA Administrator |
| Phone Number: | (317) 234-8683 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

42 USC 15408 states: "Not later than 6 months after the end of each fiscal year for which a State received a requirements payments under this subpart, the State shall submit a report to the Commission on the activities conducted with the funds provided during the year, and shall include in the report - (1) a list of expenditures made with respect to each category of activities described in section 15401(b) of this title; (2) the number and type of articles of voting equipment obtained with the funds; and (3) an analysis and description of the activities funded under this subpart to meet the requirements of this chapter and an analysis and description of how such activities conform to the State plan under section 15404 of this title."

The Financial Status Report filed on March 30, 2006, for the fiscal year October 1, 2004 to September 30, 2005, was not reflective of the actual disbursements from the grant funds. The amounts reported as disbursed from the grant funds during the reported period and the previous period did not agree with the ledger of disbursements for this grant. The federal share of net outlays for the current reporting period as indicated on the Financial Status Report filed during the audit period were approximately $3 million more than what was documented in the accounting records. The errors noted with the report filed were primarily due to the fact that the report was prepared with accounting records from a time period other than the report period. Further, no verification of the report to the accounting records was conducted once the report was completed. In addition the report did not indicate the portion of disbursements made with State matching funds and the report did not contain required information such as a list of expenditures made from each category allowed by the grant and the number and type of articles of voting equipment obtained with the grant funds.

As a result of the deficiencies noted in the Financial Status Report, the Indiana Secretary of State was not in compliance with the reporting requirements of the Help America Vote Act of 2002. Additionally, the information reported to the Election Assistance Commission was inaccurate and not reflective of the actual activity of the grant funds.

We recommended that the Indiana Secretary of State develop and implement procedures and controls to ensure the Financial Status Reports submitted are accurate and reflective of the activity of grant funds and include all information required by the Help America Vote Act of 2002.

FINDING 96 - FSSA-33 (DCS), 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: | Mary Edmonds |
| Title of Contact Person: | Deputy Director, Department of Child Services |
| Phone Number: | 317-232-4758 |

**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 | $ 34,879,131 |

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 September 2006:**

Child Support Bureau continues to reconcile the fund accounts to the detailed source records. The remaining balance in account 3510-150200 as of 9/7/06 is $71,715.01. Additional funds could potentially be added to this balance if any money is collected from CP overpayments and/or recovery of theft money.

Due to budgetary constraints, the CSB has not received additional resources to conclude this research. While much progress has been made on this finding, it has not been completed.

FINDING 99 - FSSA-7 (DCS), 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: | Mary Edmonds |
| Title of Contact Person: | Deputy Director, Department of Child Services |
| Phone Number: | 317-232-4758 |
| 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 September 2006:**

The remaining procedures that had not been implemented and their current statuses are:

(1) Run current monthly files against ISETS to keep warrant status up-to-date.

Current Status: A file is received from the state Auditor's office monthly. It is run against the ISETS database to update the status of any warrants that have been processed by the Auditor from a status of 'outstanding' to show as either 'reconciled' or 'replaced.' Tested results. Considered closed.

(2) Daily book balancing

Current Status: Manual processes have been implemented to balance the cash accounts on a daily basis. Through the use of existing reports, funds that are posted and disbursed using the ISETS system are reconciled to deposits and disbursements recorded in the state Auditor's accounts. System queries have also been developed and are generated regularly to review financial transactions for accuracy. Discrepancies are researched, corrected, and documented manually. This finding remains open.

(3) Monthly reconciliation

Current Status: Manual processes have also been implemented to reconcile the Child Support Bureau accounts with the Auditor's fund accounts on a monthly basis. System queries are generated as necessary to assist with the monthly reconciliation. This finding remains open.

FINDING 2000 - FSSA-1 (DCS), LACK OF AND IMPROPER SUPPORTING DOCUMENTATION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Adoption Assistance Program |
| CFDA Number: | 93.659 |
| Auditee Contact Person: | Glenn Lavezzi |
| Title of Contact Person: | Federal Funding Manager, Department of Child Services |
| Phone Number: | 317-234-4320 |
| 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 3 of the 25 cases tested this form was executed after the final decree of adoption, and in 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 4 of the 25 cases tested this form was executed after the final decree of adoption, and in 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 4 of the 25 cases tested this form was executed after the final decree of adoption for a 16% noncompliance. 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 4 of the 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 September 2006:**

The draft manual section has not been released. It has not been released because a structured policy and practice analysis is currently underway that will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. This will be finalized in the SFY 2007. AAP training is provided as one of the breakout sessions to the Foster Parent Conferences.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS will occur. Currently DCS is working with ACF on a redesign to ICWIS to become SACWIS compliant. As a part of the redesign it is envisioned that the documents and forms required will be included in the data system with edits that will enforce the rules to assist in preventing these audit findings. The redesign effort will not be completed until early 2008.

While the analysis, recommendations and data system changes are in process and prior to rollout of new policy training a monthly ICWIS tip of the day will be sent to all ICWIS users. These tips of the day will explain when adoption assistance forms need to be executed.

It has been determined that there is no reason for Central Office Child Welfare to receive a copy of the AAP agreement. State Board of Accounts needs the entire case to complete an audit not just the agreement. The case file is located at the local office not central office. The entire case file is sent from the local office to central office so that SBC can complete the audit. Since there is no need for these forms in central office, this step will be eliminated thus eliminating the need for a new filing system. This finding remains open.

FINDING 2000 - FSSA-2 (DCS), OVERPAYMENT OF ADOPTION ASSISTANCE SUBSIDIES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Adoption Assistance Program |
| CFDA Number: | 93.659 |
| Auditee Contact Person: | Glenn Lavezzi |
| Title of Contact Person: | Federal Funding Manager, Department of Child Services |
| Phone Number: | 317-234-4320 |
| 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 2 of the 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 September 2006:**

Our plan is to analyze AAP policy and procedure thru a structured policy and practice review. This analysis is currently underway and will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. The analysis should be completed in SFY 2007.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS will occur. Currently DCS is working with ACF on a redesign to ICWIS to become SACWIS compliant. As a part of the redesign it is envisioned that the AA agreement will be completed in ICWIS and the ongoing negotiated monthly payment will be validated through a new unit, the Centralized Eligibility Unit prior to finalization. Upon finalization, the data system will automatically move the agreement from the foster care case to the adoption assistance case. Payments will be made against the amount that is in the agreement with edits that will enforce the rules to assist in preventing this audit finding. The redesign effort will not be completed until early 2008.

The new unit, the Centralized Eligibility unit should be operational early 2007. At that time, some components of the above enhancement will be operational to assist in eliminating this audit finding. This finding remains open.

FINDING 2000 - FSSA-3 (DCS), FOSTER CARE PROVIDER LICENSURE:

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Foster Care Program |
| CFDA Number: | 93.658 |
| Auditee Contact Person: | Glenn Lavezzi |
| Title of Contact Person: | Federal Funding Manager, Department of Child Services |
| Phone Number: | 317-234-4320 |
| 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 September 2006:**

The Department of Child Services is currently working on a system enhancement within ICWIS on the Resource and Licensing Modules. The licensing status will be clearly identifiable throughout ICWIS through the changes made within this enhancement. This enhancement should be completed by January 2007.

Currently the Department is also working with ACF on a redesign to ICWIS to become SACWIS compliant. One of the functional requirements in this redesign would force the schedule of payments to validate that the foster home and facilities are licensed for the time period of the payment made for services provided for our child welfare population. If the foster home or facility is not licensed, the system will notate this, and the county will be forced to pay stop payment or to pay out of non reimbursable accounts. The redesign effort will not be completed until early 2008. This finding remains open.

FINDING 2000 - FSSA-5 (DCS), 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: | Mary Edmonds |
| Title of Contact Person: | Deputy Director, Department of Child Services |
| Phone Number: | 317-232-4758 |
| 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 September 2006:**

Manual processes have been implemented to balance the cash accounts on a daily basis. By using existing ISETS reports, receipts posted into the ISETS system are reconciled to deposits made to the state Auditor's accounts. Disbursements made through the ISETS system are also reconciled to disbursements recorded in the state Auditor's accounts. Any discrepancies are researched and documented manually. Existing reports as well as database queries provide the necessary data to reconcile the accounts on a monthly basis. In addition, a file is received monthly from the state Auditor's office and is used to update the status of the warrants in ISETS. Manual processes will also be implemented by early 2007 to reconcile both outstanding and stale-dated state warrants to the ISETS database on an annual basis. This finding remains open.

FINDING 2002 - FSSA-3 (DCS), 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: | David Gootee |
| Title of Contact Person: | Director, Fiscal Services, FSSA |
| Phone Number: | 317-233-3828 |
| Compliance Requirement: | Allowable Costs/Cost Principles, 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 Finding as of September 2006**

The Division of Disability and Rehabilitative Services (DDRS), Bureau of Developmental Disability Services (BDDS) implemented effective July 1, 2006, a process for authorizing and paying for 100% State-funded services in which provider's bill for actual services rendered for each consumer. Included in this system are claims for day services (including those originally funded through Title XX). The new system is built on new data bases of consumers served, individualized service budgets and pre-established service rates. The providers submit electronically the actual hours of service by consumer; the total dollars thus computed is compared to the maximum monthly budget for the consumer, and if within pre-approved compliance limits, the bill is authorized for payment through the Claims Management System. The audit trail begins with the originating provider daily logs and culminates with the BDDS over-sight of the budget process and review of all exception reports. As this process was just implemented July 1, 2006, for the period of this audit, the finding remains open.

FINDING 2003 - FSSA-1 (DCS), FOSTER CARE PAYMENTS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Foster Care Program |
| CFDA Numbers: | 93.658 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Activities Allowed or Unallowed, Reporting |
| Internal Control: | Reportable Condition |

**Finding:**

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.

**Status of Finding as of September 2006:**

FSSA Finance has completed an electronic claiming system, Child Welfare Claiming System (CWCS) for reimbursements to counties under Title IV-E, Assisted Guardianship and Title IV-A Emergency Assistance. During the last fiscal year enhancements to CWCS have been made to continue to improve FSSA efforts to audit claims for reimbursement prior to payment. These enhancements include ability to search database for duplicate payments; ability to find and insert ICWIS ID and Vendor information to reduce data entry errors; user must check certification and certified amount for claiming; and institution/facility rates are now included in the system to reduce data entry errors. A monthly report is prepared for staff to identify possible duplicate payments from one payment source or the possibility of two programs paying for the same service. A manual electronic schedule of payments is currently available within the CWCS system so data can be imported into CWCS rather than being reentered. Since enhancements continue, this finding remains open.

FINDING 2003 -FSSA-3 (DCS), ALLOWABLE COSTS/COST PRINCIPLES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Foster Care |
| CFDA Numbers: | 93.658 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

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 to develop and maintain their DFC CAP including compilations of various sampling and allocation measurements to support the allocation of program costs. Monthly, the contractor 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 the contractor were aware of this potential problem. Through further inquiry, we found that neither FSSA nor the contractor 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 27 of 130 offices; 26 of 27 were among the 39 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 the contractor for their compilation of allocated costs. The contractor 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 the contractor agree with the costs in the contractor allocation reports. This lack of monitoring could lead to errors made by the contractor 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."

**Status of Finding as of September 2006:**

In conjunction with the IBM/PeopleSoft implementation, consistent accounting procedures for cost allocation, including the review and approval of all accounting entries and supporting documentation which facilitate federal revenue recovery in accordance with each plan are conducted. This includes various monthly and quarterly allocation reports generated by the contractor. Ultimately, the goal is to add more organization, structure, and consistency to this entire process, while providing greater oversight of the contractor's work.

With regards to the Random Moment Sample process utilized to determine the percentage of time employee's work on federal grants/programs, steps have been taken, since October '05, to gain approval from the Division of Cost Allocation to fine-tune procedures associated with this process. Effective July 1, 2006, staff now has two business days, versus 48 hours, to respond to a sample (conducted via e-mail sampling). Furthermore, local office coordinators are now assisting with obtaining missing responses that are one day overdue. Out of 2,750 random "moments" sampled during a given quarter, a 10% validation sub-sample is also subject to further review for quality control purposes. In addition, FSSA Internal Audit is continuing their review of the RMS process at the local offices to be sure staff understands the procedures, and to assess the accuracy of responses. All steps taken to date have not only resulted in a higher degree of completeness and accuracy in the data, but also more timely and efficient communication/follow-up on issues that arise. We believe we have taken appropriate action to resolve this finding.

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: | Michelle A. Thomas |
| Title of Contact Person: | Child Care Administrator |
| Phone Number: | 317-234-3313 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

Of the 4 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 26 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.

**Status of Finding as of September 2006:**

Monitoring of 142 child care ministries was completed in November 2005. Recommendations were finalized in February 2006. The Division of Family Resources is in the final stages of RFP development to procure a more simplified, yet accountable electronic payment system. TANF and Food Stamp benefits are expected to be combined with child care onto an electronic swipe card to limit potential for parents leaving their cards with child care providers. A new system is expected to be in place by March 2008. This finding remains open.

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: | Michelle A. Thomas |
| Title of Contact Person: | Child Care Administrator |
| Phone Number: | 317-234-3313 |
| Compliance Requirement: | Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

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.

**Status of Finding as of September 2006:**

Indiana does have an approved internal form that has been submitted for State Form approval. Indiana is in the process of combining child care and TANF/Food Stamp eligibility services. A contract is currently being negotiated with a vendor to implement this plan statewide. Referrals between TANF and child care will no longer be needed, as the same worker will be determining eligibility for all 3 programs. Further, the Division of Family Resources is restructuring the Quality Assurance Unit to include monitoring of TANF/Child Care referrals. This finding remains open.

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: | Catherine Snider |
| Title of Contact Person: | Compliance Manager OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions - Provider Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

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.

**Status of Finding as of September 2006:**

This finding identified a lack of support to ensure current licensure of Medicaid providers. The Office of Medicaid Policy and Planning has implemented a full data exchange with the Health Professions Bureau to review the status of licensed professionals. Reports are generated and categorized to identify if a match to the Medicaid enrollment file is found for comparison. EDS has reviewed all appropriate provider enrollment linkages for the providers listed on the original reconciliation report labeled "Matched-Non Pharmacy Providers" and closed those providers where necessary. There is now a standard termination letter process in place for this activity which has been added to the EDS provider enrollment daily workload. In addition, this process will be reviewed by OMPP's Provider Enrollment Work Group (PEWG) to determine if the matched report data is being operationalized effectively. This process will be enhanced and manual work reduced through purging inactive provider enrollment records to ensure that periodic archival of inactive provider records occurs.

Change order (CO), 253, "Purge Inactive Providers" has been reviewed and approved by OMPP's Operational Effectiveness Team (OET). OMPP's OET has been charged with reviewing any request for a change (or modification) to the operations of OMPP, its contractors, business areas or supporting systems. The fiscal agent, EDS, has assigned a project manager to manage the project within their organization. CO #253 requires that non-managed care providers who have failed to bill within an 18 month period will be disenrolled. A systematic quarterly report will identify those providers, and forward to provider enrollment for action. The disenrollment process will include notifying the provider in advance of the action in accordance with provider termination processes.

This finding also recommended that OMPP ensure verification of the licensure of all providers enrolled in the waiver program and who may have met varying enrollment requirements. The Re-Enrollment Project for waiver providers is currently in progress and all letters requesting re-enrollment have been mailed. In July, a banner was published notifying providers of the re-enrollment project. To date, all waiver providers have been sent letters notifying them that they must resubmit a signed Medicaid agreement to continue participation. EDS is carefully monitoring the return of these applications and providing OMPP with routine updates. Additional outreach is necessary to ensure continuity of service provision.

This finding is currently open.

FINDING 2004 - FSSA-2, VOCATIONAL REHABILITATION SERVICES FUND (VR) – IRIS SYSTEM

| | |
|---|---|
| Federal Agency: | Department of Education |
| Federal Program: | Vocational Rehabilitation Services |
| CFDA Number: | 84.126 |
| Auditee Contact Person: | Mike Hedden |
| Title of Contact Person: | Director, Bureau of Rehabilitative Services |
| Phone Number: | 317-232-1523 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found anomalies of counselor activities. Through inquiry we then found that FSSA had an ongoing investigation of a Vocational Rehabilitation Services (VR) counselor and vendor that had approved inappropriate expenditures. Procedures were inadequate to identify these inappropriate disbursements in a timely manner.

Currently VR has the Indiana Rehabilitation Information System (IRIS) which maintains eligibility and fiscal information for VR clients. Several different reports are generated from this system for management's use. However, upon inquiry we found that these reports were not being utilized by management as a risk assessment of counselor activity that would identify the aforementioned inappropriate disbursements. One method to identify inappropriate disbursements in a timely manner would be to develop reports that would identify the following:

(1) Analysis of counselors and vendors to determine that clients are directed to an appropriate vendor for their services and that the counselors are using an array of vendors;

(2) Analysis of the cost per case or average cost per case to isolate any counselor activity falling outside selected parameters.

Analysis should be done to determine that inappropriate activities are isolated and corrective actions are implemented.

The lack of monitoring and risk assessment are significant control weaknesses.

34 CFR 80.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

34 CFR 361.12 states: "The State plan must assure that the State agency, and the designated State unit if applicable, employs methods of administration found necessary by the Secretary for the proper and efficient administration of the plan and for carrying out all functions for which the State is responsible under the plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability."

We recommended that FSSA implement procedures to adequately monitor program activity and assess risk.

**Status of finding as of September 2006:**

Vocational Rehabilitation Services' (VR) plan to limit cost per case and duration per case has been implemented and has IRIS fiscal edits. That change was effective November 2005.

VR continues cooperate with the State Attorney General office, FSSA legal and the Inspector General's office on the VR counselor suspected of inappropriate activity. Once final recommendations are received from the investigating agencies, VR will develop additional plans, if warranted. Currently monthly reviews of caseloads are completed by area supervisors and regional managers to guard against future abuse. This is not completed as of September 30, 2006.

VR has solicited the assistance of FSSA audit when developing contracts and grants at the community provider level. Audit has been invited to participate in the training of staff who routinely monitor grants and agreements. Since the investigation and corrective action are on-going, this finding remains open.

FINDING 2004 - FSSA-3, DIVISION OF FAMILY AND CHILDREN – BUREAU OF PROGRAM INTEGRITY

| | |
|---|---|
| Federal Agency: | Department Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Karen Frazier |
| Title of Contact Person: | Director, Quality Control |
| Phone Number: | 317-232-4498 |
| Compliance Requirement: | Monitoring |
| Internal Control: | Reportable Condition |

**Finding:**

The Bureau of Program Integrity (BPI) of FSSA is equivalent to an internal audit function that conducts annual reviews of the client population of Medicaid. This unit produces reports to quantify the case and file error rates for this program. These reports are forwarded to the Federal oversight agency, the Center for Medicaid and Medicare Services (CMS).

At present, the BPI is reporting to the Deputy Director of the Division of Family and Children (DFC), the program management that it is also auditing. Established internal control practices provide that internal audit functions should not report to management with direct lines of authority but to the highest level of management to ensure independence. Furthermore, for proper monitoring of grant supported activities to occur any internal audit function must report to top management of the entity. BPI's current organizational reporting structure to DFC does not ensure independence and proper monitoring. If BPI is to perform internal audit functions, even on a limited basis, a greater degree of freedom, independence, and objectivity would be achieved if this section reported directly to the agency head or to a senior manager who does not also have fiscal or program responsibilities. This is a control weakness.

45 CFR 92.40 (a) Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

We recommended that the BPI report directly to upper management at FSSA.

**Status of Finding as of September 2006:**

Quality assurance will be required to report directly to both the Director of Family Resources and also FSSA Chief of Staff. This finding is considered closed.

FINDING 2004 - FSSA-4, FAMILY AND SOCIAL SERVICES ADVISORY COMMITTEE

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Activities Allowed or Unallowed |
| Internal Control: | Reportable Condition |

**Finding:**

42 CFR 431.10 (b) states: "A State Plan must . . . (2) Include a certification by the State Attorney General, citing the legal authority for the single State agency to—(i) administer or supervise the administration of the plan; and (ii) make rules and regulations that it follows in administering the plan . . ."

Indiana Code 12-8-6-1 states: "The office of Medicaid policy and planning is established." Indiana Code 12-8-6-3 states: "The office is designated as the single state agency for administration of the state Medicaid program under IC 12-15." Attachment 1.1-A of the Indiana State Plan includes a certification by the State Attorney General regarding the legal authority of OMPP as the single State agency to administer the plan.

However, the certification is silent regarding OMPP's authority to make rules and regulations that it follows in administering the plan. Indiana Code 12-8-6-5 states: "The secretary [of the Family and Social Services Administration (FSSA)] may adopt rules under IC 4-22-2 to implement . . . the state Medicaid program." In past years, the Center for Medicare and Medicaid Services (CMS) has made inquiries regarding the apparent conflict between OMPP's and FSSA's rulemaking authority. In practice, FSSA's Office of General Counsel has resolved this conflict by submitting all Medicaid-related rules to both OMPP and the Secretary's office for approval.

Indiana Code 12-8-1-9 states: ". . . any rules adopted by the secretary . . . must be approved by the family and social services committee established by IC 12-8-3-2 before submission to the attorney general . . ." Indiana Code 12-8-3-3 states: "The committee consists of fifteen (15) voting members appointed by the governor . . . The voting members may not be employees of the executive branch or legislative branch of the state. Not more than five (5) of the members may be health care providers . . ." These members must include at least one licensed physician, one representative of a disproportionate share (DSH) hospital, and "One (1) individual who serves as a provider on the Medicaid advisory committee (IC 12-15-33-2) who shall represent the interests of health care providers having representation on the Medicaid advisory committee."

Prior to 1995, the Family and Social Services Advisory Committee (Advisory Committee) consisted of a predecessor entity, the Family and Social Services Advisory Commission. The commission primarily consisted of executive branch members and did not have authority to approve rules.

We were informed of the rule-making authority of the Advisory Committee during an exit interview with senior FSSA management staff during December 2004. Upon further inquiry, we discovered that neither FSSA's Audit Division nor CMS were aware of the existence of the Advisory Committee and its rule-approval authority. The organization charts for OMPP and FSSA (Attachment 1.2-A of the Indiana State Plan) do not disclose the existence of the Family and Social Services Advisory Committee.

We also discovered that members of the Advisory Committee are not required to excuse themselves from voting unless they have a personal financial interest in the outcome of the vote. According to the Office of General Counsel, unless their personal compensation is directly affected by the proposed rule, potential conflicts of interest for their employer do not disqualify the member from voting.

We reviewed the minutes of the Advisory Committee during the audit period and discovered that votes were frequently taken if the minimum quorum of eight members were present. At times up to four representatives of the health care industry contributed to the minimum quorum, including an employee of a managed health care organization, a doctor, a member of Health and Hospital Corporation (a Marion County DSH provider), an employee of a mental health care center, and a former director of OMPP who now works for a health-care research and consulting firm periodically retained by FSSA.

42 CFR 431.10(e) states: "In order for an agency to qualify as the Medicaid agency—(1) The agency must not delegate, to other than its own officials, authority to . . . (ii) Issue policies, rules and regulations on program matters. (2) The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the State."

The submission of Medicaid-related rules to an Advisory Committee which contains a significant voting bloc of health-care industry representatives represents a potential impairment of OMPP's rule-making authority. The potential impairment cannot be evaluated as to the extent that the existence of the Advisory Committee may effect what rules are proposed and submitted. The additional delays imposed on the rulemaking process through the introduction of several layers of approval, including the Secretary's office, also represents a potential impairment.

We recommended that OMPP communicate with CMS and, if necessary, members of the Indiana State Legislature regarding the potential impact of the existence of the Advisory Committee on its ability to serve as the single State agency.

**Status of Finding as of September 2006:**

FSSA notes that the Attorney General's certification and corresponding State Plan Amendment (TN 92-06) were submitted to the Health Care Financing Administration (HCFA, now CMS) and approved by that agency on April 24, 1992. It is the case that the legal reference contained in the certification does not include the agency's rulemaking authority. The State Plan will be modified to include citation to IC 12-8-6 and IC 12-15 as the appropriate legal authority for statewide administration of the Plan by OMPP. This portion of the State Plan also contains attachments that include organizational charts for the OMPP and FSSA. Due to a re-organization of the agency, the State Plan Amendment will not be submitted until the organizational charts are finalized.

The agency does not agree with SBOA's apparent conclusion that a conflict exists between OMPP's and FSSA's rulemaking authority. The office of the secretary of Family and Social Services is accountable, *through the offices of FSSA*, for "overall policy development and management of the state Medicaid plan under IC 12-15." See IC 12-8-1-5(b)(5). OMPP is one of the offices within FSSA and it has been designated to administer the Medicaid state plan under the secretary's direction. See IC 12-8-6. OMPP is part of FSSA, therefore, it is not correct to conclude that that a conflict with respect to rulemaking exists between them because they are part of the same agency.

FSSA does not agree with SBOA's conclusion that the Family and Social Services Advisory Committee (hereinafter "Committee") legally impairs OMPP's ability to serve as the single state agency administering the Medicaid program. SBOA's finding appears to use the terms "rulemaking" and "rule approving" authority interchangeably, when they are not the same. "Rulemaking" is a term of art and does not equate to rule approval. Rulemaking "means the process of formulating and adopting a rule." See IC 4-22-2-3(c). The Committee does not have rulemaking authority. With regard to Medicaid rules, rulemaking authority resides appropriately with FSSA/OMPP. The FSSA Advisory Committee does have authority to approve, reject or return a rule, however, this action does not, on its face, legally impair the single state agency's authority in administering the Medicaid program. FSSA points out that federal law does not prohibit review or clearance of rules by other offices or agencies in the state, only that the single state agency's legal authority not be impaired by such action. See 42 CFR 431.10(e)(2). IC 12-8-3-5 limits the Committee's role to an advisory one with regard to policy. The Committee has construed its mission as follows:

> "The Committee is entrusted with the authority to approve a rule, disapprove it, or return to a division or the Office of the Secretary with suggestions for revision or to request additional information. A rule presented to this Committee is forwarded to the Attorney General for approval only after approval by this Committee. *The Committee is not to judge the legal authority of a rule as that rests with the Attorney General's Office, and the policy that is set by the Governor's Office*."
>
> Emphasis added. See FSSA Committee Minutes, July 10, 2001, Comments from the Chair.

This statement of the Committee's mission is consistent with the statutory limitations placed on it with respect to policy matters. Thus, nothing in state statute or the Committee's operations would impair OMPP's authority or ability to serve as the single state agency. Likewise, the Attorney General also has a state statutory responsibility to approve all rules adopted by state agencies. That role is limited to review of the rule for legality (see IC 4-22-2-31) and does not impair the single state agency's authority either.

Moreover, the evidence from the audit period supports the agency's conclusion that no impairment exists because no Medicaid rule was rejected or returned during the audit period. SBOA also expresses some concern regarding the membership of the Committee. FSSA responds that the members are appointed by the Governor and their qualifications have been set by statute. Further, with regard to the matter of perceived or potential conflicts, a specific statute addresses that matter. See IC 12-8-3-4.1. SBOA cites no evidence that either of these statutes was not followed. Further, nothing in federal law supersedes or contradicts state law on either the membership of the Committee or the definition of a conflict of interest for a committee member.

The agency agrees that the requirement of Committee approval can create operational delays in the rulemaking process, but even without the Committee such "delays" would be present. For example, an agency must publish a notice of intent to adopt a rule at least 30 days before publishing a proposed rule. See IC 4-22-2-23. An agency must hold a public hearing and publish notice of the time and location of the hearing at least 21 days before the hearing. See IC 4-22-2-24. For rules with an economic impact of $500,000 or more on regulated entities, the agency must submit the rule to the Legislative Services Agency. LSA has 45 days to prepare a fiscal analysis. See IC 4-22-2-28. The Attorney General has 45 days to approve or disapprove a rule. See IC 4-22-2-32. The Governor has 15 days to approve or disapprove a rule, and can request a 15 day extension. See IC 4-22-2-34. Once a rule is filed with the secretary of state, it cannot take effect for 30 days. See IC 4-22-2-36.[1]

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1 1 Note also that federal requirements may represent, to use SBOA's terminology, "potential impairment": CMS has 90 days to act on state plan material and can extend that period by requesting additional information from the state. See 42 CFR 430.16. The state's Medical Care Advisory Committee (whose membership includes Medicaid providers) must have an opportunity for participation in policy development and program administration. See 42 CFR 431.12. Public notice of changes in statewide methods and standards for setting payment rates is required under certain circumstances. 42 CFR 447.205. When institutional reimbursement is involved, CMS has taken the position that such period cannot be less than 30 days prior to the proposed effective date. See Letter to State Medicaid Directors, December 10, 1997. The agency is required to provide advance notice of actions to recipients. See 42 CFR 431.211. All of these requirements could be characterized as potentially impairing the single state agency's authority but in fact they ensure due process.

Rather than impairing its ability to serve as the single state agency, these procedures ensure that the Medicaid agency's activities comport with due process and ensure that governmental actions satisfy standards of fairness and justice.

The Office of Medicaid Policy and Planning maintains that no impairment exists to its ability to administer the Medicaid plan due to review of rules by the FSSA Advisory Committee. Federal law does not prohibit review or clearance of rules by other offices or agencies in the state, only that the single state agency's legal authority not be impaired by such action. See 42 CFR 431.10(e)(2). IC 12-8-3-5 limits the Committee's role to an advisory one with regard to policy. This finding remains unresolved due to the need to update the citations mentioned above.

FINDING 2004 - FSSA-5, SUPERVISION OF LOCAL OFFICES OF FAMILY AND CHILDREN (OFCs)

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|---|---|
| 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: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Activities Allowed or Unallowed, Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

As noted in Attachment 2.2-A of the Indiana State Plan, the agency that determines eligibility for coverage is "Each County Welfare Department under the supervision of the Family and Social Services Administration" (FSSA). In 1986, the County Welfare Departments were transformed into the local Offices of Family and Children (OFCs). FSSA's Division of Family and Children (DFC) has oversight responsibility for the local OFCs.

We reviewed monitoring and reporting mechanisms between DFC's central office and the local OFCs during the audit period. We discovered that the monitoring controls for central office oversight of local OFCs mainly concerned the Food Stamp program, and applicability to the Medicaid program was limited:

Second-Party Review (SPR). Local supervisors perform an SPR or desk review on all cases authorized by caseworkers who are on probation or who have been employed less than six months. In prior years, SPRs were also performed for a sample of all experienced caseworkers. However, as of 2003, targeted SPRs were implemented to review earned-income determinations for the Food Stamp program only.

Management Evaluation Reviews (MERs). As part of the MER, a random sample of Food Stamp cases is selected for desk review. Since Medicaid cases are frequently handled by specialized staff, and program requirements significantly differ, MERs are of limited usefulness in monitoring Medicaid-related duties.

Quality Control (QC) Reviews. During the audit period, DFC's Bureau of Family Resources (BFR) completed a Medicaid Eligibility Quality Control (MEQC) pilot project, as mandated by CMS. The scope of the MEQC project was limited to a highly technical area of nursing home admissions involving potential estate-shielding tactics. Although error rates identified were high, broad-based conclusions cannot be necessarily projected to the program as a whole.

Audit Division Reports. FSSA's Audit Division performed on-site audits of local OFCs throughout 2002-2004. We reviewed the scope of these audits and found that, for all but two counties, the audits did not test any federally-funded Medicaid-related functions.

Through interviews with staff and management we verified that the primary purpose of these monitoring and reporting mechanisms was to achieve a lower statewide error rate for Food Stamp eligibility determinations. FSSA allocated quality control resources to lowering the Food Stamp error rate to avoid financial penalties imposed by the United States Department of Agriculture (USDA). In contrast, by opting for the pilot project option offered by CMS for Medicaid, the State was able to avoid potential exposure to the risk of broad-based penalties altogether. As resources were reallocated to lowering the Food Stamps error rate, residual coverage of Medicaid functions by the SPR process was eliminated.

Furthermore, we determined that FSSA management had fostered a culture that encouraged autonomy at the local level, to the point where the central office of the DFC served as a clearinghouse for information and technical assistance but not accountability for program management, which rested with the local directors.

The association of quality control with penalty avoidance rather than a management responsibility in its own right, combined with an emphasis on local autonomy, constitutes a deficiency in the control environment at DFC. Upon inquiry, OMPP indicated it was unaware of the extent of these deficiencies and their potential impact on the Medicaid program. This lack of communication between divisions constitutes a deficiency in the control environment at OMPP and FSSA.

To test the potential impact of these control deficiencies on the Medicaid program, we focused on whether local offices were being held accountable to follow up on independent verifications of local office data against outside sources. As required by 42 CFR 435.940 through 435.960 and Section 4.32 of the State Plan, eligibility data entered by local caseworkers in the Indiana Client Eligibility System (ICES) is periodically verified against independent information, including (but not limited to) information from the Social Services Administration (SSA), Internal Revenue Service (IRS) and Indiana's Department of Workforce Development (DWD). If a discrepancy is found, a data alert is generated by ICES to the caseworker. If the caseworker does not enter a code indicating what type of action was taken and the date action was taken, an alert is generated by ICES to the supervisor. Data will not be automatically overwritten in ICES as the result of a data exchange except for Social Security (SS) benefits or Supplemental Security Income (SSI) verified by SSA.

We were unable to identify any reporting mechanism by which DFC monitored the disposition of data alerts by local OFCs. We requested a custom query from the ICES data warehouse for alerts received during 2003 and 2004 that (1) remained uncompleted despite (2) having generated a supervisory alert. We verified that over 13,000 such alerts remained on the system, including over 2,000 new hire matches against Indiana's child support system and over 200 prison inmate matches against SSA.

More than 7,000 alerts belonged to St. Joseph County, including multiple repetitive alerts for the same case file across time periods. St. Joseph County was selected for a MER in 2000 and 2004. We reviewed the 2000 report and found that problems had been noted in this area, and a recommendation for additional training issued. The same problems were noted in 2004, but no recommendation was made.

However, even for counties for which data alert screens are being completed by caseworkers, no effective oversight exists that these screens are being completed on other than a perfunctory basis unless the case file is selected as part of an SPR or QC sample. Medicaid files are not included in the selection process except under limited circumstances.

The risk of inadequate follow-through for data alerts is exacerbated for pregnant women and children under the age of 19 covered under Hoosier Healthwise, a health coverage program jointly funded by Medicaid and the State Children's Health Insurance Program (SCHIP). Applicants to Hoosier Healthwise are subject to simplified verification rules. Under simplified verification, the applicant's statement is accepted as verification of name, citizenship, address, residency, marital status, and date of birth so long as a valid Social Security number is submitted. Income may be verified by a single pay stub or child support receipt so long as the applicant states that monthly income did not fluctuate from the current level in the prior three months.

42 CFR 435.903 states: "The agency must---(a) Have methods to keep itself currently informed of the adherence of local agencies to the State plan provisions and the agency's procedures for determining eligibility; and (b) Take corrective action to ensure their adherence." 42 CFR 435.952 sets forth requirements for the timely review of information received through data matches. 42 CFR 435.952(f) states: "The agency must use appropriate procedures to monitor the timeliness requirements of this section."

We recommended that OMPP coordinate with DFC to implement monitoring procedures to ensure appropriate follow-up on data alerts by the local OFCs.

**Status of Finding as of September 2006:**

A summary of the productivity report GDE010RA has been developed for closer monitoring of statewide eligibility activities as they relate to working data alerts. OMPP has increased the monitoring of alerts through sharing and discussing this summary report with DFR management staff. In addition, DFR field consultant staff has been directed to review the data alert reports directly with local county offices to ensure that corrective action is taken by the county when there has been a failure to act on data exchange alerts. The Workload Reduction Project, initiated the first quarter of 2006 by DFR, alleviated some of the work generated by data exchange alerts by routing these alerts to limited designated staff that are responsible for taking appropriate and timely action.

OMPP recognizes that it holds the responsibility to ensure proper monitoring procedures and accountability guidelines are in place for the Medicaid program. OMPP will continue to work with DFR to strengthen information sharing and joint decision-making policies between the OMPP and DFR to ensure the SSA is aware of the challenges within DFR. On an on-going basis, OMPP and DFR will participate in executive level monitoring of reports to ensure accurate and timely alert processing.

This finding remains unresolved.

FINDING 2004 - FSSA-6, DEATH VERIFICATIONS

| | |
|---|---|
| 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: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Activities Allowed or Unallowed, Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

On a daily basis, the Family and Social Services Administration (FSSA) submits the Social Security numbers of new applicants for programs served by the local Offices of Family and Children (OFCs) to the Social Security Administration (SSA) for verification that the number is valid, has been assigned to the corresponding name, and the number/name are not in the SSA death registry. In addition, FSSA verifies data for active household members against the SSA death registry on a quarterly basis for all recipients above 13 years of age.

If SSA records indicate that a recipient has died, an alert is generated to the caseworker. The Indiana Client Eligibility System (ICES) permits caseworkers to authorize file changes once daily. Most changes can be batched prior to authorization, but death information must be authorized in two sequential steps for the recipient to be properly removed from the household and the remaining household members' eligibility to be recalculated.

If a recipient is properly removed, the recipient's case should become inactive and therefore not be included in the next quarter's death verification request. We requested a query of the ICES data to determine if any death matches were returned for the same recipient from one quarter to the next. A query was generated to compare results for the 4$^{th}$ quarter of 2004 to results for the 4$^{th}$ quarter of 2005. We found 133 matches statewide. Of these matches, 38 indicated some kind of benefit had been provided in 2005. Of these matches, 10 indicated a date of death prior to June 2002.

For these 10 matches, we obtained payment data for the audit period. Out of the 10 matches, 6 recipients were identified who received a combined total of more than $200,000 in services during SFY04. We also tested a match for a date of death from 1957 and discovered that Medicaid payments had been provided through 2001.

These results are not conclusive until additional research is conducted. For example, if services were provided under a stolen identity, the sum of inappropriate payments would potentially span a longer time-frame than SFY04. Even if each instance of discrepant data can be traced to an error rather than the intentional misuse of an identity, the failure to detect and correct the discrepancies in a timely manner indicates control weaknesses over the payment function. In addition, failure to fully complete the two-step authorization required by ICES for death data affects the accuracy of eligibility determinations for remaining household members.

42 CFR 430.0 states: "Title XIX of the Social Security Act, enacted in 1965, authorizes Federal grants to States for medical assistance to low income persons who are age 65 or older, blind, disabled, or members of families with dependent children or qualified pregnant women or children." Medical assistance cannot be provided to a person who is deceased.

We recommended that research be conducted to determine the cause of discrepant death verification data for repetitive data alerts. In addition, we requested that the ultimate disposition of each instance of discrepant data, whether correction of erroneous data, recoupment or referral to an appropriate investigative or law enforcement authority be documented and reported to us.

We also recommended that adequate oversight be exercised to ensure timely and appropriate resolution of discrepant death data by local OFCs.

**Status of Finding as of September 2006:**

The enhancement to notify workers when a deceased individual has failed to be properly removed from the case was implemented in November of 2005. Also reports, GRP687, GRP689 & GRP690, have been added to the COGNOS reporting system. A flash bulletin, viewable to all ICES users, in conjunction with these reports was released on December 19, 2005, addressing alerts 422 to remind workers to run eligibility to process the case, and alerts 614/615 to remove the individual on AEIID the following day. In addition, these reports were discussed with the field consultants responsible for following up to ensure proper case worker action is taken.

Research will be conducted on those select cases from the original file that required additional review to ensure that expenditures were not improperly paid out. Documentation of this research will be made available to the SBOA for their review.

OMPP will evaluate new implemented processes and monitoring reports to ensure that adequate oversight is being exercised that will ensure timely and appropriate resolution of discrepant death data by local OFC.

This finding remains unresolved.

FINDING 2004 - FSSA-7, HOME AND COMMUNITY BASED SERVICE WAIVERS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Activities Allowed or Unallowed |
| Internal Control: | Reportable Condition |

**Finding:**

42 CFR part 441 subpart G permits States to request a waiver of statutory requirements for the purposes of providing home and community based services to enable individuals to avoid institutionalization. The State of Indiana has obtained eight home and community based service (HCBS) waivers to date, the largest of which is the Developmental Disability (DD) waiver (approximately $330.5M in services in state fiscal year 2004 [SFY04]), the Aged and Disabled (A&D) waiver ($33.6M) and the Support Services waiver ($27.5M). Combined activity under all other service waivers equaled $19.9M in SFY04.

Prior to the formation of the cross-divisional Waiver Unit between the Office of Medicaid Planning and Policy (OMPP) and the Division of Disability, Aging and Rehabilitative Services (DDARS) in early 2004, HCBS waivers were administered by DDARS. Providers applied to DDARS to be certified according to the particular requirements for a given type of service (including case management) under a particular waiver. Waiver participants retained case managers at will to select providers and prepare a plan of care (POC). Each line item on the POC indicated by provider the type of service, the number of units, and the corresponding date range.

Case managers file POCs and related cost comparison budgets (CCBs) with FSSA through a distributed processing system for case management known as INsite. A uniquely-numbered notice of action (NOA) is issued to the case manager and all affected providers upon approval of every POC or POC amendment.

However, waiver claims are paid by the Medicaid payment contractor, EDS, through its system, IndianaAIM (AIM). During the audit period, except for the DD and A&D waivers, information was not shared between INsite and AIM to allow verification of claims against the corresponding POC.

This absence of information sharing had potentially far-reaching consequences on front-end controls for waiver service payments because of the manner in which providers are enrolled for billing purposes. Each provider is assigned a provider type and a provider specialty. A particular provider type/ specialty may be limited to billing only certain Healthcare Common Procedure Coding System (HCPCS) codes, or limited from billing others. However, waiver providers are only granted a provider type of "Waiver" and a specialty code corresponding to the particular waiver being billed. Therefore, HCPCS restrictions can only be applied at the waiver level, rather than by certification type. In the absence of compensating controls, each provider certified for a particular type of service becomes authorized to bill according to the full spectrum of services available under the waiver.

On November 1, 2002, the first prior authorization (PA) table was activated in AIM utilizing INsite data for the DD waiver. For each recipient/authorized service listed on the POC, the PA table included the date range, total dollar amount, and the outstanding available budget as calculated from historical payment data. Although the specific provider was not identified in the PA table, the available budget by service type acted as a control limit on potential cross-billing by unauthorized providers.

However, this control limit was potentially undermined by the practice of allowing case managers to obtain automatic approval for service budget increases of 10% or less. This practice was discontinued in January 2004 for the DD, A&D and Support Service waivers. Automatic approval for service budgets of 10% or less is still granted for all other waivers, without the compensating control of a mechanism to monitor volume of amendment activity by POC or case manager.

On April 1, 2003, a PA table was activated for the A&D waiver. PA tables were activated for all other HCBS waivers on October 1, 2004.

Even when activated, potential gaps existed in coverage by the PA tables. At the time each PA table was activated, claim payments were applied against the outstanding service budgets from the date of activation forward. Therefore, outstanding available budgets are potentially overstated until the initial budget expires or superseded by an amendment. Although some service types can only be authorized in monthly increments, others can be authorized in increments of up to one year.

On an ongoing basis, potential gaps may persist in coverage by the PA tables due to overlapping service dates between competing POCs. Since INsite is a distributed processing system, case managers have no means of cross-referencing proposed POCs against other case managers' records at the time of issuance. To avoid restricting applicant's ability to choose case managers at will, case managers are not required to submit POCs using unique date ranges. The PA table is updated on a line-by-line basis by the nightly INsite file transfer. If an overlapping date range is encountered for a particular service type, claims payment data for the overlapping dates is sequestered from the claims payment history applied to the outstanding budget going forward. Overlapping service dates do not create PA conflicts for those services which can only be authorized in standardized increments, such as per month. In such cases, the outstanding service budget transfers seamlessly between the prior authorization and the current one.

Any billing improprieties slipping through the gaps in front-end controls caused by partial PA data would potentially be detected by back-end controls, such as audits. However, from January through June 2004 audits of waiver providers were temporarily suspended because of a lapsed contract with EDS. In addition, EDS audit staff were not authorized to assess recoupment amounts until the new contract took effect in July 2004. New documentation standards for potential recoupments, including time-in and time-out according to the time of day, and staff signatures for each service line item, did not become enforceable until January 2005.

Potential gaps also may persist in OMPP's ability to monitor certain outlier activity by recipient, provider or caseload due to the ability to issue multiple POC amendments with overlapping service dates, and the absence of consistent sharing of provider-based data between INsite and AIM. A voluntary process exists for case managers to request payment histories by caseload, but participation is not widespread.

42 CFR 441.302 states: "Unless the Medicaid agency provides the following satisfactory assurances to CMS, CMS will not grant a waiver under this subpart and may terminate a waiver already granted . . . (b) *Financial Accountability.* The agency will assure financial accountability for funds expended for home and community based services."

Waiver controls continued to evolve throughout the audit period and beyond on an ad hoc basis. We recommended OMPP perform an overall risk assessment of the current status of waiver controls to identify any potentially significant risks that remain unaddressed, and address these risks accordingly.

**Status of Finding as of September 2006:**

The systems change to allow claims history for each waiver participant has been completed. Waiver case managers are required to review this data and include it in development of cost effective care plans. All waiver claims are now verified against the corresponding plan of care. Claims histories are now required to be obtained and reviewed by case managers.

Upon assessment, OMPP determined that modifying the organizational structure would facilitate increased control of waiver programs. In order to assure consistency with federal and state regulations, the Medicaid Agency now has a central administrative unit that has direct control over developing waiver policy. The policy is then disseminated to the separate divisions who administer the day to day program operations.

OMPP believes these steps provide the controls necessary to resolve this finding and considers it closed.

FINDING 2004 - FSSA-8, PROVIDER ENROLLMENT (HCBS WAIVERS, FIRST STEPS)

| | |
|---|---|
| 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: | Catherine Snider |
| Title of Contact Person | Compliance Manager |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

Prior to the formation of the cross-divisional Waiver Unit between the Office of Medicaid Planning and Policy (OMPP) and the Division of Disability, Aging and Rehabilitative Services (DDARS) in early 2004, home and community based service (HCBS) waiver providers were enrolled by DDARS staff under a provider agreement that did not meet Medicaid disclosure standards. Some providers separately executed a Medicaid-compliant agreement with the Medicaid claims payment contractor, EDS, to provide traditionally covered services. An enrollment project to ensure that all waiver providers have executed a Medicaid-compliant agreement is scheduled for completion in early 2005.

In addition, during the audit period, providers participating in the First Steps early intervention program were enrolled by the Division of Family and Children's (DFC's) central reimbursement office (CRO) contractor, Covansys. These providers did not complete a Medicaid-compliant agreement, even though their services were submitted by DFC for reimbursement by EDS if provided to a Medicaid-eligible recipient, as confirmed by data matches to the Indiana Client Eligibility System (ICES).

42 CFR 455.104 enumerates various provider disclosure requirements for the Medicaid program. We recommended that adequate disclosures be obtained from all First Steps providers whose services are potentially billable to the Medicaid program. We also recommended completion of the HCBS waiver provider enrollment project.

**Status of Finding as of September 2006:**

The enrollment of rendering providers for First Steps was completed in February 2006. The Re-Enrollment Project for waiver providers is currently in progress and all letters requesting re-enrollment have been mailed. In July, a banner was published notifying providers of the re-enrollment project. EDS staff is carefully monitoring the return of these applications and providing OMPP with routine updates. Additional outreach is necessary to ensure continuity of service provision. This finding remains unresolved.

FINDING 2005 - FSSA-1, CASH MANAGEMENT DOCUMENTATION OF PROCEDURES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Audited Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Cash Management |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found that FSSA's Financial Management Division did not have an adequate system of documentation to trace specific expenditures to its corresponding federal draw. This is a systematic issue which could affect most grants. This occurred due to a lack of formal written procedures over Cash Management. This is a control weakness.

45 CFR 92.20 (b)(2) states in part: "Accounting Records. Grantees . . . must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards . . . assets, liabilities, outlays or expenditures and income."

45 CFR 92.20 (a) states in part: "A state must expand and account for grant funds in accordance with State laws and procedure for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient . . ."

We recommended that FSSA develop formal written procedures over Cash Management to ensure that federal draws follow their respective check clearance pattern templates and that adequate supporting documentation of draws be maintained.

**Status of Finding as of September 2006:**

FSSA Finance reconciles each fund center on a weekly basis. The weekly reconciled federal expenditures are then drawn from the appropriate federal grant(s). The implementation of PeopleSoft will enhance the ability to trace specific expenditures to federal draws. Business processes for the proper drawing and receiving of federal funds are being developed in coordination with the PeopleSoft implementation. This finding remains open.

FINDING 2005 - FSSA-2, CASH MANAGEMENT SCHIP TEMPLATE

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.767 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Cash Management |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found that the check clearance pattern template for the State Children's Health Insurance Program (SCHIP) was inaccurate because it had not been properly updated to include only necessary data. Furthermore, we found other check clearance pattern templates that had not been properly updated to include additional necessary data and remove outdated data. The change in data would not have changed the final templates. FSSA did not properly monitor to ensure that only necessary data utilized to calculate the check clearance pattern templates, was properly included. This is a control weakness.

45 CFR 92.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that FSSA implement procedures to adequately monitor to ensure that only necessary data be included in the computation of the check clearance pattern templates.

**Status of Finding as of September 2006:**

The check clearance pattern was entered into FETS on July 1, 2006 for the 2007 fiscal year based on the numbers included in the Cash Management Improvement Act Agreement. As the new PeopleSoft system is implemented, automation of this process will be enhanced. In addition, daily automatic audits for cash balances will occur. This finding remains open.

## FINDING 2005 - FSSA-3, LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP) – SUBRECIPIENT MONITORING

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Low-Income Home Energy Assistance Program |
| CFDA Number: | 93.568 |
| Auditee Contact Person: | A. Isaac Levy |
| Title of Contact Person: | Controller, Indiana Housing and Community Development Authority |
| Phone Number: | 317-232-3562 |
| Compliance Requirement: | Subrecipient Monitoring |
| Internal Control: | Reportable Condition |

**Finding:**

FSSA's Division of Family Resources (DFR) enters into agreements with grantees for funding to provide authorized services to eligible individuals under the Low-Income Home Energy Assistance Program (LIHEAP). Grantees are reimbursed for allowable costs incurred in accordance with the terms of the agreements. Grantees also agree to comply with all requirements of the grant and any other applicable laws and regulations governing the services to be provided.

During our audit of the Low-Income Home Energy Assistance Program, we found that one of the methods utilized by the quality control consultants to monitor the grantees is to physically select random files from the filing cabinet upon arriving at the agency. This allows the agencies to possibly hide files, thereby restricting the scope of sample selection, thus resulting in a monitoring and risk assessment control weakness.

45 CFR 92.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that FSSA (DFR) implement procedures to adequately monitor program activity and assess risk by ensuring that monitoring samples are selected from the known universe of the LIHEAP recipients.

**Status of Finding as of September 2006:**

**Note:** This program transitioned to the Indiana Housing and Community Development Authority (IHCDA) July 1, 2006. The controller from that agency has responded to this finding.

All CAA's have their files listed on a database utilizing a consecutive numbering system and that this information is available over the web. Our monitors select the files to be examined prior to the monitoring visit. In short, the software vendor was able to transition this module to IHCDA with the program and all CAA's are providing file information using this medium. By requiring all information to be maintained, sequentially numbered, on a web site, the monitors can pre-select their sample from all of the available ones before they arrive on site. This finding is resolved.

FINDING 2005 - FSSA-4 (DCS), PSC 272 QUARTERLY REPORTS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Title IV-D, Child Care Cluster |
| CFDA Number: | 93.563, 93.575, 93.596 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found that the Federal Cash Transaction Report, PSC 272, quarterly reports had inaccurate amounts reported as compared to FSSA's Federal Expense Tracking System (FETS). FSSA did not have a reconciliation process in place to verify that expenses in FETS were recorded properly on the PSC 272 quarterly report. Through inquiry and observation, there is a lack of monitoring controls to verify that the dollar amounts recorded on the PSC 272 quarterly reports are accurate prior to being reported to the federal government.

45 CFR 92.20(b) states: "The financial management systems of other grantees and subgrantees must meet the following standards: - (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

We recommended that FSSA implement a reconciliation process to verify that the amounts recorded on the Federal Cash Transaction Report PSC 272 quarterly reports are accurate prior to being reported to the federal government.

**Status of Finding as of September 2006:**

The PSC 272 reports were completed based on federal draw systems. A reconciliation process will be implemented to ensure that the total of the Current – Cumulative Disbursement column matches to the total of the balance of a PIN within FETS. The correct rules for recording disbursements on the PSC 272 will be followed in the future. A new reconciliation will need to be developed after the full implementation of PeopleSoft Financials. This new process will be completed by October 2006. This finding remains open.

FINDING 2005 - FSSA-5 (DCS), SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE-REPORTING ERRORS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program, Child Support, Child Care Cluster |
| CFDA Number: | 93.778, 93.563, 93.575, 93.596 |
| Auditee Contact Person: | David Nelson |
| Title of Contact person: | Director, Financial Management |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition, Material Weakness |

**Finding:**

During our audit of FSSA, we found that the Schedule of Federal Financial Assistance had numerous errors totaling over $100 million. FSSA resubmitted the Schedule to us multiple times throughout the period August 2005 to March 30, 2006. Errors were found in receipts, disbursements, pass-through amounts, CFDA numbers, cross-footing in ending balances, and entire grants being left off the schedule. Even though these errors were resolved, such materially significant errors in the future could result in a qualification of the Schedule. This also affects the reliability of how major programs are determined. The lack of formal written procedures and an inadequate review process of the Schedule contributed to the potential for errors. This is a control weakness.

45 CFR 92.20 states: "(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. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to— (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

We recommended that FSSA develop formal written procedures in preparing the Schedule of Federal Financial Assistance and institute a thorough review process of the schedule to ensure accurate, current and complete disclosure of the financial results.

**Status of Finding as of September 2006:**

The Finance accountant responsible for cash management retired in May 2005. Due to inadequate written procedures, the report for SFY 2005 had to be adjusted multiple times. A report was submitted reconciling the overall balance for the expenditure reimbursements and disbursements for all grants within the Federal Expenditure Tracking System (FETS) to actual draws of federal funds. The process for completing the federal grant schedule along with the spreadsheet capturing information has been revised. The implementation of PeopleSoft will allow for an electronic version of the report to be produced instead of using a spreadsheet. All grants and the individual transactions that affect them will be tracked within PeopleSoft. The process will no longer be dependent upon individual staff knowledge or capability. This finding remains open.

FINDING 2005 - FSSA-6, INDEPENDENT PEER REVIEWS,
DIVISION OF MENTAL HEALTH AND ADDICTION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Prevention and Treatment of Substance Abuse |
| CFDA Number: | 93.959 |
| Auditee Contact Person: | John Viernes |
| Title of Contact Person: | Deputy Director, DMHA |
| Phone Number: | 317-232-7913 |
| Compliance Requirement: | Special Tests and Provisions-Peer Reviews |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, DMHA could not provide most of the peer review reports selected for audit. In addition, we found that subrecipients directly exchanged the performance of peer reviews on one another. For example, subrecipient A would perform a peer review on subrecipient B and subrecipient B would perform a review on subrecipient A. This does not provide for an independent peer review process and is a control weakness.

DMHA provided a letter from their federal cognizant agency, Substance Abuse and Mental Health Services Administration (SAMHSA) stating that FSSA could utilize a subrecipient's accreditation (certification) report in lieu of a peer review. However, this conflicts with 45 CFR 96.136 (e) which does not allow for reports utilized in the certification process to be used as the peer reviews.

45 CFR 96.136(e) states: ". . . the State shall ensure that independent peer review is not conducted as part of the licensing/certification process."

45CFR96.136(a) states: "The State shall for the fiscal year, for which the grant is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved, and ensure that at least 5 percent of the entities providing services in the State under such program are reviewed. The programs reviewed shall be representative of the total population of such entities."

We recommended that FSSA maintain for audit all peer review reports. We also recommended that FSSA ensure that peer reviewers refrain from directly exchanging reviews. Rather, peer reviewers should review a facility other than the facility from which they received their peer review evaluation.

**Status of Finding as of September 2006:**

A new site visit protocol has been developed. The protocol includes Peers and Staff as part of the process. The new protocol was instituted in May of 2006. These actions should resolve this finding. We consider the finding closed.

FINDING 2005 - FSSA-7, SAPT - MAINTENANCE OF EFFORT

| | |
|---|---|
| Federal Agency: | Department of Health and Human |
| Federal program: | Prevention and Treatment of Substance Abuse (SAPT) |
| CFDA Number: | 93.959 |
| Auditee Contact Person: | John Viernes |
| Title of Contact Person: | Deputy Director, DMHA |
| Phone Number: | 317-232-7913 |
| Compliance Requirement: | Maintenance of effort |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found that the fiscal year aggregate SAPT state expenditures for authorized activities was less than the average level of such expenditures maintained by the State for the two state fiscal years preceding the fiscal year for which the State applied for the grant. The minimum amount of expenditure required to be spent by the State was $10,514,118 which was the amount expended by the State for the fiscal year 1994. This amount was the average level of expenditure by the State for the two year period preceding the first year for which FSSA applied for the grant. However, the State's fiscal year aggregate expenditures were $10,360,318 which fell short of the minimum required expenditure by $153,800. Furthermore, we found that FSSA does not monitor to ensure that they have met the required minimum amount of expenditure.

45 CFR section 96.134(a) states in part: "With respect to the principal agency of a State for carrying out authorized activities, the agency shall for each fiscal year maintain aggregate State expenditures by the principal agency for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the two year period preceding the fiscal year for which the State is applying for the grant."

45 CFR section 96.124(c)(3) states: "For grants beyond fiscal year 1994, the State shall expend no less than an amount equal to the amount expended by the State for fiscal year 1994."

We recommended that FSSA monitor SAPT expenditures to ensure that the required minimum expenditure level for each state fiscal year is met.

**Status of Finding as of September 2006:**

For a number of years (since the late 1990's), DMHA has included the total amount of the gambling funds received by FSSA in the State's level of effort used to calculate the State's MOE. DMHA is seeking to remove these funds from the MOE calculation, and project a lower MOE level. To accomplish the above DMHA has requested a State Requested Review from CSAT that will collect from multiple sources the data needed to fully explore all dimensions of the situation. The Review Team (composed of CSAT contractors from Johnson, Basin and Shaw) will then identify the available options. The goal of the State Requested Review will be to provide the State and CSAT the information needed to make the best possible decision and increase in their legislative appropriation in order to maintain their previous level of expenditures for substance abuse treatment. Additionally, additional funding from the Addiction Services Fund in SFY '06 was requested to pay for expenditures to the Synar inspections. These funds were disallowed since augmentation was not allowed under the current statute. Augmentation will be requested in the next budget bill to address any shortfalls in state addiction expenditures. This finding remains open.

FINDING 2005 – FSSA-8, MINIMUM PRIMARY PREVENTION REQUIREMENT NOT MONITORED, DIVISION OF MENTAL HEALTH AND ADDICTION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Prevention and Treatment of Substance Abuse |
| CFDA Number: | 93.959 |
| Auditee Contact Person: | John Viernes |
| Title of Contact Person: | Deputy Director, DMHA |
| Phone Number: | 317-232-7913 |
| Compliance Requirement: | Earmarking |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found that DMHA did not monitor primary prevention expenditures for individuals who do not require treatment for substance abuse to ensure that at least 20% of the grant award was spent on primary prevention.

45 CFR 96.124 (b)(1) and 45 CFR 96.125 provides in part that the State shall expend not less than 20% of the total grant amount to be used for primary prevention programs for individuals who do not require treatment for substance abuse.

45 CFR 92.40(a) states: "Grantees are responsible for managing the day to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity."

We recommended that FSSA implement procedures to monitor that at least 20% of the grant award is spent on primary prevention.

**Status of Finding as of September 2006:**

Program Director for Prevention has established spreadsheet tracking system of expenses for all programs funded under prevention. This is reviewed monthly; providers are notified when spending levels fall below targets at the quarter and six month mark.

The DMHA prevention technical Assistance provider, Indiana Prevention Resource Center, provides DMHA with monthly fiscal expenditure reports for funded programs. Additionally reports are provided by the contractor directly to DMHA.

It is anticipated that the Program Director will complete the CMS training by the end of the year; therefore, this finding remains open.

FINDING 2005 - FSSA-9, SITE VISITS, DIVISION OF MENTAL HEALTH AND ADDICTION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Prevention and Treatment of Substance Abuse |
| CFDA Number: | 93.959 |
| Auditee Contact Person: | John Viernes |
| Title of Contact Person: | Deputy Director, DMHA |
| Phone Number: | 317-232-7913 |
| Compliance Requirement: | Subrecipient Monitoring |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of FSSA, we found that DMHA could not locate and therefore did not make available for audit some selected on-site visit records for Chronic Addictions (CA) Managed Care Providers (MCP).

The SAPT State Plan (Page 186) states: "Implementation of these procedures is monitored through site visits to Block Grant funded agencies. A minimum of 20% of the funded treatment agencies are reviewed."

45CFR92.42 states: "a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) Required to be maintained by the terms of this part, program regulations or the grant agreement . . ."

We recommended that FSSA maintain site visit records.

**Status of Finding as of September 2006:**

Site visits for SFY 2005-2006 have been documented within DMHA. An electronic and hard copy file maintenance system has been created. Data is available to be transferred by e-mail as needed. A grid reviewing past and present site visits has been developed. An Executive Summary of the visits will be provided annually. Copies of the site visits will also be placed in files for the prevention based providers. We believe this finding is closed.

FINDING 2005 - FSSA-10, OVERPAID AND UNDOCUMENTED MANUAL PAYMENTS ISSUED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager ,OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

The State's fiscal agent for the Medicaid program, EDS, has a process to pay expenditures based on payout requests and manual check requests. We reviewed and tested these payment records and found that EDS did not always obtain OMPP approval to issue payments, or sufficient documentation to support the expenditure. The following payments are considered as questioned cost to the federal program:

OMPP approved that an interim payment be issued to a hospital, however, the calculations were not approved. The manual calculations made were in error, as was a subsequent system payment that was issued for the balance of the dates of service. The total overpaid was $623,101.

A payment was issued for a 1995 settlement agreement. The total interest paid was $161,648.

A payment was issued without the supporting calculation for $468,804.

A dentist was refunded the amount he reimbursed for duplicate payments identified. The basis for the refund was not documented in EDS records. The refund issued was $25,959.

The above questioned costs total $1,279,512. The federal share of the questioned costs may be required to be repaid with State funds.

"To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. b. Be allocable to Federal awards under the provisions of this Circular . . . d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. . . . j. Be adequately documented." US OMB Circular A-87, section C (1)

"Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation." US OMB Circular A-87, Attachment B, 23.

We recommended that FSSA review and approve calculations for expenditures based on payout requests and manual check requests. Controls to ensure only allowable, documented costs are recorded by the fiscal agent should be developed and monitored. FSSA should obtain adequate documentation, seek reimbursement for and repay the federal share of the total questioned costs to the federal government.

**Status of Finding as of September 2006:**

Of the four questioned costs identified by this finding, OMPP agreed that an error was made in the calculation of an interim payment to a hospital resulting in an identified overpayment of $623,100.80. The hospital was issued an advance payment on October 6, 2004 with the approval of OMPP; however OMPP did not review the final computation of the payment prior to issuance. Documentation though was located after the close of the previous audit cycle which identified that on March 12, 2005, the provider refunded the overpayment in the amount of $622,742.48. The federal portion was then returned through routine system adjustments. The payment documentation is available for review. OMPP acknowledges that there is a discrepancy between the amount the provider refunded and the identified overpaid amount and is investigating this discrepancy.

The interest payment noted in the finding is for a 1995 settlement agreement. The calculation of the settlement was reviewed and approved by OMPP staff. The documentation for this expenditure was held with the OMPP staff person regarding the necessity for the payment and is available for review. OMPP is validating that federal funds were not used to repay the interest portion of this settlement payment.

The FQHC supplemental payment amount of $468,804 was fully supported and documented. The documentation is maintained by Myers and Stauffer, who is responsible for calculating the supplemental payment amounts. Myers and Stauffer calculated the payment amount due the provider and notified OMPP of same. OMPP reviewed and authorized EDS to issue payment to the provider in the amount of $468,804.

The payment to the dentist was based upon an audit reconsideration performed by Myers and Stauffer and in coordination with OMPP. Myers and Stauffer recalculated the amount the provider owed the program, since the provider had already refunded the original overstated overpayment amount. It was determined the provider was due a refund of $25,959. Myers and Stauffer performed the refund calculation at OMPP's direction and notified EDS of the amount due the provider. Myers and Stauffer maintained all supporting documentation.

OMPP continues to work, in coordination with the fiscal agent, to review the procedures for payout and manual check requests to identify additional controls. This finding remains unresolved based upon this review.

FINDING 2005 - FSSA-11, DENTAL CORPORATION CLAIMS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Utilization Control and Program Integrity |
| Internal Control: | Reportable Condition |

**Finding:**

We observed that claims for dental groups were paid without rendering provider information. As a result of omitting the rendering provider from dental group claims, proper utilization analysis could not be performed. This condition precludes analysis of claims billed from dental groups, as well as claims billed for dental providers which operate a private practice in addition to working in a group practice. The Surveillance and Utilization Review (SUR) function provides profiles of health care delivery and utilization patterns of providers and recipients. By analyzing and comparing providers and recipients to their peer groups, atypical practices can be identified and appropriate action may be pursued.

We found that AIMS has not evaluated dentist claims for edit 1008 (rendering provider must have an individual provider number) since at least the year 2000. On June 3, 2005, Change Order fifty-two (52) was released into production. The change order narrative states that its purpose is, "to meet HIPAA requirements by allowing dental rendering at the detail level." A provider bulletin dated June 1, 2005, informed providers that the rendering provider's number is required and where it should be submitted on the claim. We observed denial of dental claims because of edit 1008 during June 2005.

Subsequent to our audit period, on July 25, 2005, edit 1008 was inactivated for dentists at the request of FSSA on Reference Change Order 2877. In addition, the following other edits were also inactivated for dentist claims at that time: 231 (rendering provider number is missing), 232 (rendering physician number is not in a valid format), 1010 (rendering provider is not a member of the billing group, or rendering not equal billing), 1004 (rendering provider not eligible to render services on this program for the date of service), and 7509 (rendering provider on prepayment review). According to the document describing the change, ". . . the OMPP feels that there was not adequate notification to providers for them to modify their procedures to enroll rendering providers in the system." From start to finish, the provider enrollment process is roughly 30 days. As of March 31, 2006, FSSA has not requested that the edits be reactivated.

42 CFR §456.23 states that: "The agency must have a post-payment review process that-- (a) Allows State personnel to develop and review-- (1) Recipient utilization profiles;(2) Provider service profiles; and (3) Exceptions criteria; and (b) Identifies exceptions so that the agency can correct misutilization practices of recipients and providers."

42 CFR §456.3 states that: "The Medicaid agency must implement a statewide surveillance and utilization control program that-- (a) Safeguards against unnecessary or inappropriate use of Medicaid services and against excess payments; . . . (c) Provides for the control of the utilization of all services provided under the plan in accordance with subpart B of this part; and (d). . . ."

We recommended that FSSA ensure that rendering dentists are identified on all dental group claims. FSSA should also ensure that post-payment review processes and the SUR program include necessary procedures to ensure proper payments are issued for dental services.

The EDS Claims Resolutions Manual indicated that the following other types of providers/ specialties and codes are excluded from edit 1008: Rehabilitation Center (06), Title V Clinic (08/085), School Corporation (16), Public Health Department (17), Optician (21), Durable Medical Clinic (35), Transportation (36), Laboratory (38), and Radiology Provider (39). We further recommended that FSSA ensure that rendering provider information is required for all applicable provider group practice claims for SUR purposes.

**Status of Finding as of September 2006:**

Preliminary discussions have occurred with the fiscal agent regarding the analysis of Edit 1008 "Rendering Provider Must have an Individual Provider Number" and the course of action that needs to occur for the enrollment of rendering dental providers. OMPP is working with the fiscal agent to develop a communication plan, to be implemented January 1, 2007, that will allow for timely notice and additional enrollment for rendering dental providers. The 1008 edit will be reactivated 60 days after notification to the dental provider community.

OMPP will evaluate the requirement for rendering provider information for all applicable provider group practice claims. The evaluation will be completed by September 30, 2006, and results will be reviewed by OMPP for a determination of potential future action. This finding remains unresolved.

FINDING 2005 - FSSA-12, DUPLICATE CLAIMS IDENTIFIED BY CONTRACTOR

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|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

The rate-setting contractor performs desk reviews of hospital cost reports and is also the Payment Integrity Program (PIP) contractor. During our audit period, the contractor finalized the desk reviews of the 2002 inpatient hospital cost reports. One of the desk review procedures performed during 2002 was the identification of duplicate hospital claims. From the rate-setting/PIP contractor, we were provided with a listing dated January 25, 2003, with $1,067,465.50 in identified duplicate payments from 50 different providers for claims paid between 1998 and 2002.

We inquired as to the collection of the identified duplicate hospital claims and requested all of the related documentation. OMPP determined that this was one of two duplicate claim recovery projects that had been performed. The rate-setting/PIP contractor was then to recover for those duplicate claims paid prior to January 1, 2000, and the fiscal agent was to recover the balance.

The rate-setting/PIP contractor provided the repayment spreadsheet which listed duplicate claims prior to January 1, 2000, and totaled $255,535.45. Check copies were not provided to substantiate the repayments listed on the spreadsheet. According to the listing, there are also accounts which have not been paid in full. Notes were also entered where overpayments were reduced in the appeals process. Documentation to support the reductions was also not provided. As these were not fully documented for our audit, the duplicate payments listed on the spreadsheet are considered questioned cost.

OMPP stated that the duplicate claims paid after January 1, 2000, were subject to a mass identification and recovery process that the fiscal agent contractor performed on March 14, 2003. We were provided with the mass adjustment and confirmed that accounts receivable were set up for $86,352.95 of the duplicate claims discovered. As of March 31, 2003, we were not provided with any documentation of any attempt to recover, or to adjust the expenditures for the balance of the duplicate claims identified which totaled $725,577.20. For a sample of the duplicate claims identified, payment recoveries were not located on the AIMS accounts receivable record nor were void/replaced check information located for the claims when searching the record by claim number.

As the payment of duplicate claims is not an allowed cost for the program, and adequate information documenting the recovery and accounting entries to adjust expenditures were not provided for audit, we consider the total of the spreadsheet list items, $255,535.45 plus those which were not recorded for adjustments or collections, of $725,577.20 to be questioned cost. The federal share of the total questioned costs of $981,112.65 may be required to be repaid to the federal government with State funds.

"If the administrator and a provider fail to enter into an agreement not more than sixty (60) days after the administrator's discovery of an overpayment, the administrator shall immediately certify the facts of the case to the Medicaid fraud control unit established under IC 4-6-10." Indiana Code 12-15-23-5

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

45 CFR §92.36 states: "(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

45 CFR §92.22 states that: "Grant funds may be used only for: "(1) the allowable costs of the grantees, subgrantees and cost-type Contractors . . ."

We recommended that FSSA ensure controls are in place for the timely identification and recovery of duplicate or other claims paid in error. Adequate documentation must be obtained and retained concerning the recovery process of identified overpayments. Those which have either not been recovered, or that have not been agreed to be repaid, must be certified to the Medicaid fraud control unit in accordance with Indiana Code 12-15-23-5.

**Status of Finding as of September 2006:**

As noted in OMPP's initial response, under a contract with Myers & Stauffer to review claims payment and recover overpayment findings, one study revealed that overpayments were occurring for crossover 'B' and 'C' claims due to the fact that the duplicate edit logic was being applied at the header level versus the detail level. Of these identified dollars, SBOA noted questioned costs in the amount of $981,112.65 resulting from a lack of documentation to confirm OMPP's recovery actions. Of those dollars, OMPP had approved Myers and Stauffer to recover claims only for years prior to 2000 which affected 18 providers. This resulted in a repayment of $255,535.45. The documentation was collected subsequent to the audit cycle and is available for review.

Of the remaining dollars, $370,043.99 of the questioned costs are confirmed as adjusted through provider initiated adjustments. The documentation for these adjustments is also available. There are 56 claims totaling $355,533.11, for 30 providers, that remain outstanding, to be recovered. EDS will issue individual forty five day notices to these providers announcing that a mass adjustment of these claims will occur. The letters will be mailed in November 2006. A mass adjustment will take place in January 2007, at which time the remaining questioned costs will be recouped. The federal share will be returned through the routine system, at which time all costs will be considered supportable.

To refine the duplicate claim logic in Indiana*AIM*, OMPP and EDS has created change order 803, Revisions to Duplicate Claim Logic. The change order has been prioritized and resources have been identified to begin working on these system modifications. The business design for CO 803 is in the process of being defined.

The system will edit crossover 'B' and crossover 'C' claims at the detail level instead of the header level. System logic will be revised to look at all five characters of a procedure code and all four modifiers in determining if a detail is an exact duplicate of a detail in history.

In addition, the system logic will be revised to look for a match of all five characters of a procedure code in order to determine if a detail should suspend for a possible duplication. Currently the Resolution staff automatically force details that suspend for possible duplication if the first three characters of the procedure code match but the last two characters are different.

OMPP continues to work with their contractors to fully document the identification process of duplicate payments. This issue is further addressed regarding the Claims Payment and Analysis (CPAS) processes discussed in response to SBOA finding 2005-FSSA-13. EDS has drafted a Duplicate Payment Recovery flow chart to describe this recovery process and it is currently under review by EDS Management, to be forwarded to OMPP. This finding remains unresolved.

## FINDING 2005 - FSSA-13, INPATIENT HOSPITAL DUPLICATES NOT DETECTED

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|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program, State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778, 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

We performed claims data analysis to identify possible duplicate inpatient hospital claims paid during the quarter ended June 30, 2005. Our analysis listed 156 pairs of claims paid with date of service conflicts for the same eligible recipient. Of the 38 pairs of claims tested, all except for 3 pairs were previously identified within the system and corrected by voiding the check, replacing the check, voluntary return of a check by provider, or an accounts receivable entry. The 3 pairs of duplicate claims we identified were not previously identified by the system as errors.

Of the 3 duplicate claim pairs identified, 2 were inpatient crossover claims and 1 was an inpatient claim. Each claim in each pair was submitted using a different provider number than the claim's duplicate. There were failures in the system edits used to identify duplicate claims.

For the 2 inpatient crossover duplicate claims, the fiscal agent identified the reason for paying the claims as an error in the system logic for the identification of this type of duplicate. The duplicate claim for each of the pairs was identified by the system for inpatient crossovers, but was automatically paid. The identified duplicate inpatient crossover claims were not subsequently reviewed after being paid and have not been reimbursed by the provider.

For the 1 inpatient duplicate claim, the system did not identify the duplicate to the other claim, the claims were not reviewed following payment, and the duplicate payment has not been recovered.

There is no process in place by the fiscal agent to report and review each duplicate inpatient hospital claim payment identified by system claim edits for review. The only way that inpatient claims may be reviewed is if they fall into the 2% to 5% review of all work performed in the department that is selected for supervisory quality control review.

42 CFR §447.45 states that a prepayment review must consist of ". . . (iii) Verification that the claim does not duplicate or conflict with one reviewed previously or currently being reviewed."

45 CFR §92.22 states that: "Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type Contractors. . . ."

Under OMB Circular A-87, a cost must meet the following general criteria to be allowable under Federal awards: be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized or not prohibited under State or local laws or regulations.

The duplicate claims found in our test totaled $6,009.63. Expenditures for duplicate claims are not allowed and are considered to be questioned costs. The federal share of the questioned costs may be required to be repaid to the federal government with State funds.

We recommended that FSSA ensure that system edits used in the identification of potential duplicate claims are reviewed for completeness and accuracy. We recommend the creation of a report of inpatient claims which have been paid with date of service conflicts for the same recipient. The reported claims should be reviewed for appropriateness. Reimbursement for questioned costs should be obtained. The balance of the fiscal year ended June 30, 2005, should be reviewed for possible duplicate claims which may have been paid in error. Reimbursement should also be obtained for duplicate claims identified from this process.

**Status of Finding as of September 2006:**

OMPP, in conjunction with its fiscal contractor has developed a bi-annual report, which identifies claims that have been paid with a date of service that conflicts for the same recipient to determine if claims have been paid in error.

A change request (CR) is required to prevent DRG payments to hospitals transfer patients within the same facility. This CR has been drafted and is under review. This CR will be submitted to OMPP's Operational Effectiveness Team (OET) by September 30, 2006. OMPP's OET has been charged with reviewing any request for a change (or modification) to the operations of OMPP, its contractors, business areas or supporting systems.

During review of the SBOA audit it was found that Edit 5009 - *Suspect Dupe –Different Provider Allowed*, was set to Post and Pay in August 7, 1997, for Part A claims. On April 19, 2006, the edit was set to Deny. This allows for systematic denials of crossover claims.

Revisions have been made to the fiscal contractor's Resolution Manual pages and are under review. These revisions detail criteria for the Resolution staff to determine when to force and deny duplicate claims. Additional training will be offered to the Resolution staff on the added criteria.

Review of the balance for fiscal year ended June 30, 2005, for possible duplicate inpatient claims as recommended by this SBOA was completed in June 2006. There were 14 additional claims identified as duplicate claims. OMPP will assess this review and adjust these 14 claims, in addition to the 3 previously identified claims, in a future mass adjustment.

The SBOA identified a questioned cost of $6,009.63. Upon completion of the mass adjustment this questioned cost will be recouped. The federal share will be returned through the routine system, at which time all costs will be considered supportable.

This finding remains unresolved.

FINDING 2005 - FSSA-14, CONTRACTOR MONITORING – DESK REVIEWS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Inpatient Hospital Audits |
| Internal Control: | Reportable Condition |

**Finding:**

The rate-setting contractor performs desk reviews of hospital cost reports. FSSA's OMPP selects desk review files to be reviewed during on-site monitoring of the contractor. However, the monitoring procedure and outcome of monitoring procedures in place by OMPP for the desk reviews is not documented. Documented procedures and the documentation of the outcome of each procedure for each item tested would ensure that consistent procedures are applied during the on-site monitoring of the contractor.

45 CFR §92.40(a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended FSSA develop written procedures for monitoring of the rate-setting contractor's hospital desk reviews. This should include methods to document the sampling technique, procedures performed, and outcome of procedures.

**Status of Finding as of September 2006:**

OMPP conducts on-site reviews to inspect Myers and Stauffer's work papers for completed desk reviews. OMPP agreed with the finding that procedures needed to be documented and implemented to ensure consistency in OMPP's evaluation and review process. These procedures have been drafted and are currently under review. These written procedures will be utilized to monitor Myers and Stauffer's performance of, and compliance with, contracted duties regarding hospital desk reviews. In addition, a template form has been developed that will be utilized by the OMPP representative who monitors the Myers and Stauffer's contract deliverables in regards to hospital desk reviews.

A report of activities will be generated from this form that will record an explanation of the outcome of Myers and Stauffer's desk review and any findings as a result of OMPP's evaluation of the desk review. This new form and procedures will replace the use of the log. With implementation of these new procedures, OMPP staff will be able to uniformly evaluate Myers and Stauffer's desk review performance.

This finding is considered unresolved until the final steps are fully implemented.

FINDING 2005 – FSSA-15, C&T PROCESS - MONITORING OF CONTRACTOR

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Health and Safety Standards |
| Internal Control: | Reportable Condition |

**Finding:**

OMPP has not performed on-site visits to their fiscal agent contractor since at least June 2004 to observe procedures and test documents to ensure that procedures are performed as detailed in the manual for the handling of Certification and Transmittal (C&T) documents. The Indiana State Department of Health (ISDH) is responsible for the issuance of C&T documents. C&Ts inform the Medicaid fiscal agent whether or not facilities have met prescribed health and safety standards. OMPP reviews and approves revisions to the fiscal agent's Provider Enrollment Operations Manual. The manual addresses the handling of documents received from the OMPP and ISDH. Improper handling of C&Ts may result in payments to facilities which have not met the prescribed health and safety standards.

45 CFR §92.40 states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

42 CFR §442.12 states: "Provider agreement: General requirements. (a) Certification and re-certification. Except as provided in paragraph (b) of this section, a Medicaid agency may not execute a provider agreement with a facility for nursing facility services nor make Medicaid payments to a facility for those services unless the Secretary or the State survey agency has certified the facility under this part to provide those services."

The Social Security Act §1919 (g)(2)(A)(iii)(I) states that: "Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey conducted. . . ."

We recommended that FSSA perform on-site monitoring as it relates to C&Ts in accordance with federal requirements.

**Status of Finding as of September 2006:**

OMPP has established a Provider Enrollment Work Group (PEWG) that is reviewing provider enrollment procedures conducted by Medicaid's fiscal agent. The PEWG meets regularly and is populated with all the necessary parties affected by the Certification and Transmittals (C&T) process, including the State's fiscal agent EDS as appropriate. The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project.

The current procedure for Provider Enrollment's C&Ts process has been added to the PEWG project and is under review. The OMPP has hired additional staff that has been tasked with the responsibility of monitoring provider enrollment functions at Medicaid's fiscal agent contractor, to include the C&T process.

In addition to examining current provider enrollment procedures, the PEWG is assessing relationships with the ISDH and/or Certifying Agencies. Upon completion of review and evaluation by the PEWG, all processes will be documented to ensure consistent monitoring of the provider enrollment functions performed by EDS. This finding remains unresolved.

FINDING 2005 - FSSA-16, TRACKING OF CERTIFICATION & TRANSMITTAL (C&T)

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|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Health and Safety Standards |
| Internal Control: | Reportable Condition |

**Finding:**

In order to be eligible to receive Medicaid payments, long-term care facilities must meet prescribed health and safety standards. The Indiana State Department of Health (ISDH) is responsible for the issuance of Certification & Transmittal (C&T) documents. Among other purposes, C&Ts inform the Medicaid fiscal agent whether or not facilities have met prescribed health and safety standards. EDS may receive several C&Ts for each facility in the course of a year. Not all of the C&Ts received will be for the purpose of recertification. Other than Intermediate Care Facilities for the Mentally Retarded (ICF/MR), EDS does not have a system in place to ensure that only those facilities certified by the Indiana State Department of Health as having met prescribed health and safety standards receive Medicaid payments.

There is a lack of controls in place to ensure that all providers being paid have a current and satisfactory C&T. Upon receipt, C&T documents are logged in the Document Tracking System at EDS and filed in hardcopy facility files. No information is entered into AIMS for long-term care facilities other than ICF/MR. The papers inside provider files are loose-leaf, not in any specific order, and are not indexed. There is no process in place to ensure that all required C&Ts are received and to follow-up on those that are missing. The lack of controls increases the risk of paying providers who do not have a current and satisfactory C&T.

42 CFR §442.12 states: "Provider agreement: General requirements. (a) Certification and recertification. Except as provided in paragraph (b) of this section, a Medicaid agency may not execute a provider agreement with a facility for nursing facility services nor make Medicaid payments to a facility for those services unless the Secretary or the State survey agency has certified the facility under this part to provide those services."

The Social Security Act §1919 (g)(2)(A)(iii)(I) states: "Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey conducted . . ."

We recommended that FSSA ensure that a process is implemented to make certain that the most current C&T is in the provider files and to examine files for completeness. If a provider's file does not have a recent C&T, follow-up should be performed with ISDH. The communication process should be enhanced to ensure that C&Ts are received in a timely manner. A list of finished surveys from ISDH should be periodically obtained and compared to hardcopy provider files.

**Status of Finding as of September 2006:**

This concern has been added to OMPP's Provider Enrollment Work Group (PEWG) project. The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project. The PEWG will map the C&T process and make enhancements where necessary. EDS's Provider Enrollment unit will then update flowcharts to reflect the changes made to the C&T process and include these changes in their Provider Enrollment Standard Operating Procedures.

This finding remains unresolved.

FINDING 2005 - FSSA-17, CONTRACTOR MONTHLY STATUS REPORT STATISTICS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

The contract between OMPP and EDS requires EDS to maintain controls to achieve results at agreed-upon standards. EDS submits a monthly electronic PDF file report outlining statistics and business activities to illustrate whether or not certain contract requirements have been met. The report is sent to several OMPP employees as well as other contractors who may require the information. EDS reports on the following business areas on a monthly basis: claims and encounters, member and provider relations, finance and third party liability, and systems.

OMPP management does not receive a complete package of detail documentation for review to support statistics presented. Depending on the area that each recipient of the report is responsible for, additional information may be available in the form of reports automatically received or available online. There is no requirement that the OMPP employees receiving the report review and confirm statistics or other information presented. This is an ineffective control over the operations of EDS in confirming that contract requirements are met.

In addition, the monthly report specifies several contract requirements with conclusions as to if the requirement was met or not met during the month reported. Items reported are identified by contract number and a brief description of the requirement. We found that the brief description of the contract requirement does not always coincide with the contract requirement number from the Scope of Work for the most recent contract. The most recent contract became effective January 1, 2004. This was not detected by OMPP despite approximately 20 employees and other contractors receiving this report each month.

There are provider enrollment unit data entry accuracy rate requirements in the EDS contract. EDS did not retain adequate documentation to support the originally reported calculations of statistics for the provider enrollment unit contained within their monthly status report. The information to support statistics and information presented for provider enrollment in this report was not requested, nor reviewed, by OMPP to ensure that the performance of the contractor is adequately monitored.

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

45 CFR §92.36 states: "(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

We recommended that FSSA develop written internal control procedures for monitoring contract performance which include identification of information monitored and the communication of monitoring results to OMPP management. OMPP should review the report format for consistency with contract requirements and ensure that OMPP has documented how the contractor is meeting, or not meeting, each of the current contract provisions.

**Status of Finding as of September 2006:**

OMPP's Compliance Unit is working to ensure that there are effective contract monitoring procedures in place and followed which meet the expectations of FSSA management staff. A workgroup, led by the Deputy Director of OMPP, continues their analysis of current business needs, outcomes and metrics. The resulting procedures and deliverables will be documented for OMPP management to ensure that on-going practices comply with this review. Documented changes to the monthly status report will only be approved by OMPP management staff. This finding remains unresolved.

FINDING 2005 - FSSA-18, INACTIVE PROVIDER RECORDS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

EDS, the Indiana Medicaid fiscal agent contractor, does not terminate the eligibility of inactive provider records. Terminating records would enable efficient database comparisons to license records, assist in cleaning up the database, provide a better estimate of the number of active providers, and may assist in preventing fraud perpetrated against the federal program. As an example, we located an active Medicaid-enrolled provider who has been in the program for nearly 19 years without ever having been paid or submitting any claims.

Contractor requirement PRC-87 of the January 1, 2004, Scope of Work of the EDS contract states: "Periodically purge inactive provider records on a schedule and using criteria specified by the state."

45 CFR §92.36 states: "(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

We recommended that FSSA establish a schedule for periodic archival of inactive provider records.

**Status of Finding as of September 2006:**

OMPP has already identified this concern and taken action to correct the problem. Change Order, 253, has been has been reviewed and approved by the Operational Effectiveness Team (OET). OMPP's OET has been charged with reviewing any request for a change (or modification) to the operations of OMPP, its contractors, business areas or supporting systems. The fiscal agent has assigned a project manager to manage the project within their organization. Change order #253 requires that non-managed care providers who have failed to bill within an eighteen month period will be disenrolled. A systematic quarterly report will identify those providers, and forward to provider enrollment for action. The disenrollment process will include notifying the provider in advance of the action in accordance with provider termination processes.

In addition, OMPP's Provider Enrollment Work Group (PEWG) has added this concern to its project. The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project. The PEWG will work to strengthen control mechanisms that are in place for purging inactive provider enrollment records to ensure that periodic archival of inactive provider records occurs.

his finding remains unresolved.

FINDING 2005 - FSSA-19, ONGOING OUT-OF-STATE LICENSE VERIFICATION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

There is no consistent procedure to verify on an on-going basis that the licenses of out-of-state providers enrolled in the Indiana Medicaid program remain active. The process to verify in-state provider license numbers involves a monthly systematic interface with the Indiana Health Professions Bureau (now merged with the Indiana Professional Licensing Agency). The policy manual for provider enrollment states that out-of-state providers are to be end dated at the date of their license expiration date. Out-of-state providers were not consistently found to be end dated when their license came up for recertification. In these cases, there is no procedure to verify licensure other than at the time of initial enrollment. License expiration dates vary by state and medical specialty. License expiration dates for states contiguous to Indiana may be as long as three years between recertifications. In the three years between recertification, disciplinary actions or other events may occur which could render a physician's license invalid. Improper Medicaid payments may be made to providers which bill after this date.

There are several obstacles to the systematic verification for out-of-state licenses. Provider license numbers are not identified in AIMS by licensing state. License numbers were inconsistently entered in AIMS when the provider was enrolled. Some provider license numbers include letters within the license number (such as a postal abbreviation for the state or a specialty abbreviation) or special characters such as hyphens. Some of the entered license numbers are incorrect or incomplete. Therefore, if the numbers were systematically interfaced with another state's licensing data, there would be several exceptions for nonmatches even if the provider's license was active. This would require substantial manual follow-up procedures.

Contractor requirement PRC-9 of the January 1, 2004, Scope of Work of the EDS contract states: "Maintain regular communication with the applicable State agencies to perform certification and licensure verification. Verify certification in other states for out-of-state providers."

42 CFR §440.50 states that the services of physicians and dentists must be "(2) By or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

42 CFR §447.45 states: "(f) Prepayment and postpayment claims review. (1) For all claims, the agency must conduct prepayment claims review consisting of--(i) Verification that the recipient was included in the eligibility file and that the provider was authorized to furnish the service at the time the service was furnished . . ."

We recommended that FSSA review the medical license verification process for completeness across all provider types and provide for on-going licensure reviews of out-of-state providers.

**Status of Finding as of September 2006:**

OMPP continues to assert that systematic processes with out-of-state providers are not currently feasible; however, with the additional implementation of the National Provider Identifier (NPI), there will be increased control mechanisms to review out-of-state providers. The NPI will be implemented by May 23, 2007. OMPP agrees to evaluate current processes to determine if additional manual mechanisms can be added to ensure that timely reviews are conducted for out-of-state providers. This concern has been added to the Provider Enrollment Work Group (PEWG) project. The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project.

This finding remains unresolved.

FINDING 2005 - FSSA-20, TIMELY FOLLOW-UP OF LICENSE TERMINATION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program; State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility; Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

AIMS does not provide a computer field to record the license termination date of providers. For providers with a license that is no longer valid, the end date of the license is not the end date used in AIMS. The end date used in AIMS is the date that the termination letter is sent out and may be several months after the date that the license became invalid.

As the system does not provide license termination dates, identification of services performed after a provider's license became invalid is not readily determinable. Manual processes are relied upon when making the determination as to whether the provider has performed services after the date that his or her license became invalid.

In our review of the license termination process, two providers were identified who received payments for services performed after the date which the provider's license became invalid. Action had not been initiated to recover the overpayments.

The first provider's eligibility was not terminated from AIMS until more than three months had passed after receiving an emergency suspension. The provider was identified in a newspaper article which stated that the provider was under a 90 day emergency suspension for committing possible fraud against Medicaid and private insurers. The emergency suspension has since been extended an additional 90 days. We are questioning claims which were paid for services performed after the date of the provider's emergency suspension in the amount of $2,356.14.

The second provider's eligibility was not terminated from AIMS until more than 16 months had passed after the date of the company's license expiration. The delays in terminating the eligibility of this provider in AIMS resulted in $298,604.37 paid for claims with dates of service subsequent to the license expiration.

42 CFR §440.50 states that the services of physicians and dentists must be "(2) By or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

45 CFR §92.22 state that: "Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type Contractors. . . ."

Under OMB Circular A-87, a cost must meet the following general criteria to be allowable under Federal awards: be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized or not prohibited under State or local laws or regulations.

The total paid to these providers for services claimed beyond the date of license expiration or termination of $300,960.51 is considered a questioned cost. The federal share may be required to be repaid to the federal government with State funds.

We recommended that FSSA require that AIMS maintain the date on which a provider's license becomes invalid. FSSA should perform monitoring procedures to ensure that license changes are recorded in a timely manner. FSSA should also develop information and communication procedures to ensure timely AIMS eligibility terminations occur.

**Status of Finding as of September 2006:**

OMPP has established a Provider Enrollment Work Group (PEWG) that is reviewing provider enrollment procedures conducted by Medicaid's fiscal agent. The PEWG meets regularly and is populated with all the necessary parties affected, including the State's fiscal agent EDS as appropriate. The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project. This concern has been added to the PEWG project and is under review.

To monitor license changes and terminations more effectively, CR 939 was written and reviewed by OMPP's Operational Effectiveness Team (OET), and has been prioritized. OMPP's OET has been charged with reviewing any request for a change (or modification) to the operations of OMPP, its contractors, business areas or supporting systems. This change order will create a new window to capture the license number, effective date, expiration date, and the state that issued the license. The license information will be verified against the Health Professions Bureau data file. In an effort to further automate the process, the EDS Provider Enrollment unit is researching whether a new claim edit can be created using the license expiration date. The PEWG will manage this CR and work to strengthen control mechanisms to ensure that license changes are recorded in a timely manner with the Indiana *AIM* system.

OMPP will pursue recoupment of the questioned cost identified in this finding. This finding remains unresolved.

FINDING 2005 - FSSA-21, PROVIDER ENROLLMENT - CONTRACTOR MONITORING

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Finding:**

Monitoring of the EDS provider enrollment function is inadequate. OMPP does not perform on-site reviews for a sample of provider files and does not perform on-site performance assessments of procedures. These monitoring activities would ensure for a sample of files that provider enrollment processes are performed by EDS as stated in their provider enrollment operations manual. On-site monitoring has not been performed since at least June 2004 due to the need to split staff responsibilities with claims processing.

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that FSSA develop procedures in order to monitor the provider enrollment function.

**Status of Finding as of September 2006:**

OMPP concurs that there has been a lack of on-site sampling of provider enrollment files in the recent past due to limited staff resources. However, there have been on-going assessments of the provider enrollment procedures as new procedures are implemented, as well as direction to develop additional systematic auditing mechanisms. Specifically, the new Provider Document Tracking System (PDTS) was implemented in April of 2006 and will allow for additional monitoring controls and reporting criteria of the enrollment process. This will closely track receipt and loading of enrollment information.

The OMPP has hired additional staff that is performing on-site monitoring of the fiscal agent's provider enrollment functions, to include bi-weekly visits to review provider enrollment files for completeness and accuracy, and review and evaluation of the fiscal agent's current provider enrollment standard operating procedures.

Further, an assessment of overall provider enrollment procedures will be conducted under the purview of the Provider Enrollment Work Group (PEWG). The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project.

This finding remains unresolved.

FINDING 2005 - FSSA-22, ADP REVIEW NOT PERFORMED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – ADP Risk Analysis and System Security Review |
| Internal Control: | Reportable Condition, Material Weakness |

**Finding:**

The FSSA Office of Medicaid Policy and Planning (OMPP) has not had an ADP system security review conducted for the Indiana Advanced Information Management System (AIMS) since 2002. At that time, an Independent Service Auditor's Report on Controls Placed in Operation and Tests of Operating Effectiveness was obtained for the period January 1, 2002 to June 30, 2002. The review was conducted for the controls relating to the processing of transactions by EDS for AIMS in accordance with standards established by the American Institute of Certified Public Accountants.

Indiana contracts with EDS Corporation to operate the AIMS. The AIMS maintains recipient eligibility data, adjudicates and pays claims to providers, whose records are also maintained in the system. The AIMS operations are material to the Medicaid and SCHIP programs. The absence of documented ADP reviews is considered a reportable condition and material weakness of internal control.

"State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices." 45 CFR 95.621(f)(3) "The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review." 45 CFR 95.621(f) (6)

We recommended that FSSA have documented review reports for the ADP system, AIMS, in accordance with federal regulations. FSSA should consider having the ADP system reviewed in accordance with accounting standards, as was previously performed, in order to provide the required coverage of the ADP controls, together with tests of the effectiveness, in order to ensure continuous, consistent integrity of the surrounding financial processes and reports.

**Status of Finding as of September 2006:**

Based on this finding, OMPP has considered a review of the security system and determined that a comprehensive claims system review was necessary, more detailed that the SAS70 requires. OMPP published a Request for Services (RFS) to audit the Medicaid Management Information System (MMIS) not only for security review of the Indiana *AIM* system, but also to provide quality comprehensive claims processing. The RFS requires tests of effectiveness as described by SBOA. All responses are now under review by OMPP Management. The contractor will be responsible for delivering a detailed audit plan, documenting results, providing analysis, and suggesting corrective action. This finding remains unresolved.

FINDING 2005 - FSSA-23, AIMS CONTRACTOR ACCESS
ASSIGNMENTS AND CONTROLS NOT MONITORED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – ADP Risk Analysis and System Security Review |
| Internal Control: | Reportable Condition |

**Finding:**

During the fiscal year ended June 30, 2005, FSSA's OMPP did not monitor the access assignments and associated controls maintained by the contractor for the AIMS. The contractor operates the Medicaid and SCHIP programs for OMPP using AIMS. Monitoring of access assignments is necessary to ensure adequate controls are in operation for the proper segregation of duties and security of records.

"State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. 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 (f) (1)

We recommended that FSSA develop a monitoring plan which would include regular review of the access assignments maintained by the AIMS contractor to ensure proper segregation of duties, and that controls are in operation to ensure that access is changed or terminated corresponding to changes in job positions or terminations, as applicable.

**Status of Finding as of September 2006:**

This finding recommended that FSSA develop a monitoring plan for regularly reviewing access assignments maintained by the AIMS contractor. The OMPP has hired additional staff to work in the privacy/security area and whose duties include monitoring access assignment to AIM. OMPP has developed a plan to conduct regular AIM audits, to be completed quarterly. It is this individual's responsibility to assist with ensuring the audit of AIM access is completed.

In addition Change Order (CO) 701, Security Website Request, has been created and is in the testing stages. The website will automate the security request process and will allow OMPP to routinely monitor EDS' access to AIM. Implementation of this CO is scheduled for June 2007.

This finding remains unresolved.

FINDING 2005 - FSSA-24, OMPP AIMS ACCESS ASSIGNMENTS AND CONTROLS NOT MONITORED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – ADP Risk Analysis and System Security Review |
| Internal Control: | Reportable Condition |

**Finding:**

During the fiscal year ended June 30, 2005, FSSA's OMPP did not monitor the access assignments it granted for state staff for the AIMS. Monitoring of access assignments is necessary to ensure adequate controls are in operation for the proper segregation of duties and security of records, as well as to ensure that access has been deleted for those who have separated from employment.

The OMPP security manual, AIMS Account Security Guidelines for OMPP, was not in use as the staff person responsible for approving access assignments was not aware of its existence until researching to fulfill our audit request. This manual is considered out of date since documents and profiles were as of April 1999.

"State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. 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 (f) (1)

"State ADP security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in section (f); (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security: . . . C) Software and data security; D) Telecommunications security; E) Personnel security." 45 CFR 95.621 (f) (2)

We recommended that FSSA update and utilize the security manual and develop monitoring procedures to ensure the OMPP access assignments are appropriate and current.

**Status of Finding as of September 2006:**

As asserted in the original response, due to the fact that the security manual referred to in this finding was superseded by the OMPP Security Policy and Procedures Manual which became effective during state fiscal year 2004-2005, OMPP believes that effective monitoring procedures were documented. Due to a lack of staff, activities were not performed. OMPP has hired additional staff to work in the privacy/security area and perform monitoring of OMPP staff access to AIM.

OMPP believes that this action resolves this finding, and considers this item closed.

FINDING 2005 - FSSA-25, DETAIL ACCOUNTING NOT PRODUCED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

FSSA contracts with a fiscal agent, EDS Inc., to operate the AIMS and perform accounting and reporting functions for the Medicaid and SCHIP programs. The program expenditures are reported in the format that conforms to the federal requirements thru a subsystem known as MARS. The MARS software calculates and classifies the AIMS claims payment transactions, using the associated recipient data and other logic. The data created upon running the MARS is retained by EDS. We consider the MARS to be the expenditure records for the Medicaid and SCHIP programs as this is where the claims are classified. The MARS does not produce reports of the detail transactions to support the totals on the summary reports. This is considered necessary for financial monitoring and to provide a complete audit trail.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

"The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely." Accounting and Uniform Compliance Guidelines Manual for State Agencies 16:4.

We recommended that FSSA have the contractor produce accounting expenditure reports for the Medicaid and SCHIP programs that support the totals of MARS reports.

**Status of Finding as of September 2006:**

The Management and Administration Reporting (MAR) management tool provides information to evaluate program status and trends as well as historical data to predict the impact of program policy changes. MAR consists of four subsystems which process independently and have varying retention periods for detailed data. These subsystems are (1) the monthly summary process, (2) the quarterly CMS64 summary process, (3) the CMS372 subsystem; and, (4) the quarterly MSIS summary process. These reports provide high-level data summarized by such variables as state category of service, aid category, provider type/specialty, benefit plan, et al. To satisfy federal reporting requirements, data are aggregated by CMS-defined line items, often categories of service.

The monthly summary process keeps a rolling six months of detailed data and seven years of summary data. The monthly load files for the detailed data are not archived. The quarterly CMS64 summary process was designed to keep a rolling six months of detailed data. However, it was modified during the balancing initiative to keep a full year of detailed data. The database load file for each quarter is archived. The CMS372 subsystem has both quarterly and annual cycles for the seven waiver programs and both cycles process expenditures for a two-year period. The detail for each cycle is kept on the database and the load file from the annual cycle is archived. Specifically, the State Board of Accounts noted that detailed transactions should support the summary level data. For the SBOA to review historical detailed transactions for MAR summary information, recovery of the data is required. This process is available, but can take up to approximately two weeks to restore. To reduce this recovery time, it has been determined that the archived folders can now be maintained on DVDs organized by federal fiscal year. Implementation of this enhancement is expected within the next quarter.

In addition to MAR, the financial cycle subsystem is regularly used as the expenditure record for the Medicaid and SCHIP programs. This subsystem provides reports as part of the financial processing function which encompasses claim payment processing, accounts receivable and payable processing, and all other financial transaction processing. These resulting finance (FIN) reports are the detail-level reports used by FSSA's Financial Management staff. The monthly detailed data is needed for balancing the CMS64 totals to the financial cycle(s) because it includes the data for all programs that are reported by financial (FIN-0005) while the CMS64 includes a subset of the programs.

This finding remains unresolved.

FINDING 2005 - FSSA-26, REPORTING SYSTEM WITH OUT OF BALANCE CONDITION

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles, Reporting |
| Internal Control: | Reportable Condition |

**Finding:**

The FSSA fiscal agent contractor, EDS Corporation, uses a Management and Administration Reporting Subsystem (MARS) to produce the CMS 64 report for the transactions it has processed. The EDS MARS reports, used to prepare the federal CMS 64 report, do not reconcile to the payments issued from the AIMS for either the Medicaid or SCHIP programs. We received calculations of the unidentified difference for the five quarters from June 30, 2004 to June 30, 2005. The net total unidentified difference for the Medicaid program resulted from total expenditures reported on the federal reports being over the payments issued by $12,969,498. The net total unidentified difference for the SCHIP package C program resulted from total expenditures reported on the federal reports being over the payments issued by $438,997. This represented quarterly error rates of as much as .54% for the Medicaid program and 2.83% for the SCHIP package C.

Identified differences were shown in the reconciliations as a timing difference in recognizing the accounts receivable transactions, whereby the MARS immediately reduces expenditures, which will subsequently reduce payments issued. We noted, however, that there was no breakdown of the receivable timing difference for the effect on the SCHIP package C, which is reported and reconciled separately. As such, some of the identified receivable recognition timing difference listed for the Medicaid could apply to the SCHIP package C.

There is a logical timing difference that occurs in transaction recognition between MARS cutoff, which is that of calendar, and the Finance cutoff, which is for payment date. The effect of the timing differences has not been identified for use in the reconciliations.

EDS has employed a national consultant to begin a project to research and identify the causes of variances between the MARS and AIM Finance reports for use in developing complete reconciliation procedures.

FSSA did not have complete records or file copies of the reconciliations performed by EDS, and had not prepared an ongoing summary of the unidentified variances.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

The Accounting and Uniform Compliance Guidelines Manual for State Agencies (Chapter 1) requires that at all times the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balances should agree.

"Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." 45 CFR 92.40(a)

We recommended that FSSA require the fiscal agent contractor to reconcile the reporting subsystem to the financial records of payments issued. FSSA should also regularly obtain the EDS reconciliation files, and perform verification procedures of the information presented. Any unidentified variances should be tracked and analyzed for trend purposes. FSSA should obtain further results of identified causes and ascertain that complete a study of transaction calculations in MARS has occurred. Consideration should be given to aligning the payment information to that of the MARS report timing basis.

**Status of Finding as of September 2006:**

FSSA is currently working with its fiscal agent, EDS, to reconcile the MAR reporting system quarterly CMS-64 report to the weekly financial report series. After the reconciliation process is complete, a decision will be made whether to more closely adjust the timing of MAR to financial.

EDS is currently working on reconciling the CMS 64 to the "Total Weekly Assistance Expenses" line on the "Financial Balancing Report" (Fin-0005-W). A meeting will be arranged to review these reconciliations with the State.

FSSA is confidant that the reconciliation of actual claims payments will be accurate and will balance to the FIN-8000 report. The issue is one of reporting discrepancies rather than one of payment discrepancies. That said, FSSA acknowledges that the reporting issue is a concern to all parties involved and that an EDS solution appears to be imminent. Upon resolution, testing will continue for several quarters to ensure the process is sound.

This finding remains unresolved.

FINDING 2005 - FSSA-27, INCORRECT RATE APPLIED FOR MANAGED CARE

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

Managed care contract rates are established based upon actuary study and acceptance by OMPP. In accordance with 42 CFR 438.6, the rates are then approved by the federal government (CMS) prior to use in the state contracts and submission to EDS for the AIMS computer managed care rate table change. We found that FSSA did not have a process in place to verify that the managed care rates were accurately recorded in the managed care contracts and in the AIMS computer system.

EDS issues payments to the managed care organizations on a monthly basis as calculated by the AIMS from information as to each recipient for each rate category and region. OMPP also did not adequately monitor the payments issued to the managed care organizations to ensure the rates applied were those approved by CMS. We found that OMPP does not review managed care payments, and calculations. While OMPP staff review summary level totals on the monthly financial reports that are prepared by EDS, these do not contain sufficient detail in order to verify the rates paid.

In December 2005, the actuary discovered that an incorrect rate was entered into the AIMS table that had been in effect since January 1, 2005. The rate was entered in the table, however, as it was submitted by OMPP. The rate was also listed incorrectly in all of the state contracts with the managed care organizations. The error found was in the rate for children ages 6 to 12 for the central region of the state. The contract rate paid was $82.57 per month per child, which was $10 over the approved rate calculated by the actuary.

The actuary calculated the total overpaid for the child rate category error, from January 1, 2005 through December 31, 2005, as $ 202,805. The federal share of the overpaid amount is $150,068. This was calculated using the SCHIP cost share.

We compared all contract rates for 2004 and 2005 to the approved actuary rates and found two additional errors in the central region rates for 2005. The contract rate for newborns under age one, was eight cents over the approved rate and the rate for preschoolers, age one to five, was under the approved rate by three cents. Further analysis of the effect of these variances was not considered necessary.

"All payments under risk contracts and all risk-sharing mechanisms in contracts must be actuarially sound." 42 CFR 438.6 (c) (2)

The federal share of the excess payments issued is considered as questioned costs which may be required to be repaid to the federal government. The contract rates in error remained in effect at the time of our review in March 2006. Until such time as contracts are amended, or new rates are approved, further calculations of the amount overpaid will also be required.

We recommended that FSSA establish a control procedure whereby the state contract rates and the AIMS managed care rate tables are compared to the approved rates. FSSA should also establish controls to verify that the monthly payments to managed care organizations accurately reflect approved rates. Procedures performed should be documented, with results transmitted to management.

**Status of Finding as of September 2006:**

OMPP conducted a review of the 2005 capitation rates paid compared to the rates approved by CMS and agrees with the discrepancy identified by the SBOA. The capitation rate for 2005 will be changed in October 2006, from $82.57 to $72.57 and payment adjustments will be completed in November of 2006. The capitation reconciliation process will then identify past payments that should be recouped in full, then pay at the corrected rate during the November 2006 capitation payment cycle. The federal share will be returned through the routine system, at which time the questioned costs will be considered supportable.

To ensure an accurate load of the managed care rates into AIM additional procedures have been added. Upon receipt of the capitation rate source documents from OMPP, the fiscal agent will load the rates in Indiana *AIM*. In order to ensure the rates are entered accurately, an additional quality check will be performed by an individual other than the individual who loads the rates. EDS will then copy the rates directly from Indiana *AIM* and send them to OMPP for final verification. The comparison of the rates will be made at each step of the process to the original source document which was approved by CMS to eliminate potential errors in data entry. OMPP will review the rates included in the MCO contract document to ensure compliance with the CMS approved rates.

This finding remains unresolved.

FINDING 2005 - FSSA-28, MANAGED CARE PAYMENTS NOT SUPPORTED

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition, Material Weakness |

**Finding:**

For the audit period of July 2004 to June 2005, supporting documentation for two monthly payments issued to all of the contracted managed care organizations was not made available for audit. As such we could not verify the accuracy of the payments issued. The AIMS calculates the managed care payments based upon the recipient data and rate tables on file. A monthly capitation report is generated that provides the detail for each recipient and rate paid. A summary at the end of the report agrees to the total payment issued to the managed care organization. There were no capitation reports retained in the system to support the payments issued on December 22, 2004, and February 23, 2005.

The capitation reports for managed care which were available were each run a few days prior to the payment issuance, except for the payment issued in January 2005. The payments issued on January 26, 2005, agreed to capitation reports which were run on February 15, 2005, and which stated they were for the February 2005 coverage. This indicates that the January payment was issued in advance of the coverage period, which is in noncompliance with the contract provisions for payments in arrears. Due to this change in timing, the capitation coverage periods for December 2004 and January 2005 are not documented. A capitation report for January was run on January 19, but did not agree to any payments issued.

The fiscal agent contractor EDS, who operates AIMS, has not identified a cause for the missing reports or explained the timing of the reports retained. OMPP did not monitor these payments or reports.

As there was no documentation available to support the payments issued to managed care organizations on December 22, 2004, and February 23, 2005, we consider the payments as questioned cost. The payments issued total $91,688,595. The federal share, calculated applying the normal Indiana Medicaid matching rate, is $57,562,100 and may be required to be repaid to the federal government using State funds.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

"Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." 45 CFR 92.40(a)

"The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely." (Accounting and Uniform Compliance Guidelines Manual for State Agencies 16:4)

We recommended that FSSA identify the cause of the missing reports and misaligned coverage periods. The recipient coverage periods from December 1, 2004 thru February 28, 2005, should be reconstructed with comparisons made to payments issued, actuary data and system information. The data should be confirmed with the managed care organizations to ensure that coverage was in place for the identified recipients. FSSA should seek collection for any payments found to be issued in amounts over the actual coverage in force. FSSA should further ensure that controls for this process are developed and in operation to prevent a recurrence. In addition the FSSA controls should be developed to monitor the payments issued and capitation coverage performance.

**Status of Finding as of September 2006:**

SBOA compared the expenditures listed for the Managed Care Organizations to the archived reports held in the On Demand system and noted that two months were missing and one month had misaligned coverage periods. SBOA considered the payments as questioned costs in the amount of $57,562,100.

The Managed care payments with detailed member information are submitted to the Managed Care Organizations' (MCOs) through a file transfer known as the 820 Capitation file. This file is based on information received regarding member enrollment which is submitted to the MCOs through a file know as the 834 Enrollment file roster. This file is submitted to the MCOs twice monthly near the first and the fifteenth of the month. The 820 Capitation file is generated once a month after the submission of the roster files. The coverage period for both files is therefore the same. This information is then archived and maintained in On Demand reports. In the past, EDS Managed Care did not have a regular process in place to compare the 820 file against the On Demand reports. As noted by the State Board of Accounts, there were discrepancies with the On Demand reports for late 2004 and early 2005.

For the months related to the questioned costs, the missing December 2004 and February 2005 capitations reports were reproduced and are now available in On Demand for review. It was validated that these On Demand reports accurately match the capitation payments issued to the MCOs through the 820 process, on December 22, 2004 and February 23, 2005. The January 2005 report inaccurately identified a coverage period of February. This problem has been isolated and resolved. The figures for the January 2005 report, as well as those for December 2004 and February 2005 were validated by comparing the new On Demand reports for capitation listing (MGD-0002-M) with the electronic funds transfer reports (FIN-6006-W). In all three cases, the figures matched exactly. These concerns relate to the archival process and not to actual payments made. However, a process is in place for the MCOs to address payment discrepancies noted between the 820 and the 834 files. The MCOs did not identify concerns for these months. Therefore, OMPP believes that the questioned costs are adequately supportable and reconcile appropriately.

To strengthen the routine archival process, EDS Managed Care is working with EDS Finance to verify the amount actually paid to the MCOs through the 820 process is the same amount reflected in the On-Demand report for each monthly capitation payment time period. OMPP will continue to work with the fiscal agent to develop and implement controls to monitor the capitation payments issued on a monthly basis and to ensure the On-Demand reports accurately reflect the actual payments made.

This finding remains unresolved.

FINDING 2005 - FSSA-29, MANAGED CARE DELIVERIES

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Finding:**

Managed care organizations are paid a contracted fixed fee for each newborn delivered. Claims are submitted by the managed care organization for the mother's delivery and processed for payment through the AIMS. These are accumulated and paid together with the monthly fees for managed care recipients. The capitation reports that support the total payment issued to each managed care organization include a list of delivery payments. The delivery payments reported, however, do not reference the claim document, nor is the date of delivery given. It only lists the recipient identification number and provider number.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

We recommended that FSSA ensure that the managed care capitation payment reports provide the reference to the claim document paid. Consideration should also be given to reporting the delivery date, which is to correspond to the contract rate paid.

**Status of Finding as of September 2006:**

Currently, there is no system functionality to report the linkage between delivery capitation payments to the Managed Care Organizations' (MCOs) shadow claim that generated the payment. CO 910, the 2007 Managed Care Organization Procurement, will be amended by adding additional requirements that would allow for the functionality of directly linking a delivery capitation payment to the Internal Claim Number. This finding remains unresolved.

FINDING 2005 – FSSA-30, MEDICAID BANK RECONCILIATIONS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767, 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition, Material Weakness |

**Finding:**

Indiana has a contracted fiscal agent for the Medicaid and SCHIP programs, EDS Corporation. The fiscal agent operates the AIMS, adjudicates and pays claims to providers, and maintains a bank account. We reviewed the bank statements and reconciliations performed by EDS for the period March through June 2005. The reconciliations were only of the monthly transactions and were not complete reconciliations using the total general ledger balance, outstanding checks and showing reconciliation to the bank balance. As a result, while monthly transactions are shown as compared between source records and the bank, we cannot ascertain that the records in total are in balance with the bank, or what the variance would be.

We further found that there is no process in place for FSSA to compare the state accounting transaction records maintained for the Medicaid program to the bank statements.

Reviews of bank statements were performed by FSSA budget section, but were not formally documented. In March 2006, we were informed that the EDS bank statements and reconciliations had not been reviewed since July 2005.

There are no written procedures for the process of monitoring the EDS bank and financial reporting.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

"In addition to supporting documentation required for the state accounting system, some agencies maintain additional subsidiary records. These records may be so extensive as to constitute the agency's accounting system, particularly for financial reporting requirements. The agency provision of an effective accounting system would entail internal control structure elements, as well as accurate and functional forms and reports. An agency's accounting system, forms, and records must be approved by the State Board of Accounts. It should be noted that the Auditor of State system and reports issued constitutes the official record of the budget, cash receipts and disbursements. As such, the agency's own accounting system should operate congruently with the state system with reconciliations of as much information as is practicable. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree . . ." Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1.

We recommended to FSSA that complete bank reconciliations be performed for the account maintained by the fiscal agent. Written procedures should be developed regarding the review of the bank statements and reconciliations which include timely performance, documenting such reviews, assuring that identified errors are corrected, and comparisons to state accounting records for the Medicaid program.

**Status of Finding as of September 2006:**

Beginning with the July 2006 bank reconciliation, FSSA Finance has put into place a process to document and verify that the reconciliation prepared by the fiscal agent contractor is both timely and accurate. Files are maintained in FSSA Finance containing the entire reconciliation, including a copy of the form signed by both the fiscal agent contractor and FSSA Finance, along with all associated work papers.

The bank reconciliation process contracted to EDS includes a summary document supported by all detail received from the bank. The summary verifies that payments made by the EDS AIM system match the Fifth Third bank statement of total expenditures, including any reconciling items. The FSSA Finance process includes a review and verification of the summary level document that accompanies the bank reconciliation. FSSA Finance ensures that the summary document reconciles to the FIN-8000 financial control summary reports issued weekly by EDS.

When an EDS Medicaid bank reconciliation is delivered to FSSA Finance (approximately 30 days following the end of the month to be reviewed,) it must be accompanied by a "sign-off" form originating at EDS. The reconciliation is reviewed and verified by FSSA staff. Once the verification is complete, the Finance staff forwards it to the Director of FSSA Finance for approval. The Director will send an acceptance of the reconciliation to EDS within 30 days of receipt (approximately 60 days following the end of the month) using the original form sent by EDS. This process occurs monthly. Once a year, Finance will conduct a detailed review of the entire reconciliation with EDS staff involved in preparing the reconciliation. The detail level review will occur within 60 days of receipt of the June bank reconciliation to finalize state fiscal year-end business.

In the event that an error is identified during this reconciliation process, FSSA will not accept it. The reconciliation will be returned to EDS for review and correction. EDS will be responsible for advising as to why the reconciliation was. Once the corrections are made, EDS will return the Medicaid Bank Reconciliation to FSSA Finance for acceptance and approval.

OMPP and FSSA Finance agree that there may be a need for full reconciliation using a general ledger balance. This issue continues to be studied. OMPP agrees that the audit finding is unresolved.

FINDING 2005 - DWD-1, INACCUARTE REPORTING

| | |
|---|---|
| Federal Agency: | Department of Labor |
| Federal Program: | Unemployment Insurance |
| CFDA Number: | 17.225 |
| Auditee Contact Person: | Monty Combs |
| Title of Contact Person: | Deputy Commissioner of Finance and Administration/Controller, DWD |
| Phone Number: | 317-233-1463 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

**Finding:**

During our audit of the ETA 581 Contribution Operations report prepared for the Unemployment Insurance grant, we found inaccurate amounts submitted. The amounts for the electronic ETA 581 Federal report are extracted from the Department of Workforce Development's Cadet Mainframe System with the exception of the beginning balance. The federal reporting system automatically posts the prior quarter's ending balance to the ETA 581 as the current quarter's beginning balance and does not allow for changes to this amount.

We found that periodically the Mainframe does not correctly report the current quarter's beginning balance as he previous quarter's ending balance. According to the individual who submits the federal report, there is a flaw in the Mainframe reporting system. This system flaw was first documented in 1998; however, steps were not taken to correct the problem. Even though there is a known flaw in the agency's system, the individual makes adjustments to the ETA 581 report so that it will match the agency's Mainframe balances. As mentioned before, changes cannot be made to the ETA 581's beginning balance, so the individual makes adjustments to the contribution amounts on the submitted federal report, in order to have that report's ending balance match the ending balance as reported by the Mainframe report.

Our view of the ETA 581, for the quarter ended March 31, 2005, found that a positive adjustment of $8,448 was made to the Liquidated amount for the Contributory Employer's Receivables. Also on the same report, a $97 positive adjustment was made to the Liquidated amount for the Reimbursing Employers' Receivables. These adjustments implied that DWD received funds from employers that it did not. This resulted in DWD incorrectly reporting its receivables for both Contributory and Reimbursing Employers to the federal government.

While the adjustments noted were immaterial, DWD should not make adjustments to the federal report in order to have it agree with the incorrect Mainframe report. The Mainframe report as a whole should be investigated by DWD. Correct contribution amounts should always be submitted on the ETA 581 report.

29 CFR 97.20 provides that fiscal control and accounting procedures of the state must be sufficient to permit preparation or the required reports. Additionally, effective control and accountability must be maintained for all grant assets.

We recommended that the Department of Workforce Development investigate the Cadet Mainframe System and determine the reason for the incorrect reporting of the quarterly beginning balance.

**Status of Finding:**

The Oversight Director investigated the cause of the errors in the report in question. It has been determined that, on the reports where errors occurred, the report was run at 2:00 am on the last day of the month. This day was not a work day for the State, however, it was a banking day, so the information may have changed due to bank record uploads. The report is now checked prior to submission and if there is a difference, IT has to re-run the report through the last day of the month, but after the month closed. (This has occurred once since this issue was discovered and investigates. The re-run of the report took care of the problem.)

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

FINDING 2005 - DWD-2, REPORT MONITORING

| | |
|---|---|
| Federal Agency: | Department of Labor |
| Federal Program: | Unemployment Insurance |
| CFDA Number: | 17.225 |
| Auditee Contact Person: | Monty Combs |
| Title of Contact Person: | Deputy Commissioner of Finance and Administration/Controller, DWD |
| Phone Number: | 317-233-1463 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

The Indiana Department of Workforce Development (DWD) is required to submit ten reports to the federal government for the Unemployment Insurance grant. During our review of these reports, we found that two of these reports were not reviewed by an independent party prior to submission to the Department of Labor. The ETA 227 Overpayment Detection and Collection Activities report and the ETA 581 Contributions Operations report are prepared and submitted without any independent review. The lack of review is a control weakness, which could result in the improper reporting of financial information to the federal agency.

28 CFR 66.20 provides that a State's financial management systems must maintain accurate, current and complete disclosure of the financial results of financially assisted activities. Additionally, effective control and accountability must be maintained for all grant assets.

We recommended that DWD implement procedures to review the ETA 227 Overpayment Detection and Collection Activities report and the ETA 581 Contributions Operations report prior to submission to the US Department of Labor. The review should be completed by someone independent of the preparation and submission functions.

**Status of Finding:**

Effective with the ETA 227 Overpayment Detection and Collection Activities report due April 28, 2006, the Director, UI Integrity has been reviewing this report prior to submission to the U.S. Department of Labor. The Director of UI Integrity initials and dates the review on the face of the report.

Effective with the ETA 581 Contributions Operations report due February 20, 2006, the Oversight Director reviews this report prior to submission to the U.S. Department of Labor. The Oversight Director initials and dates the review on the face of the report.

In addition to the reports listed above, the DWD Analysis and Reconciliation Unit has reviewed other funds and has imposed policies that ensure reports are reviewed by someone independent of the preparation and submission functions prior to submission of the reports.

The following are the corrective actions for section II findings.

FINDING 2003 - CAFR-1, CAPITAL LEASES

State Agency: Indiana Department of Administration
Auditee Contact Person: Michael Degner
Phone Number: 317-232-3196

As stated in the response for 2004 and again in 2006, the Department of Administration will continue to enhance the use of the PeopleSoft systems to maintain capital assets. The Procurement training staff will emphasize identifying and marking capital assets in their course for agency buyers. The Controllers staff will monitor agency utilization of the system and assist agencies that do not follow up with transfers from the purchasing system into the asset system.

We believe that most capital leases are captured in the Purchasing module of the PeopleSoft system. At this time our challenge is more how to move leased capital assets information from the purchasing part of the system to the asset module. Queries are being developed that will identify Purchase orders for capital leases. When complete we should be able to move that information into the Asset Management System.

FINDING 2005 - CAFR-1, CAPITAL ASSETS

State Agency: Auditor of State of Indiana
Auditee Contact Person: Daniel L. Kinnamon
Phone Number: 317-233-9819

The Auditor of State is responsible for maintaining records of capital assets, including purchase and retirements that exceed $20,000, as reported by the state agencies making the purchase or retirement. As stated in the audit finding, individual state agencies are responsible for maintaining their own records of all capital assets, physically tagging assets, conducting an annual physical inventory of assets, and comparing the results of such inventory to the Auditor of State's most recent records. Each quarter the Auditor of State notifies state agencies of their responsibility to report to the Auditor State all purchases or retirements since the last quarter, and that quarterly reports must be filed. However, the Auditor of State does not have the authority to audit state agency capital asset records to determine if the agencies are recording or properly reporting capital assets valued over $20,000.

The State of Indiana will be implementing the PeopleSoft capital asset module as part of the overall PeopleSoft implementation scheduled for January 2, 2008. The capital asset module will allow the State to track all capital assets on a single capital asset system, thereby eliminating the need to periodically report purchases and retirements. The capital asset module will be directly linked to the procurement module allowing capital assets to be capitalized at the time of purchase, thereby reducing the likelihood that assets will not be properly capitalized.

Until the implementation of the PeopleSoft capital asset module on a statewide basis, the Auditor of State's office will continue to remind agencies, on a quarterly basis, of their requirement to report capital asset purchases and retirements of over $20,000.

"People helping people help themselves"

Mitchell E. Daniels, Jr., Governor
State of Indiana

***Indiana Family and Social Services Administration***
402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

E. Mitchell Roob Jr., Secretary

To: Bruce Hartman, State Examiner
State Board of Accounts

From: Anne Murphy, Chief of Staff
Family and Social Services

Date: March 26, 2007

Re: Response to State Board of Account's Audit for Period ending June 30, 2006

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Attached you will find FSSA's responses to the State Board of Accounts audit for the period ending June 30, 2006. We look forward to working together to ensure FSSA's programs' delivery of services, efficiency, and integrity.

If you have any questions regarding our corrective action plans, please feel free to contact me.

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Equal Opportunity/Affirmative Action

**Finding 2003-FSSA-16 Ongoing Verification of Provider Medical License**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
The standard termination letter process is now in place. The EDS provider enrollment unit has added this activity to their other daily workload. A matched report identifies providers who are active Medicaid providers that may have a change to their license status. For these providers, their current Health Professions license status is distinguished to compare to the Medicaid file. There is a full data exchange with the Health Professions Bureau that will be an on-going mechanism.

The Re-Enrollment Project for waiver providers is currently in progress and all letters requesting re-enrollment have been mailed. In July, a banner was published notifying providers of the re-enrollment project. To date, all waiver providers have been sent letters notifying them that they must resubmit a signed Medicaid agreement to continue participation. EDS is carefully monitoring the return of these applications and providing OMPP with routine updates. Additional outreach is necessary to ensure continuity of service provision. This finding remains open.

**Finding 2004-FSSA-4 Family and Social Services Advisory Committee**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowability |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
The State Plan will be modified to include citation to IC 12-8-6 and IC 12-15 as the appropriate legal authority for statewide administration of the Plan by OMPP. This portion of the State Plan also contains attachments that include organizational charts for the OMPP and FSSA. Due to a re-organization of the agency, the State Plan Amendment will not be submitted until the organizational charts are finalized. The Office of Medicaid Policy and Planning continues to maintain that no impairment exists to its ability to administer the Medicaid plan due to review of rules by the FSSA Advisory Committee. Please see FSSA's detailed response to this finding for further explanation of FSSA's position, which remains unchanged. This finding remains open.

**Finding 2004-FSSA-5 Supervision of Local Offices of Family and Children (OFCs)**

| | |
|---|---|
| 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: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowability, Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
A summary of the productivity report GDE010RA has been developed for closer monitoring of statewide eligibility activities as they relate to working data alerts. OMPP has increased the monitoring of alerts through sharing and discussing this summary report with DFR management staff. In addition, DFR field consultant staff has been directed to review the data alert reports directly with local county offices to ensure that corrective action is taken by the county when there has been a failure to act on data exchange alerts. The Workload Reduction Project, initiated the first quarter of 2006 by DFR, alleviated some of the work generated by data exchange alerts by routing these alerts to limited designated staff that are responsible for taking appropriate and timely action.

**Finding 2004-FSSA-6 Death Verifications**

| | |
|---|---|
| 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: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowability, Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
The enhancement to notify workers when a deceased individual has failed to be properly removed from the case was implemented in November of 2005. Also reports, GRP687, GRP689 & GRP690, have been added to the COGNOS reporting system. A flash bulletin, viewable to all ICES users, in conjunction with these reports was released on 12/19/05 addressing alerts 422 to remind workers to run eligibility to process the case, and alerts 614/615 to remove the individual on AEIID the following day. In addition, these reports were discussed with the field consultants responsible for following up to ensure proper case worker action is taken. Research was conducted on those select cases from the original file that required additional review to ensure that expenditures were not improperly paid out. The research determined that neither claims nor Medicare premiums were paid out inappropriately.

**Finding 2004-FSSA-7 Home and Community Based Service Waivers**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person | Compliance Manager |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowability |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
The systems change to allow claims history for each waiver participant has been completed. Waiver case managers are required to review this data and include it in development of cost effective care plans. All waiver claims are now verified against the corresponding plan of care. Claims histories are now required to be obtained and reviewed by case managers.

Upon assessment, OMPP determined that modifying the organizational structure would facilitate increased control of waiver programs. In order to assure consistency with federal and state regulations, the Medicaid Agency now has a central administrative unit that has direct control over developing waiver policy. The policy is then disseminated to the separate divisions who administer the day to day program operations.

**Finding 2004-FSSA-8 Provider Enrollment (HCBS Waivers, First Steps)**

| | |
|---|---|
| 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: | Catherine Snider |
| Title of Contact Person | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
The enrollment of rendering providers for First Steps was completed in February 2006. The Re-Enrollment Project for waiver providers is currently in progress and all letters requesting re-enrollment have been mailed. In July, a banner was published notifying providers of the re-enrollment project. EDS staff is carefully monitoring the return of these applications and providing OMPP with routine updates. Additional outreach is necessary to ensure continuity of service provision This finding remains open.

**Finding 2005-FSSA-10 Overpaid and Undocumented Manual Payments Issued**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs, Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
Of the four questioned costs identified by this finding, OMPP agreed that an error was made in the calculation of an interim payment to a hospital resulting in an overpayment. This item has been corrected. Documentation regarding the refund of this overpayment was located after the close of the previous audit cycle. The hospital refunded the overpayment to the Medicaid program on March 12, 2005. The federal portion was then returned through the routine system mechanisms in place.

As noted in OMPP's initial response, the interest payment for the 1995 settlement agreement was mistakenly omitted from the original payment. The calculation of the settlement was reviewed and approved by OMPP staff; however, the interest was mistakenly not included in the original payment. The provider subsequently contacted OMPP several years later to notify OMPP of the oversight, which resulted in said interest payment. The documentation for this expenditure was held with the OMPP staff person regarding the necessity for the payment and is available for review.

OMPP continues to assert that the remaining items were adequately documented, and suitable actions were taken by OMPP to approve the payments by staff involved in each payout. OMPP continues to work, in coordination with the fiscal agent, to review the procedures for payout and manual check requests to identify additional controls. This finding remains open based upon this review.

**Finding 2005-FSSA-11 Dental Corporation Claims**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Utilization Control and Program Integrity |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

Preliminary discussions have occurred with the fiscal agent regarding the analysis of Edit 1008 "Rendering Provider Must have an Individual Provider Number" and the course of action that needs to occur for the enrollment of rendering dental providers. OMPP is working with the fiscal agent to develop a communication plan, to be implemented January 1, 2007, that will allow for timely notice and additional enrollment for rendering dental providers. The 1008 edit will be reactivated 60 days after notification to the dental provider community.

OMPP will evaluate the requirement for rendering provider information for all applicable provider group practice claims. The evaluation will be completed by September 30, 2006, and results will be reviewed by OMPP for a determination of potential future action.

**Finding 2005-FSSA-12 Duplicate Claims Identified by Contractor**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

Duplicate claim logic for crossover claims was added in 2002. A mass adjustment by EDS, the fiscal agent responsible for claims adjudication, was approved for those claims affected for years between 2000 through 2002. There were 32 providers involved with this adjustment. There are 57 claims totaling $580,297.22, for 30 providers that EDS will adjust once approval from OMPP is granted for adjustment request that has been submitted. EDS will issue individual letters to providers affected by this initiative.

OMPP and EDS has created change order 803, Revisions to Duplicate Claim Logic, to refine the duplicate claim logic in AIM further. The change order has been prioritized and resources have been identified. The Detail Requirements for CO 803 are in the process of being defined.

The system will edit crossover 'B' and crossover 'C' claims at the detail level instead of the header level. System logic will be revised to look at all five characters of a procedure code and all four modifiers in determining if a detail is an exact duplicate of a detail in history.

In addition, the system logic will be revised to look for a match of all five characters of a procedure code in order to determine if a detail should suspend for a possible duplication. Currently the Resolution staff automatically force details that suspend for possible duplication if the first three characters of the procedure code match but the last two characters are different.

OMPP continues to work with their contractors to fully document the identification process of duplication payments. EDS has drafted Duplicate Payment Recovery flow chart to describe this recovery process and it is currently under review by EDS Management, to be forwarded to OMPP.

**Finding 2005-FSSA-13 Inpatient Hospital Duplicates Not Detected**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program, State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778, 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP, in conjunction with its fiscal contractor has developed a bi-annual report, which identifies claims that have been paid with a date of service that conflicts for the same recipient to determine if claims have been paid in error.

A change request (CR) is required to prevent DRG payments to hospitals transfer patients within the same facility. This CR has been drafted and is under review. This CR will be submitted to OMPP's Operational Effectiveness Team (OET) by September 30, 2005. OMPP's OET has been charged with reviewing any request for a change (or modification) to the operations of OMPP, its contractors, business areas or supporting systems.

During review of the SBOA audit it was found that Edit 5009 - *Suspect Dupe –Different Provider Allowed*, was set to Post and Pay in August 7, 1997, for Part A claims. On April 19, 2006, the edit was set to Deny. This allows for systematic denials of crossover claims.

Revisions have been made to the fiscal contractor's Resolution Manual pages and are under review. These revisions detail criteria for the Resolution staff to determine when to force and deny duplicate claims. Additional training will be offered to the Resolution staff on the added criteria.

Review of the balance for fiscal year ended June 30, 2005 for possible duplicate inpatient claims as recommended by this SBOA was completed in June 2006. There were fourteen claims identified as duplicate claims. OMPP will assess this review and adjust these claims in a future mass adjustment.

**Finding 2005-FSSA-14 Contractor Monitoring - Desk Reviews**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Inpatient Hospital Audits |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP conducts on-site reviews to inspect Myers and Stauffer's work papers for completed desk reviews. OMPP agreed with the finding that procedures needed to be documented and implemented to ensure consistency in OMPP's evaluation and review process. These procedures have been drafted and are currently under review. These written procedures will be utilized to monitor Myers and Stauffer's performance of, and compliance with, contracted duties regarding hospital desk reviews. In addition, a template form has been drafted that will be utilized by the OMPP representative who monitors the Myers and Stauffer's contract deliverables in regards to hospital desk reviews.

A report of activities will be generated from this form that will record an explanation of the outcome of Myers and Stauffer's desk review and any findings as a result of OMPP's evaluation of the desk review.

This new form and procedures will replace the use of the log. With implementation of these new procedures, OMPP staff will be able to uniformly evaluate Myers and Stauffer's desk review performance.

**Finding 2005-FSSA-15 C&T Process - Monitoring of Contractor**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Health and Safety Standards |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP has established a Provider Enrollment Work Group (PEWG) that is reviewing provider enrollment procedures conducted by Medicaid's fiscal agent. The PEWG meets regularly and is populated with all the necessary parties affected by the Certification and Transmittals (C&T) process, including the State's fiscal agent EDS as appropriate. The PEWG has been charged with developing and establishing monitoring metrics and processes; documenting the enrollment processes across the necessary agencies and contractors; and implementing any additional process efficiencies identified through the project.

The current procedure for Provider Enrollment's C&Ts process has been added to the PEWG project and is under review. The OMPP has hired additional staff that has been tasked with the responsibility of monitoring provider enrollment functions at Medicaid's fiscal agent contractor, to include the C&T process.

In addition to examining current provider enrollment procedures, the PEWG is assessing relationships with the ISDH and /or Certifying Agencies. Upon completion of review and evaluation by the PEWG, all processes will be documented to ensure consistent monitoring of the provider enrollment functions performed by EDS.

**Finding 2005-FSSA-16 Tracking of Certification and Transmittal (C&T)**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Health and Safety Standards |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

This concern has been added to OMPP's PEWG project. The PEWG will map the C&T process and make enhancements where necessary. EDS's Provider Enrollment unit will then update flowcharts to reflect the changes made to the C&T process and include these changes in their Provider Enrollment Standard Operating Procedures.

**Finding 2005-FSSA-17 Contractor Monthly Status Report Statistics**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP's Compliance Unit is working to ensure that there are effective contract monitoring procedures in place and followed which meet the expectations of FSSA management staff. A workgroup, led by the Deputy Director of OMPP, continues their analysis of current business needs, outcomes and metrics. The resulting procedures and deliverables will be documented for OMPP management to ensure that on-going practices comply with this review. Documented changes to the monthly status report will only be approved by OMPP management staff.

**Finding 2005-FSSA-18 Inactive Provider Records**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP has already identified this concern and taken action to correct the problem. Change Order, 253, has been has been reviewed and approved by the OET. The fiscal agent has assigned a project manager to manage the project within their organization. Change order #253 requires that non-managed care providers who have failed to bill within an eighteen month period will be disenrolled. A systematic quarterly report will identify those providers, and forward to provider enrollment for action. The disenrollment process will include notifying the provider in advance of the action in accordance with provider termination processes.

In addition, OMPP's PEWG has added this concern to its project. The PEWG will work to strengthen control mechanisms that are in place for purging inactive provider enrollment records to ensure that periodic archival of inactive provider records occurs.

**Finding 2005-FSSA-19 Ongoing Out-Of-State License Verification**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP continues to assert that systematic processes with out-of-state providers are not currently feasible; however, with the additional implementation of the National Provider Identifier (NPI), there will be increased control mechanisms to review out-of-state providers. The NPI will be implemented by May 23, 2007. OMPP agrees to evaluate current processes to determine if additional manual mechanisms can be added to ensure that timely reviews are conducted for out-of-state providers. This concern has been added to the PEWG project.

**Finding 2005-FSSA-20 Timely Follow-up of License Termination**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program; State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility; Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
This concern has been added to the PEWG project and is under review. The PEWG has been tasked with reviewing provider enrollment procedures conducted by Medicaid's fiscal agent.

To monitor license changes and terminations more effectively, CR 939 was written and reviewed by OET, and has been prioritized. This change order will create a new window to capture the license number, effective date, expiration date, and the state that issued the license. The license information will be verified against the Health Professions Bureau data file. In an effort to further automate the process, the EDS Provider Enrollment unit is researching whether a new claim edit can be created using the license expiration date. The PEWG will manage this CR and work to strengthen control mechanisms to ensure that license changes are recorded in a timely manner with the Indiana*AIM* system.

The payments mentioned by SBOA will be included in a future mass adjustment request.

**Finding 2005-FSSA-21 Provider Enrollment – Contractor Monitoring**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
OMPP concurs that there has been a lack of on-site sampling of provider enrollment files in the recent past due to limited staff resources. However, there have been on-going assessments of the provider enrollment procedures as new procedures are implemented, as well as direction to develop additional systematic auditing mechanisms. Specifically, the new Provider Document Tracking System (PDTS) was implemented in April of 2006 and will allow for additional monitoring controls and reporting criteria of the enrollment process. This will closely track receipt and loading of enrollment information.

The OMPP has hired additional staff that is performing on-site monitoring of the fiscal agent's provider enrollment functions, to include bi-weekly visits to review provider enrollment files for completeness and accuracy, and review and evaluation of the fiscal agent's current provider enrollment standard operating procedures.

Further, an assessment of overall provider enrollment procedures will be conducted under the purview of the PEWG.

**Finding 2005-FSSA-22 ADP Review Not Performed**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | N.3 ADP Risk Analysis and System Security Review |
| Internal Control: | Reportable Condition, Material Weakness |

**Status of Finding as of September 2006:**

Based on this finding, OMPP has considered a review of the security system and determined that a comprehensive claims system review was necessary, more detailed that the SAS70 requires. OMPP published a Request for Services (RFS) to audit the Medicaid Management Information System (MMIS) not only for security review of the Indiana*AIM* system, but also to provide quality comprehensive claims processing. The RFS requires tests of effectiveness as described by SBOA. All responses are now under review by OMPP Management. The contractor will be responsible for delivering a detailed audit plan, documenting results, providing analysis, and suggesting corrective action.

**Finding 2005-FSSA-23 AIMS Contractor Access Assignments and Controls Not Monitored**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Department of Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | N.3 ADP Risk Analysis and System Security Review |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

This finding recommended that FSSA develop a monitoring plan for regularly reviewing access assignments maintained by the AIMS contractor. The OMPP has hired additional staff to work in the privacy/security area and whose duties include monitoring access assignment to AIM. OMPP has developed a plan to conduct regular AIM audits, to be completed quarterly. It is this individual's responsibility to assist with ensuring this audit of AIM access is completed.

**Finding 2005-FSSA-24 OMPP AIMS Access Assignments and Controls Not Monitored**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Department of Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | N.3 ADP Risk Analysis and System Security Review |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

As asserted in the original response, due to the fact that the security manual referred to in this finding was superseded by the OMPP Security Policy and Procedures Manual which became effective during state fiscal year 2004-2005, OMPP believes that effective monitoring procedures were documented. Due to a lack of staff, activities were not performed. OMPP has hired additional staff to work in the privacy/security area and perform monitoring of OMPP staff access to AIM.

**Finding 2005-FSSA-25 Detail Accounting Not Produced**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs, Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

OMPP believes that this finding was rooted in a misinterpretation by the SBOA of what the Management and Administration Reporting (MAR) subsystem was intended to convey. Subsequent to the audit, OMPP met with SBOA program staff to further discuss the purpose of the MAR subsystem, its functionality and how the tool is utilized by the OMPP.

The MAR management tool provides information to evaluate program status and trends as well as historical data to predict the impact of program policy changes. MAR supports the CMS reporting requirements for MSIS, and the CMS64 and CMS372 series of reports by providing high-level data summarized by such variables as state category of service, aid category, provider type/specialty, benefit plan, et al. To satisfy federal reporting requirements, data are aggregated by CMS-defined line items, often categories of service. As such, MAR was not designed to be the expenditure record for the Medicaid and SCHIP programs.

The financial cycle subsystem is the expenditure record for the Medicaid and SCHIP programs. This subsystem provides reports as part of the financial processing function which encompasses claim payment processing, accounts receivable and payable processing, and all other financial transaction processing. These resulting finance (FIN) reports are the detail-level reports used by FSSA's Financial Management staff.

When detail transactions reports are needed to support the totals on the MAR summary reports, this can be done using OMPP's primary query tool, Business Objects. Business Objects sits on a version of the full AIM database which is updated weekly instead of daily. It contains all claims-based transactions, accounts receivable, and manual expenditures. In Business Objects, all paid and denied claims are maintained at the claims detail-level. OMPP on a monthly basis is supplied a report from claims databases that reconciles to the FIN-0005-M (monthly summary).

**Finding 2005-FSSA-26 Reporting System with Out of Balance Condition**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs, Cost Principles and Reporting |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

FSSA is currently working with its fiscal agent contractor to reconcile the MAR reporting system quarterly CMS-64 report to the weekly financial report series. A quarterly comparison between the CMS-64 and financial reporting is currently prepared, and reviewed with FSSA Finance. Several identified differences were documented and quantified. Most notable was an unidentified difference averaging 0.14% per quarter ($1.6 million difference/ $1.0 billion total spend).

EDS is currently working on reconciling the CMS 64 to the "Total Weekly Assistance Expenses" line on the "Financial Balancing Report" (Fin-0005-W). EDS has succeeded in reconciling the reports for the quarter ending March 31, 2006 and is working on the reconciliation for the quarter ending June 30, 2006. A meeting is planned, to be held in September of 2006, to review these reconciliations with the State.

FSSA is confidant that the reconciliation of actual daims payments is accurate and can be balanced to the FIN-8000 report. The issue is one of reporting discrepancies rather than one of payment discrepancies. That said, FSSA acknowledges that the reporting issue is a concern to all parties involved and that an EDS solution appears to be imminent. Upon resolution, testing will continue for several quarters to ensure the process is sound.

**Finding 2005-FSSA-27 Incorrect Rate Applied for Managed Care**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Cost, Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
To ensure an accurate load of the managed care rates into AIM additional procedures have been added. Upon receipt of the capitation rate source documents from OMPP, the fiscal agent will load the rates in Indiana*AIM*. In order to ensure the rates are entered accurately, an additional quality check will be performed by an individual other than the individual who loads the rates. EDS will then copy the rates directly from Indiana*AIM* and send them to OMPP for final verification. The comparison of the rates will be made at each step of the process to the original source document which was approved by CMS to eliminate potential errors in data entry. OMPP will review the rates included in the MCO contract document to ensure compliance with the CMS approved rates.

**Finding 2005-FSSA-28 Managed Care Payments Not Supported**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Cost, Cost Principles |
| Internal Control: | Reportable Condition, Material Weakness |

**Status of Finding as of September 2006:**
In the past, EDS Managed Care did not have a process in place to check the Managed Care Organizations' (MCO's) monthly capitation payments through the 820 process against the On-Demand reports the SBOA uses to verify the payments. In late 2004 and early 2005 there was a discrepancy in the two data files. The data in the 820 file did not match the information produced in the On-Demand reports. EDS Managed Care is working with EDS Finance to develop a process to verify the amount actually paid to the MCOs through the 820 process is the same amount reflected in the On-Demand report for each monthly capitation payment time period.

The December 2004 and February 2005 capitations reports are now available in On-Demand. The On-Demand reports accurately match the capitation payment issued to MCOs, through the 820 process, on December 22, 2004 and February 23, 2005. Therefore, OMPP believes that the questioned costs are adequately supportable and reconcile appropriately.

OMPP will continue to work with the fiscal agent to develop and implement controls to monitor the capitation payments issued on a monthly basis.

**Finding 2005-FSSA-29 Managed Care Deliveries**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Cost, Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**
Currently, there is no system functionality to report the linkage between delivery capitation payments to the Managed Care Organizations' (MCOs) shadow claim that generated the payment. CO 910, the 2007 Managed Care Organization Procurement, will be amended by adding additional requirements that would allow for the functionality of directly linking a delivery capitation payment to the Internal Claim Number.

**Finding 2005-FSSA-30 Medicaid Bank Reconciliations**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | State Children's Health Insurance Program (SCHIP), Medical Assistance Program |
| CFDA Number: | 93.767 and 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs, Cost Principles |
| Internal Control: | Reportable Condition, Material Weakness |

**Status of Finding as of September 2006:**
Beginning with the July 2006 bank reconciliation, FSSA Finance has put into place a process to document and verify that the reconciliation prepared by the fiscal agent contractor is both timely and accurate. Files are maintained in FSSA Finance containing the entire reconciliation, including a copy of the form signed by both the fiscal agent contractor and FSSA Finance, along with all associated work papers.

The bank reconciliation process contracted to EDS includes a summary document supported by all detail received from the bank. The summary verifies that payments made by the EDS AIM system match the Fifth Third bank statement of total expenditures, including any reconciling items. The FSSA Finance process includes a review and verification of the summary level document that accompanies the bank reconciliation. FSSA Finance ensures that the summary document reconciles to the FIN-8000 financial control summary reports issued weekly by EDS.

When an EDS Medicaid bank reconciliation is delivered to FSSA Finance (approximately 30 days following the end of the month to be reviewed,) it must be accompanied by a "sign-off" form originating at EDS. The reconciliation is reviewed and verified by FSSA staff. Once the verification is complete, the Finance staff forwards it to the Director of FSSA Finance for approval. The Director will send an acceptance of the reconciliation to EDS within 30 days of receipt (approximately 60 days following the end of the month) using the original form sent by EDS. This process occurs monthly. Once a year, Finance will conduct a detailed review of the entire reconciliation with EDS staff involved in preparing the reconciliation. The detail level review will occur within 60 days of receipt of the June bank reconciliation to finalize state fiscal year-end business.

This process has been documented and implemented, effective July 2006.

**FINDING 2006 – FSSA – 1, CONTRACTOR STAFF CREDENTIAL VERIFICATIONS**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program: State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions 1 – Utilization Control and Program Integrity |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

Currently there are controls in place to monitor executive and supervisory level contracted staff. For key personnel, the Office of Medicaid Policy and Planning (OMPP) require final approval authority of selected staffing positions. This includes a review by OMPP of the candidates' resumes with background and experience identified. OMPP may also exercise the option to interview prospective candidates, or request additional information. Further, OMPP is to be notified when there are changes to personnel assigned to supervisory positions. In the response to a Request for Proposal (RFP), minimum qualifications are noted for staffing positions.

As the SBOA identified, OMPP receives a greater federal funding participation rate for skilled professional medical personnel. OMPP agrees that for staff for which an enhanced match rate is requested, it is important to ensure that practices are in place to ensure appropriate certification. OMPP will investigate methods to ensure that controls are in place for the hiring practices of these professionals. In addition, OMPP will request a more detailed report that supports the quarterly claims for enhanced match rate and provide copies to FSSA Finance.

**FINDING 2006 – FSSA -2, C&TS OF ACUTE CARE AND LONG TERM CARE FACILITIES**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services<br>Federal Program: Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Health and Safety Standards |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

In 2000 and 2001, meetings occurred to define workflow and process definitions between ISDH and the fiscal agent, EDS, to determine points of communication with both entities as it relates to the C&T process. As a result of those discussions, the fiscal agent assigned a primary liaison for ISDH in 2002 for the C&T process in provider enrollment, which is the primary point of contact and source of communication for ISDH regarding questions for the C&T process. Due to the noted concerns, the fiscal agent will expand the communication with ISDH by establishing on going coordination meetings in order to further facilitate discussion and answer any questions regarding the C&T process. The operating procedures of when notification occurs to ISDH regarding changes to acute care providers will be reviewed and evaluated to ensure that appropriate notifications occurs by the fiscal agent to ISDH to meet their needs.

For the seven providers identified by SBOA, the fiscal agent will review the enrollment files to ensure that the appropriate C&T documentation exists within the provider enrollment files. Follow up will occur as necessary to gain the necessary documentation from ISDH for the provider's enrollment Medicaid file.

OMPP recognizes that there is a need for additional evaluation of the C&T process to ensure that the EDS receives and maintains all of the current documentation regarding facilities that require surveys by ISDH. This will include evaluating the usage of the letter created in June 15, 2000 that has limited the documentation held by EDS' provider enrollment unit.

**FINDING 2006 – FSSA-3, PROVIDER ENROLLMENT ERRORS**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program: State Children's Health Insurance Program (SCHIP) |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Special Tests and Provisions – Provider Eligibility; Allowable Cost/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

During the audit review, SBOA noted several errors in the enrollment files tested. One instance included an inappropriate enrollment of a federally excluded provider as a rendering provider. Within days of the enrollment, the error was identified and corrected by the provider enrollment unit. However, OMPP agrees that attempts to enroll should be documented and communicated to the Indiana Medicaid Fraud and Control Unit. This process will be added to the enrollment unit operating manual. Further investigation into the reimbursement of the claims will occur that will include a review of the system edit 1008 "Rendering provider must have an individual number" to ensure it is appropriately working.

As noted by SBOA, limitations to the query capability of the US Office of the Inspector General's (OIG) database produce some risk. With the implementation of the National Provider Identifier all healthcare providers, individual and business entities, will receive one national identifier that is to be used and captured for claim processing. This identifier should facilitate in the tracking of healthcare providers who are added to the OIG exclusion database. Additional process improvements, as well as quality control procedures and audit capabilities, will be reviewed and modified for provider enrollment.

SBOA suggests FSSA and EDS improve control procedures and monitoring of the provider enrollment function. FSSA has hired an additional staff person who has begun onsite monitoring of the provider enrollment functions. This oversight capacity will continue be reviewed for improvements. EDS has also hired one additional staff person within the provider enrollment unit whose primary focus will be quality. As a result, the quality function within provider enrollment will be evaluated in the overall review of the provider enrollment procedures conducted by Medicaid's fiscal agent to ensure that the appropriate procedures are in place regarding quality assurance. During this evaluation, the recommendation made by State Board of Accounts relating to the use of checklists and cross checking by staff will be reviewed.

## FINDING 2006 – FSSA – 4, UNTIMELY CAPITATION PAYMENTS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program: State's Children's Insurance Program |
| CFDA Number: | 93.778; 93.767 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Activities Allowed or Unallowed |
| Internal Control: | Reportable Condition |

### Status of Finding as of March, 2007

During the audit cycle, SBOA identified instances of retroactive capitation payments beyond the fifteen month limitation for submission of claims. SBOA questioned the costs totaling $9,594. In the review of these payments, it was determined that the cause of these payments was due to adjustments in applied eligibility segments and not in relationship to the submission of claims. Specifically, these payments related to the correction of newborn dates of birth which allowed for additional months of capitation. OMPP believes that these costs are supportable.

Indiana*AIM* provides eligibility file information on the 834 eligibility file to the managed care organizations twice monthly. This information is first received through the eligibility determination process captured by the Indiana Client Eligibility System (ICES). Due to inaccurate information, or data entry error there are instances in which the date of birth requires correction. ICES and its eligibility file data is managed through a Memorandum of Understanding between the Office of Medicaid Policy and Planning (OMPP) and the Division of Family Resources (DFR). Processing changes of this nature are the responsibility of the local county DFR offices.

Once a correction is made, the managed care organizations are notified of the change on the 834 file. Also, a capitation reconciliation process compares changes to current information to identify whether or not additional capitation months are applicable. However, this is tracked manually and requires manual intervention to align the new eligibility segment with the PMP assignment so that the additional capitation is applied.

Controls were strengthened during the change to the new contracted managed care organizations. Staff will compare the SBOA recommendations to these enhancements to determine if further changes should be implemented. Limitations for adjusted enrollments will be explored.

## FINDING 2006 – FSSA – 5, STATE OWNED INTERMEDIATE CARE FACILITY

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

### Status of Finding as of March, 2007

Active investigation is underway to verify the magnitude of the potential error and to prepare, if necessary, the revised final cost reports and reimbursement requests. The anticipated completion of this investigation will be May 15.

**FINDING 2006 – FSSA – 6, MANAGED CARE PAYMENT VARIANCES**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program /State Children's Health Insurance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

The Managed Care Capitation Listing Report, MGD-0002-M, has two parts, a detailed listing of each capitation payment and a capitation worksheet that summarizes the payments. The differences between the Electronic Funds Transfer Listing Report, FIN-6006-W, and the MGD-0002-M report are at the summary level of MGD-0002-M. It has been noted that the capitation worksheet does not always reflect all the details or all the detail categories in the summary amounts. The MGD-0002-M reports were compared to their respective entries on the FIN-6006-W report and discrepancies were noted. This matter has been logged in Issue Management System (IMS) as a concern under Issue #2494. It has been recommended that a system change may be needed. OMPP Managed Care will work with its fiscal agent, EDS to determine the cause and correct the problem.

**FINDING 2006 – FSSA – 7, MEDICAID GRANT OVERSTATED EXPENTIDURES REPORTED**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition, Material Weakness |

**Status of Finding as of March, 2007**

The MAR, Management and Administration Reporting subsystem business function is a comprehensive management tool that provides information to evaluate program status and trends as well as historical data to predict the impact of program policy changes. MAR also supports the CMS reporting requirements for MSIS, and the CMS64 and CMS372 series of reports by providing high-level data summarized by such variables as state category of service, aid category, provider type/specialty, benefit plan, et al. To satisfy federal reporting requirements, data are aggregated by CMS-defined line items.

The MAR reports from the fiscal agent, EDS, reflect actual claim expenditures before non-claim specific adjustments are made. The Quality Assessment Fees for Medicaid participating nursing facilities are adjustments that are offset against claim payments processed by EDS. These offsets are reported in the State's financial records as an adjustment to correctly account for the federal funds. FSSA Finance originally understood that the MARS reports had been reduced by the quality assessment fees and that an adjustment to the CMS 64 was necessary to increase the costs to the gross amount paid. However, MAR already included the costs at the gross amount paid. This error was discovered while reconciling the Medicaid forecast expenditure report.

FSSA Finance will correct the identified errors on the CSM-64. FSSA Finance will continue to work with EDS to reconcile AOS payments to CMS-64 reported expenditures. Further analysis will be conducted to determine if the current procedures should be modified to enhance existing controls.

**FINDING 2006 – FSSA – 8, MEDICAID ADMINISTRATION GRANT EXPENTURES OVER AWARD**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

Medicaid Administrative grant funds are drawn through the Payment Management System (PMS) from the 'MT' grant. The PMS is a centralized grants payment and cash management system, operated by the Health and Human Services (HHS) Program Support Center (PSC), Division of Payment Management (DPM). The PMS accomplishes all payment-related activities for HHS grants from the time of award through closeout of a grant. There was no over draw of Medicaid Administration funds, and therefore, no need to request an award increase for Medicaid administration costs as recommended by the SBOA. FSSA will, however, differentiate the grant year in the Federal Expenditure Tracking System to reflect the proper grant year.

FSSA Finance will review current procedures to determine if modifications or enhancements are needed to strengthen existing controls.

**FINDING 2006 – FSSA – 9, MEDICAID ADMINISTRATION GRANT – CMS 64 QUALTERLY**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program |
| CFDA Number: | 93.778 |
| Auditee Contact Person: | Catherine Snider |
| Title of Contact Person: | Compliance Manager, FSSA – OMPP |
| Phone Number: | 317-234-2927 |
| Compliance Requirement: | Allowable Costs/Cost Principles |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

FSSA Finance has done preliminary analysis regarding these variances. In certain instances, expenditures are added to the CMS-64 for CMS review prior to drawing federal funds. Prior quarter adjustments for expenses paid in prior periods may also be included and therefore, the federal expenditures on the CMS-64 will not always equal the cash expenditures reported on the agency's grant schedule. Work papers are reviewed by the Director to ensure that the expenditures to be reported on the CMS-64 reconcile to the monthly financial status reports for the quarter. However there can be multiple versions of the work papers and the CMS-64 may be modified after the original submission.

To enhance current process, the FSSA Finance Director will review the Medicaid Administration reconciliation worksheets prior to original submission of the CMS-64. For any subsequent submissions the worksheet will be revised, reviewed by the Director and saved with a filename ending with Submitted_DATE.

**FINDING 2006 – FSSA –10, CHILD CARE AND DECELOPMENT FUND (CCDF) – PASS-THROUGH ENTITY RESPONSIBILITIES**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Child Care Cluster |
| CFDA Number: | 93.575, 93.596 |
| Auditee Contact Person: | Roger Booth |
| Title of Contact Person: | Director of Audit Services |
| Phone Number: | 317-232-1217 |
| Compliance Requirement: | Subrecipient Monitoring |
| Internal Control; | Reportable Condition, Material Weakness |

**Status of Finding as of March, 2007**

Audit Services Division of FSAA has established a process for identifying the population of subrecipients with federal awards exceeding the $500,000 threshold by utilizing available State databases. The Division is also developing a new system which will allow FSSA to monitor several key factors in order to achieve the goals of timely receipt and oversight of the A-133 audits. Audit Services will notify subrecipients if the required audit has not been received. Close monitoring will also allow Audit Services to meet the objective of timely review of the audits in order to ensure that subrecipients take appropriate and timely corrective action on Findings.

**FINDING 2006 – FSSA –11, TANF ELIGIBILITY INCOME DETERMINATIONS**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility, Allowable Cost |
| Internal Control: | Reportable Condition |

**Status of Finding as of March, 2007**

The lack of consistent implementation of policies and procedures among the 92 county offices has always been an issue. These inconsistencies in service delivery are one of factors that led to the decision to outsource many aspects of eligibility determination process. Under the contract with the IBM Coalition, the Coalition is responsible for information gathering and ensuring that caseworkers will take correct and prompt action on all information received. Failure for taking such actions in a timely manner will lead to fiscal penalties being assessed to the Coalition.

**FINDING 2006 – FSSA –12, TANF ELIGIBLITY, DOCUMENTATION**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility |
| Internal Control; | Reportable Condition |

**Status of Finding as of March, 2007**

The lack of consistent implementation of policies and procedures among the 92 county offices has always been an issue and is a lingering issue from when the former county welfare agencies were incorporated with the old State Welfare Department in 1983. These inconsistencies in service delivery are one of factors that led to the decision to outsource many aspects of eligibility determination process. Under the contract with the IBM Coalition, the Coalition is responsible for information gathering and ensuring that caseworkers will take correct/prompt action on all information received. Failure for taking such actions in a timely manner will lead to fiscal penalties being assessed to the Coalition. The Coalition will establish document scanning stations where all collateral will be scanned and attached to the electronic case file.

On March 5, 2007, a new ICES screen was moved into production so that caseworker may track and document the receipt of out-of-state cash assistance. ICES was also reprogrammed to use these out-of-state assistance months in determining eligibility for TANF Assistance. Additionally, Indiana has joined the Federal Public Assistance Reporting Information System (PARIS). Member states provide recipient data to a Federal database and the database compares that data with data submitted by other states. Presently 31 states are members of PARIS. FSSA is in the process of modifying ICES to use the PARIS information as a regular data exchange match.

**FINDING 2006 – FSSA –13, TANF ELIGIBLITY - VERIFICATION**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility |
| Internal Control; | Reportable Condition |

**Status of Finding as of March, 2007**

Until a national TANF database is developed to capture this specific information, there is no way for the state to determine if a recipient has been convicted of fraud in order to receive benefits simultaneously in two states and if so when the conviction occurred for calculating the ten year ineligibility period. Through FSSA Audit, DFR has access to welfare fraud conviction information from the Indiana Department of Corrections; however, the information is not specific enough to determine if the conviction was due to receiving benefits in multiple states or for some other reason. FSSA will look at this data to determine its usefulness. FSSA will modify the ICES system to collect data on welfare fraud convictions for receiving TANF, Medicaid or Food Stamp benefits in two or more states.

In regards to fleeing felons and probation violators, currently ICES is able to capture self-declared information regarding an individual's status as a fleeing felon or probation violator. FSSA will explore methods of getting this information from the Indiana Department of Corrections.

**FINDING 2006 – FSSA –14, TANF ALLOWABLE COST**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Temporary Assistance for Needy Families (TANF) |
| CFDA Number: | 93.558 |
| Auditee Contact Person: | James E. Dunn |
| Title of Contact Person: | TANF and Impact Director |
| Phone Number: | 317-232-4240 |
| Compliance Requirement: | Eligibility, Allowable Cost |
| Internal Control; | Reportable Condition |

**Status of Finding as of March, 2007**

The lack of consistent implementation of policies and procedures among the 92 county offices has always been an issue. These inconsistencies in service delivery are one of factors that led to the decision to outsource many aspects of eligibility determination process. Under the contract with the IBM Coalition, the Coalition is responsible for information gathering an ensuring that caseworkers will take correct and prompt action on all information received. Failure for taking such actions in a timely manner will lead to fiscal penalties being assessed to the Coalition.

INDIANA
DEPARTMENT OF
CHILD
SERVICES

Mitchell E. Daniels, Jr., Governor
James W. Payne, Director

**Indiana Department of Child Services**
Room W392 – MS47
402 W. Washington Street
Indianapolis, Indiana 46204-2739

317-232-4705
FAX: 317-232-4490

www.in.gov/dcs

**Child Support Hotline: 800-840-8757**
**Child Abuse and Neglect Hotline: 800-800-5556**

To: Bruce Hartman, State Examiner
State Board of Accounts

From: James W. Payne, Director
Department of Child Service

cc: Kathee Troiani

Date: March 26, 2007

Re: Response to State Board of Accounts' Audit for period ending June 30, 2006

Attached you will find DCS' response to the State Board of Accounts audit for the period ending June 30, 2006. We look forward to working together to ensure DCS' programs' delivery of service, efficiency and integrity.

If you have any questions regarding our corrective action plans, please feel free to contact me.

*Protecting our children, families and future*

**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: | Todd M. Tolson |
| Title of Contact Person: | Legislative Director, Division of Child Services |
| Phone Number: | 317-232-4439 |

**Status of Finding as of September 2006:**

Child Support Bureau continues to reconcile the fund accounts to the detailed source records. The remaining balance in account 3510-150200 as of 9/7/06 is $71,715.01. Additional funds could potentially be added to this balance if any money is collected from CP overpayments and/or recovery of theft money.

Due to budgetary constraints, the CSB has not received additional resources to conclude this research. While much progress has been made on this finding, it has not been completed.

**Status of Finding as of March 2007:**

Child Support Bureau continues to reconcile the fund accounts to the detailed source records manually. The balance fluctuates because of money collected from Custodial Parent overpayments and/or recovery of theft money.

**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: | Todd M. Tolson |
| Title of Contact Person: | Legislative Director, Division of Child Services |
| Phone Number: | 317-232-4439 |
| Compliance Requirement: | Special Tests and Provisions |

**Status of Finding as of September 2006:**

The remaining procedures that had not been implemented and their current statuses are:

1) Run current monthly files against ISETS to keep warrant status up-to-date.
Current Status: A file is received from the state Auditor's office monthly. It is run against the ISETS database to update the status of any warrants that have been processed by the Auditor from a status of 'outstanding' to show as either 'reconciled' or 'replaced.' Tested results. Considered closed.

2) Daily book balancing
Current Status: Manual processes have been implemented to balance the cash accounts on a daily basis. Through the use of existing reports, funds that are posted and disbursed using the ISETS system are reconciled to deposits and disbursements recorded in the state Auditor's accounts. System queries have also been developed and are generated regularly to review

financial transactions for accuracy. Discrepancies are researched, corrected, and documented manually. This finding remains open.

3) Monthly reconciliation
Current Status: Manual processes have also been implemented to reconcile the Child Support Bureau accounts with the Auditor's fund accounts on a monthly basis. System queries are generated as necessary to assist with the monthly reconciliation. This finding remains open.

**Status of Finding as of March 2007:**

Accounting Procedures and Controls
Manual processes are in place to balance and reconcile child support receipts and disbursements processed at the State level. CSB has directed County offices to correct the inaccuracies of sub account balances, as required by the Cooperative Agreements between CSB and the County offices.

Inaccurate tax intercept processing has been corrected by ISETS system edits that prevent duplication of files. This aspect of the finding is considered closed.

Cash Receipts Handling
Manual processes are in place to balance the cash accounts on a daily basis. Through the use of existing reports, funds that posted and disbursed using the ISETS system are reconciled to deposits and disbursements recorded in the State Auditor's accounts. System queries are used to regularly review financial transactions for accuracy. Discrepancies are researched, corrected and documented manually.

Manual processes are also used to reconcile accounts with the Auditor's fund accounts monthly.

Security
DCS has designated an ADP Security Manager: Kathee Saylor, Information Security Manager for FSSA.

IOT is responsible for performing Homeland Security analyses and COOP analyses annually for the ISETS system.

Child Support Data Supplied to the Welfare System
Transfer of the referenced child support data to the welfare system has been corrected. The disbursement date is now used to pass data back to ICES, and this data is now displayed on the DECB screen in that system for the case. Considered closed.

Verification of Social Security Numbers
A verification process for SSNs with the Social Security Administration was completed in December, 2000. On an automated basis, all child support participants are submitted for SSN verification to SSA. When ISETS receives the verification from SSA, the SSN is automatically coded in ISETS as VSSA (verified by SSA). Considered closed.

**FINDING 2000-FSSA-1 LACK OF AND IMPROPER SUPPORTING DOCUMENTATION**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Adoption Assistance Program |
| CFDA Numbers: | 93.659 |
| Auditee Contact Person: | Todd M. Tolson |
| Title of Contact Person: | Legislative Director, Division of Child Services |
| Phone Number: | 317-232-4439 |

Compliance Requirement: Eligibility
Internal Control: Reportable Condition

**Status of Finding September 2006:**

The draft manual section has not been released. It has not been released because a structured policy and practice analysis is currently underway that will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. This will be finalized in the SFY 2007. AAP training is provided as one of the breakout sessions to the Foster Parent Conferences.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS will occur. Currently DCS is working with ACF on a redesign to ICWIS to become SACWIS compliant. As a part of the redesign it is envisioned that the documents and forms required will be included in the data system with edits that will enforce the rules to assist in preventing these audit findings. The redesign effort will not be completed until early 2008.

While the analysis, recommendations and data system changes are in process and prior to rollout of new policy training a monthly ICWIS tip of the day will be sent to all ICWIS users. These tips of the day will explain when adoption assistance forms need to be executed.

It has been determined that there is no reason for Central Office Child Welfare to receive a copy of the AAP agreement. State Board of Accounts needs the entire case to complete an audit not just the agreement. The case file is located at the local office not central office. The entire case file is sent from the local office to central office so that SBC can complete the audit. Since there is no need for these forms in central office, this step will be eliminated thus eliminating the need for a new filing system. This finding remains open.

**Status of Finding as of March, 2007**

The draft policy and procedure manual is in the process of development. The delay has been due to a structured policy and practice analysis at the same time as completing 'practice reform' in different sections of the state. The process that is currently underway will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. This will be finalized in 2008. AAP training has been occurring in different counties and is also provided as one of the breakout sessions to the Foster Parent Conferences.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS is in the requirements building stage as a part of a redesign to ICWIS for SACWIS compliance. As a part of the redesign it is envisioned that the documents and forms required will be included in the data system with edits that will enforce the rules to assist in preventing some of these audit findings. The redesign effort will not be completed until mid 2008.

A monthly ICWIS tip of the day is currently sent to all ICWIS users. This began in September 2006. These tips of the day explain when adoption assistance forms need to be executed.

It has been determined that there is no reason for Central Office Child Welfare to receive a copy of the AAP agreement. State Board of Accounts needs the entire case to complete an audit not just the agreement. The case file is located at the local office not central office. The entire case file is sent from the local office to central office so that SBC can complete the audit. Since there is no need for these forms in central office, this step will be eliminated thus eliminating the need for a new filing system.

## FINDING 2000-FSSA-2 OVERPAYMENT OF ADOPTION ASSISTANCE SUBSIDIES:

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Adoption Assistance Program |
| CFDA Numbers: | 93.659 |
| Auditee Contact Person: | Todd M. Tolson |
| Title of Contact Person: | Legislative Director, Division of Child Services |
| Phone Number: | 317-232-4439 |
| Compliance Requirement: | Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding September 2006:**

Our plan is to analyze AAP policy and procedure thru a structured policy and practice review. This analysis is currently underway and will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. The analysis should be completed in SFY 2007.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS will occur. Currently DCS is working with ACF on a redesign to ICWIS to become SACWIS compliant. As a part of the redesign it is envisioned that the AA agreement will be completed in ICWIS and the ongoing negotiated monthly payment will be validated through a new unit, the Centralized Eligibility Unit prior to finalization. Upon finalization, the data system will automatically move the agreement from the foster care case to the adoption assistance case. Payments will be made against the amount that is in the agreement with edits that will enforce the rules to assist in preventing this audit finding. The redesign effort will not be completed until early 2008.

The new unit, the Centralized Eligibility unit should be operational early 2007. At that time, some components of the above enhancement will be operational to assist in eliminating this audit finding. This finding remains open.

**Status of Finding March 2007:**

The draft policy and procedure manual is in the process of development. The delay has been due to a structured policy and practice analysis at the same time as completing 'practice reform' in different sections of the state. The process that is currently underway will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. This will be finalized in 2008. AAP training has been occurring in different counties and is also provided as one of the breakout sessions to the Foster Parent

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS is in the requirements building stage as a part of a redesign to ICWIS for SACWIS compliance. As a part of the redesign it is envisioned that the AA agreement will be completed in ICWIS and the ongoing negotiated monthly payment will be validated through a new unit, the Centralized Eligibility Unit prior to finalization. Upon finalization, the data system will automatically move the agreement from the foster care case to the adoption assistance case. Payments will be made against the amount that is in the agreement with edits that will enforce the rules to assist in preventing this audit finding. The redesign effort will not be completed until 2008.

The Centralized Eligibility unit should be operational in 2007. At that time, some components of the above enhancement will be operational to assist in eliminating this audit finding.

The recommendation that a system of review to detect payments in excess of limitations be implemented can be accomplished in the interim. Once recognized, the payment to the adoptive parent cannot be reduced unless all parties are in agreement through an amendment to the subsidy.

**FINDING 2000-FSSA-3 FOSTER CARE PROVIDER LICENSURE**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Programs: | Foster Care Program |
| CFDA Numbers: | 93.658 |
| Auditee Contact Person: | M. P. Lippold |
| Title of Contact Person: | Program Director, Division of Child Services |
| Phone Number: | 317-232-4435 |
| Compliance Requirement: | Eligibility |
| Internal Control: | Reportable Condition |

**Status of Finding September 2006:**

The Department of Child Services is currently working on a system enhancement within ICWIS on the Resource and Licensing Modules. The licensing status will be clearly identifiable throughout ICWIS through the changes made within this enhancement. This enhancement should be completed by January 2007.

Currently the Department is also working with ACF on a redesign to ICWIS to become SACWIS compliant. One of the functional requirements in this redesign would force the schedule of payments to validate that the foster home and facilities are licensed for the time period of the payment made for services provided for our child welfare population. If the foster home or facility is not licensed, the system will notate this, and the county will be forced to pay stop payment or to pay out of non reimbursable accounts. The redesign effort will not be completed until early 2008. This finding remains open.

**Status of Finding March 2007:**

The Department of Child Services is currently working on a system enhancement within ICWIS on the Resource and Licensing Modules. The licensing status will be clearly identifiable throughout ICWIS through the changes made within this enhancement. This enhancement should be completed in 2007.

The Department is in the requirements building stage as a part of the redesign effort for SACWIS compliance. One of the functional requirements in this redesign would send to the payment system the child's eligibility would be based on the new Licensing Status codes implemented in the Resource and Licensing Enhancement. This would dictate the correct account and sub account code for generation of the payment and subsequent claiming when eligible and reimbursable for a licensed home/facility. If the foster home or facility is not licensed, the system will change the child's eligibility and the payment system would be required to pay out of a non-eligible account and sub account code thus not allowing federal reimbursement for the payment when and if made. The redesign effort including the payment system will not be completed until 2008.

## FINDING 2000–FSSA-5 CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

| | |
|---|---|
| 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: | Todd M. Tolson |
| Title of Contact Person: | Legislative Director, Division of Child Services |
| Phone Number: | 317-232-4439 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition, Material Weakness |

### Status of Finding as of September 2006:

Manual processes have been implemented to balance the cash accounts on a daily basis. By using existing ISETS reports, receipts posted into the ISETS system are reconciled to deposits made to the state Auditor's accounts. Disbursements made through the ISETS system are also reconciled to disbursements recorded in the state Auditor's accounts. Any discrepancies are researched and documented manually. Existing reports as well as database queries provide the necessary data to reconcile the accounts on a monthly basis. In addition, a file is received monthly from the state Auditor's office and is used to update the status of the warrants in ISETS. Manual processes will also be implemented by early 2007 to reconcile both outstanding and stale-dated state warrants to the ISETS database on an annual basis. This finding remains open.

### Status of Finding as of March 2007:

A number of the programming changes necessary to strengthen the accounting procedures and controls to ensure accurate and reliable federal reporting were put into production in July, 2004.

Manual processes are used to balance the accounts on a daily basis. The accounts are also manually reconciled on a monthly basis. Reports and database queries are used for these processes.

A file is received monthly from the State Auditor's office and is used to update the status of warrants on ISETS. Manual processes are also used to reconcile both outstanding and stale-dated state warrants to the ISETS database on an annual basis.

The corrections recommended in connection with the WEAAC224 report have not been completed because of the extensive nature of the ISETS enhancements required. DCS will need to moderize or replace the ISETS system in the next several years, and has chosen not to invest in this set of enhancements at this time because these types of deficiencies in the system will be addressed through the modernization/replacement of ISETS.

## FINDING 2002-FSSA-3 TITLE XX AND VALIDATION OF DAY SERVICE CLAIMS

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Title XX |
| CFDA Number: | 93.667 |
| Auditee Contact Person: | David Gootee |
| Title of Contact Person: | Director, Fiscal Services |
| Phone Number: | 317-233-3828 |
| Compliance Requirement: | Allowability/Subrecipient Monitoring |
| Internal Control: | Reportable Condition, Material Weakness |

**Status of Finding as of September 2006**

The Division of Disability and Rehabilitative Services (DDRS), Bureau of Developmental Disability Services (BDDS) implemented effective July 1, 2006, a process for authorizing and paying for 100% State-funded services in which provider's bill for actual services rendered for each consumer. Included in this system are claims for day services (including those originally funded through Title XX). The new system is built on new data bases of consumers served, individualized service budgets and pre-established service rates. The providers submit electronically the actual hours of service by consumer; the total dollars thus computed is compared to the maximum monthly budget for the consumer, and if within pre-approved compliance limits, the bill is authorized for payment through the Claims Management System. The audit trail begins with the originating provider daily logs and culminates with the BDDS oversight of the budget process and review of all exception reports. As this process was just implemented July 1, 2006, for the period of this audit, the finding remains open.

**Status of Finding as of March 2007**

Effective December 1, 2006, a web-based, electronic billing portal was implemented through which providers bill actual services rendered BY CONSUMER. This portal links directly to the Claims Management System and on to the Auditor's office for electronic payment to the provider. This was the final implementation phase of the restructured of budget preparation and service billing for all State-line programs, including those funded by the SSBG. The audit trail is much more complete compared to the system it replaces, which involved zero-sum contracts without consumer-based billing data for verifying liabilities.

We consider the finding closed.

**FINDING 2003-FSSA-1 FOSTER CARE PAYMENTS**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Foster Care Program |
| CFDA Number: | 93.658 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Activities Allowed or Unallowed, Reporting |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

FSSA Finance has completed an electronic claiming system, Child Welfare Claiming System (CWCS) for reimbursements to counties under Title IV-E, Assisted Guardianship and Title IV-A Emergency Assistance. During the last fiscal year enhancements to CWCS have been made to continue to improve FSSA efforts to audit claims for reimbursement prior to payment. These enhancements include ability to search database for duplicate payments; ability to find and insert ICWIS ID and Vendor information to reduce data entry errors; user must check certification and certified amount for claiming; and institution/facility rates are now included in the system to reduce data entry errors. A monthly report is prepared for staff to identify possible duplicate payments from one payment source or the possibility of two programs paying for the same service. A manual electronic schedule of payments is currently available within the CWCS system so data can be imported into CWCS rather than being reentered. Since enhancements continue, this finding remains open.

**FINDING 2005 – FSSA-4 PSC 272 QUARTERLY REPORTS**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Title IV-D and Child Care Center |
| CFDA Number: | 93.563 and 93.575/93.596 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

The PSC 272 reports were completed based on federal draw systems. A reconciliation process will be implemented to ensure that the total of the Current – Cumulative Disbursement column matches to the total of the balance of a PIN within FETS. The correct rules for recording disbursements on the PSC 272 will be followed in the future. A new reconciliation will need to be developed after the full implementation of PeopleSoft Financials. This new process will be completed by October 2006. This finding remains open.

**FINDING 2005 – FSSA-5 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE-REPORTING**

| | |
|---|---|
| Federal Agency: | Department of Health and Human Services |
| Federal Program: | Medical Assistance Program, Child Support, Child Care Center |
| CFDA Number: | 93.778, 93.563, 93.575, 93.596 |
| Auditee Contact Person: | David Nelson |
| Title of Contact Person: | Director of Finance, FSSA |
| Phone Number: | 317-232-7088 |
| Compliance Requirement: | Cash Management |
| Internal Control: | Reportable Condition |

**Status of Finding as of September 2006:**

The Finance accountant responsible for cash management retired in May 2005. Due to inadequate written procedures, the report for SFY 2005 had to be adjusted multiple times. A report was submitted reconciling the overall balance for the expenditure reimbursements and disbursements for all grants within the Federal Expenditure Tracking System (FETS) to actual draws of federal funds. The process for completing the federal grant schedule along with the spreadsheet capturing information has been revised. The implementation of PeopleSoft will allow for an electronic version of the report to be produced instead of using a spreadsheet. All grants and the individual transactions that affect them will be tracked within PeopleSoft. The process will no longer be dependent upon individual staff knowledge or capability. This finding remains open.

# SECRETARY OF STATE
## STATE OF INDIANA

Todd Rokita
Secretary of State

March 21, 2007

Ms. Deborah Gibson
State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204

<u>RE: 2006 Audit – Official Response to HAVA Title III Financial Statement Findings</u>

<u>FINDING 2006 – SOS – 1, REPORTING</u>

| | |
|---|---|
| Federal Agency: | Election Assistance Commission |
| Federal Program: | Help America Vote Act of 2002 (HAVA) |
| CFDA Number: | 90.401 |
| Auditee Contact Person: | Joseph McLain |
| Title of Contact Person: | HAVA Administrator |
| Phone Number: | (317) 234-8683 |
| Compliance Requirement: | Reporting |
| Internal Control: | Reportable Condition |

Dear Ms. Gibson,

On behalf of Secretary of State Rokita and the Indiana Election Division, I would like to thank you for the professional and through audit conducted by Jennifer Carmack in August and September of 2006. While our office is continually monitoring, reviewing and updating our operating procedures, we appreciate feedback and advice from independent accounting professionals.

I would note as a point of clarification that while the Secretary of State manages the funds dispersed by the U.S. Election Assistance Commission (EAC) under the Help America Vote Act of 2002 (HAVA), expenditures and reports are consented to and reviewed by the bipartisan Indiana Election Commission Co-Directors.

With respect to the Financial Statement Finding reported as a result of the SBA's audit of the HAVA Section 269 (aka Title II or Title III) funds, I would like to respond to the comment in the 2006 audit report as follows:

The State House, Indianapolis, Indiana 46204, (317) 232-6531, FAX (317) 233-3283

FY2005 Financial Report

In correcting errors in the financial report submitted to the U.S. EAC, we have informed the Commission that the report may need to be amended. A dialogue has begun with the Commission in order to understand the procedure to amend and resubmit this report. The amended report will be submitted to the EAC prior to the end of the first quarter of the 2007 calendar year. Proper reporting procedures will be added to the HAVA Employee Manual for future consideration and review when preparing said reports.

Again, the Secretary of State's office and the Indiana Election Division appreciate your efforts and believe the information contained in your report will assist us as we strive to provide the highest possible levels of government service and accountability to Indiana taxpayers. Please do not hesitate to contact me if you have any questions or require additional information. Thank you.

Best regards,

Joseph E. McLain
HAVA Administrator
Indiana Secretary of State Todd Rokita
Direct Tel: (317) 234-8683\
havaadministrator@sos.IN.gov

cc: Todd Rokita, Indiana Secretary of State
Paul Okeson, Chief of Staff – Deputy Secretary of State
J. Bradley King, Co-Director, Indiana Election Division
Pamela Potesta, Co-Director, Indiana Election Division